SIDE FUND PROBLEMS

Benefits partially funded via cash surrender value of insurance policies.

Insurance policies provide death benefits under the pension plan. Total normal cost = side fund normal cost + insurance premium.

Each year may buy new insurance policy to provide additional layer of death benefit coverage. The death benefit is usually expressed as a multiple of the accrued or projected benefit.

SIDE FUND PROBLEMS

One trick is that cash surrender value may convert to annuity benefit based on factor other than annuity based on valuation assumptions.

STANDARD SOLUTION

1. Calculate accrued/projected
2. Determine total insurance
3. Calculate C.S.V. @ ARA
4. Convert C.S.V. to benefit
5. Total projected benefit less benefit provided by insurance
6. Apply cost method given to the net benefit
7. Resulting normal cost is side fund normal cost