

SECTION 430

Minimum Funding

Single Employer Plans

§430

MINIMUM FUNDING

SINGLE EMPLOYER DB PLANS

- (a) Minimum required contribution**
- (b) Target normal cost**
- (c) Shortfall amortization charge**
- (d) Rules relating to funding target**
- (e) Waiver amortization charge**
- (f) Reduction of minimum required contribution by credit balances**
- (g) Valuation of plan assets and liabilities**
- (h) Actuarial assumptions and methods**
- (i) Special rules for at-risk plans**
- (j) Payment of minimum contributions**
- (k) Imposition of lien - failure to make required contributions**
- (l) Qualified transfers (IRC §420)**

§430

BASIC DEFINITIONS

FUNDING TARGET:

Present value of accrued benefits at start of plan year (if not At-Risk plan)

TARGET NORMAL COST:

Present value of all benefits at start of plan year which are expected to accrue during the plan year (if not At-Risk plan)

PLAN ASSETS

In general, must reduce assets by both the prefunding balance and funding standard carryover balance per §430(f)(4)(B)

NOTE

In general, references to Funding target and Target normal cost refer to the non At-Risk definitions

§430
TARGET NORMAL COST

WRERA

Present value of all benefits at start of plan year which are expected to accrue during the plan year (if not at-risk plan)

NC includes expected plan related expenses (paid from plan assets)

NC excludes expected mandatory employee contributions

1.430(d)-1(d)

PLAN PROVISIONS TAKEN INTO ACCOUNT

- In general, valuation reflects plan amendments adopted by the valuation date, and effective before end of plan year
- Under 412(d)(2) election, plan amendment within 2 ½ months after end of plan year is treated as adopted on 1st day of plan year, if it takes effect before end of plan year
- Regulation gives same treatment to 412(d)(2) election with plan amendment during the plan year
- Complication – 436(c) may prevent plan amendment from going into effect

1.430(d)-1(c)(1)(ii)(D)

FLAT BENEFITS - NOT BASED ON SERVICE

- In general, valuation reflects pro-rata portion of benefit
- Funding target
 - Use pro-rata portion of benefit
 - Numerator = service at beginning of plan year
 - Denominator = service at time of event that causes benefit to be payable
 - Note - benefit may commence at date later than time of event
- Target normal cost
 - Based on increase in “proportionate benefit” due to service accrued during the year
 - Like funding target, with numerator = 1.0

1.430(d)-1(c)(1)(ii)(D)

FLAT BENEFITS - NOT BASED ON SERVICE

EXAMPLE - Social Security supplement for retirees with 30 years of service

- Participant is age 50 with 25 years of service
- Early retirement eligibility is age 55 with 20 years of service
- Retirement decrement at age 60
- Funding target uses $25/35$ * (projected Social Security supplement at age 60)
- Target normal cost uses $1/35$ * (projected Social Security supplement at age 60)

§430(f)

**FUNDING STANDARD CARRYOVER BALANCE
(CB) = “OLD” CREDIT BALANCE**

Initial value (2008)

MFSA credit balance at end of 2007 plan year

**Adjust prior year CB to current year valuation
date using prior year's return on plan assets**

§430(f)

CARRYOVER BALANCE – ELECTIONS

Employer can **ELECT** to maintain CB

Employer can **ELECT** to

- Apply CB toward the minimum required contribution - this reduces CB, but does not reduce the minimum required contribution
- Arbitrarily reduce CB (not below zero)

Election is made by

- Providing written notification to plan's enrolled actuary and plan administrator
- Must specify dollar amount

**§430(f)
PREFUNDING BALANCE
(PB) = “NEW” CREDIT BALANCE**

Initial value (2008) = zero

Adjust prior year PB to current year valuation date using prior year's return on plan assets

§430(f)

PREFUNDING BALANCE – ELECTIONS

Employer can **ELECT** to increase PB by excess of total employer contributions over minimum required contribution

Employer can **ELECT** to

- Apply PB toward the minimum required contribution - this reduces PB, but does not reduce the minimum required contribution
- Arbitrarily reduce PB (not below zero)
- Prior to either employer election to reduce PB, **must first reduce CB to zero**

Election is made by

- Providing written notification to plan's enrolled actuary and plan administrator
- Must specify dollar amount

1.430(f)-1(f)(1)(ii)

STANDING ELECTIONS

Plan Sponsor can make standing elections to

- **Use PB (and CB) to offset the minimum required contribution (MRC) each year**
- **Add maximum amount possible to the PB each year**

Election is made by providing written notification to plan's enrolled actuary and plan administrator

1.430(f)-1(f)(2)

TIMING OF ELECTIONS

- Election must be made by last date to make payment of MRC (8 ½ months after end of plan year)
- Election for a plan year is reported on that year's Schedule SB
- Election pursuant to a standing election is deemed to occur on the last day available to make the election for the plan year

1.430(f)-1(f)(2)(i)

TIMING OF ELECTIONS

Election to increase PB with excess contribution relates to the plan year for which the contribution is made

EXAMPLE

Election to increase 01/01/2017 PB due to excess contribution for 2016 must be made by 09/15/2017.

This election will be reported on the 2017 Schedule SB (filed by 10/15/2018).

1.430(f)-1(d)

COORDINATION OF ELECTIONS

Many possible interactions between elections

GENERAL RULE

Elections are applied based on chronological order, must reflect effect of prior elections

EXCEPTION

- **430(f)(5) elections to reduce PB or CB are deemed to occur on the valuation date**
- **Exception also applies to IRC 436 deemed reductions in PB or CB**
- **Reductions in PB or CB apply prior to any 430(f)(3) elections to offset the minimum required contribution**

1.430(f)-1(f)(1)(ii)

STANDING ELECTIONS – REVOCATION

Standing election remains in effect until

- **Standing election is revoked, or**
- **Enrolled actuary who signs the Schedule SB is not the enrolled actuary named in the standing election**

1.430(f)-1(b)

MAINTENANCE OF PREFUNDING BALANCE AND CARRYOVER BALANCE

- **Minimum contribution is defined as of the valuation date**
- **Both the PB and CB are defined as of the valuation date**
- **Calculations to increase (or decrease) the PB and CB are defined on the first day of the plan year (not the valuation date)**

1.430(f)-1(g)

**MAINTENANCE OF PREFUNDING BALANCE
AND CARRYOVER BALANCE**

EXAMPLE 5

Plan year is the calendar year

Valuation date is July 1, 2010

| | |
|-------------------------|---------------|
| CB at 01/01/2010 | 50,000 |
|-------------------------|---------------|

| | |
|-------------------------|----------|
| PB at 01/01/2010 | 0 |
|-------------------------|----------|

| | |
|---------------------------|---------------|
| 2010 asset return: | 10.00% |
|---------------------------|---------------|

| | |
|--------------------------------------|--------------|
| 2010 effective interest rate: | 6.25% |
|--------------------------------------|--------------|

| | |
|---|----------------|
| 2010 minimum req'd contribution: | 190,000 |
|---|----------------|

| | |
|--|----------------|
| 07/01/2010 contribution (for 2010): | 190,000 |
|--|----------------|

1.430(f)-1(g)

**MAINTENANCE OF PREFUNDING BALANCE
AND CARRYOVER BALANCE**

EXAMPLE 5 - continued

**Plan sponsor elects to use 10,000 of CB to
meet minimum required contribution**

Value of CB used at 07/01/2010: 10,000

Value of CB used at 01/01/2010:
 $10,000 * (1.0625)^{-6/12} = 9,701$

Remaining CB at 01/01/2010:
 $50,000 - 9,701 = 40,299$

CB at 01/01/2011:
 $40,299 * (1.10) = 44,328$

**CB at 07/01/2011 is calculated using 2011
effective interest rate**

1.430(f)-1(g)

**MAINTENANCE OF PREFUNDING BALANCE
AND CARRYOVER BALANCE**

EXAMPLE 11

Plan year is the calendar year

Valuation date is December 31, 2010

| | |
|-------------------------|----------------|
| CB at 01/01/2010 | 0 |
| PB at 01/01/2010 | 125,000 |

| | |
|--------------------------------------|---------------|
| 2010 asset return: | 10.00% |
| 2010 effective interest rate: | 5.50% |

| | |
|--|---------------|
| 2010 minimum req'd contribution: | 45,000 |
| 07/01/2011 contribution (for 2010): | 20,000 |

**AFTAP certification at 03/31/2010 causes
deemed reduction of 15,000 of PB at 01/01**

1.430(f)-1(g)

MAINTENANCE OF PREFUNDING BALANCE AND CARRYOVER BALANCE

EXAMPLE 11 - continued

Discounted contribution at 12/31/2010:

$$20,000 * (1.055)^{-6/12} = 19,472$$

12/31/10 value of MRC not met by contribution:

$$45,000 - 19,472 = 25,528$$

Value of PB used at 12/31/2010: 25,528

Value of PB used at 01/01/2010:

$$25,528 * (1.055)^{-1} = 24,197$$

Remaining PB at 01/01/2010:

$$125,000 - 15,000 - 24,197 = 85,803$$

PB at 01/01/2011:

$$85,803 * (1.10) = 94,383$$

PB at 12/31/2011 based on 2011 effective rate

§430(a)

MINIMUM REQUIRED CONTRIBUTION (MRC)

Sum of three items:

- **Target Normal Cost**
- **Shortfall amortization charge**
- **Waiver amortization charge**

MRC must be \geq zero

NOTES:

- **Shortfall amortizations similar to G/L amort**
- **Definition of MRC does not use CB or PB**

§430(a)

**MINIMUM REQUIRED CONTRIBUTION (MRC)
ALTERNATE DEFINITION**

If Plan Assets (reduced by CB and PB) equal or exceed Funding Target, then minimum contribution equals

$NC - \{AAV - CB - PB - \text{Funding Target}\}$

MRC must be \geq zero

NOTE:

Similar to Full Funding Limitation (pre-PPA)

§430(a)

MINIMUM REQUIRED CONTRIBUTION

EXAMPLES

SCENARIO

| | 1 | 2 | 3 |
|----------------------------|------|------|------|
| Target NC | 100 | 100 | 100 |
| AAV | 1000 | 1000 | 1000 |
| CB | 20 | 20 | 20 |
| PB | 0 | 0 | 0 |
| Funding Target | 900 | 970 | 1000 |
| Shortfall Charge | 100 | 100 | 100 |
| AAV – CB – PB | | | |
| Minimum Req'd Contribution | | | |

§430(f)(3)

APPLY CB (OR PB) TOWARD MRC

Limitation for Underfunded plans

- **Employer can not elect to apply PB or CB toward minimum required contribution at BOY if**

$$\frac{\{AAV - PB\}}{\text{Funding Target}} < 80\%$$

(not at-risk basis)

- **Calculate funded percentage using prior year valuation results**

§430(f) MINIMUM REQUIRED CONTRIBUTION

2017 Valuation results:

| | |
|------------------------|------------|
| CB | 50 |
| PB | 50 |
| AAV | 600 |
| Funding Target | 600 |
| Target NC | 60 |
| Shortfall Amort | 40 |

What is the lowest value of the "minimum required contribution" for the 2017 plan year?

430(f)

INCREASE IN PREFUNDING BALANCE

IRC 430(f)(6)(B)

“Employer can elect to increase prefunding balance by the excess (if any) of--

(I) the aggregate total of employer contributions to the plan for the preceding plan year, over

(II) the minimum required contribution for such preceding plan year”

This language is almost correct – see next page for actual calculation from the regulation.

1.430(f)-1(b)(1)

INTEREST ADJUSTMENT ON PB EXCESS CONTRIBUTIONS

- **“Excess contributions”**
 - **Present value of prior year contributions in excess of MRC, both calculated at prior valuation date**
 - **Exclude contributions required under IRC 436 to avoid funding-based benefit limitations**
- **Present value is calculated using the effective rate of interest for prior year (prior year contrib.)**

1.430(f)-1(b)(1)

INTEREST ADJUSTMENT ON PB EXCESS CONTRIBUTIONS

- **Adjust prior year PB to current valuation date using actual return on assets**
- **Increase PB at current valuation date by accumulated value of prior year's “excess contributions”**
- **Accumulated value is calculated using the effective rate of interest for prior year (prior year contrib.)**

1.430(f)-1(b)(3)

ADJUSTMENTS - INVESTMENT EXPERIENCE

"(iii) Special rule for excess contributions attributable to use of funding balances

Notwithstanding paragraph (b)(1)(iv)(A) of this section, to the extent that

- a contribution is included in the present value of excess contributions**
- solely because the minimum required contribution has been offset under paragraph (d) of this section,**
- the contribution is adjusted for investment experience under the rules of this paragraph (b)(3)."**

1.430(f)-1(g) EXAMPLE 2

INCREASE IN PREFUNDING BALANCE

2010 Valuation results

| | |
|-----------------|---------|
| Asset return | 2.0% |
| Effective rate | 6.0% |
| MRC at 01/01/10 | 100,000 |
| CB at 01/01/10 | 25,000 |

| | |
|---------------------|---------|
| Contrib at 02/01/11 | 150,000 |
| PV at 01/01/10 | 140,824 |

| | |
|-----------------------|--------|
| CB applied toward MRC | 0 |
| Excess contribution | 40,824 |

2011 Valuation results

| | |
|----------------|--------|
| CB at 01/01/11 | 25,500 |
| PB at 01/01/11 | 43,273 |
| CB + PB | 68,773 |

$$68,773 = 25,000 * 1.02 + 40,824 * 1.06$$

1.430(f)-1(g) EXAMPLE 4

INCREASE IN PREFUNDING BALANCE

2010 Valuation results

| | |
|------------------------|----------------|
| Asset return | 2.0% |
| Effective rate | 6.0% |
| MRC at 01/01/10 | 100,000 |
| CB at 01/01/10 | 25,000 |

| | |
|----------------------------|----------------|
| Contrib at 02/01/11 | 150,000 |
| PV at 01/01/10 | 140,824 |

| | |
|------------------------------|---------------|
| CB applied toward MRC | 15,000 |
| Reduced MRC | 85,000 |
| Excess contribution | 55,824 |

2011 Valuation results

| | |
|-----------------------|---------------|
| CB at 01/01/11 | 10,200 |
| PB at 01/01/11 | 58,573 |
| CB + PB | 68,773 |

Final CB + PB equals result in example 2

1.430(f)-1(g) EXAMPLE 4

INCREASE IN PREFUNDING BALANCE

Regulation is designed so amount of CB applied towards MRC does not change sum of CB and PB next year.

Excess contribution:

$$\begin{aligned} 55,824 &= 15,000 + 140,824 - 100,000 \\ &= 15,000 + 40,824 \end{aligned}$$

PB at 01/01/11:

$$58,573 = 15,000 * 1.02 + 40,824 * 1.06$$

Sum of CB and PB at 01/01/11:

$$68,773 = 25,000 * 1.02 + 40,824 * 1.06$$

SHORTFALL AMORTIZATION BASE

FUNDING SHORTFALL:

Excess, if any of
Funding Target over (AAV - CB - PB)

"O/S BASES"

PV of outstanding

- (1) Shortfall amortization installments for prior plan years and
- (2) Waiver amortization installments for prior plan years

SHORTFALL AMORTIZATION BASE:

(100%*Funding Target) minus (AAV - CB - PB)
minus "O/S Bases"

§430(c)(5) SHORTFALL AMORTIZATION BASE APPLICABLE PERCENTAGE

WRERA

Applicable Percentage applies to calculation of
Shortfall Base

| <u>Year</u> | <u>Applicable Percentage</u> |
|-------------|----------------------------------|
| 2008: | 92% |
| 2009: | 94% |
| 2010: | 96% |
| 2011 + | 100% |

ANCIENT HISTORY

Applicable Percentage could be less than
100% prior to 2011 for plans that were

- In existence during 2007, and
- Not subject to 412(l) for 2007

§430(c)

SHORTFALL AMORTIZATION CHARGE

Equals the sum of the Shortfall Amortization installments for the current year and the 6 preceding plan years

NOTES:

- **S/F Amortization charge is limited to NOT be less than zero**
- **Amount of each shortfall amortization installment is fixed – does not change due to varying segment rates**

§430(c)

SHORTFALL AMORTIZATION

Shortfall Amortization installment:
Amount needed to amortize Shortfall
Amortization base in level annual installments
over 7 plan years

Amortization payment based on first two of the
three segment rates

NOTES:

- **Any single S/F Amortization installment can be less than zero**
- **Sum of all S/F Amortization installments is limited to NOT be less than zero**
- **Amount of each shortfall amortization installment is fixed – does not change due to varying segment rates**

§430(e) WAIVER AMORTIZATION CHARGE

Equals the sum of the Waiver Amortization installments for the 5 preceding plan years

**Waiver Amortization installment:
Amount needed to amortize Waiver
Amortization base in level annual installments
over 5 plan years**

**Waiver amortization base for a plan year is the
waived funding deficiency under 412(c)**

**Amortization payment is calculated based on
first two of the three segment rates – see
proposed regulation 1.430(a)-1(d)(1).**

§430(c)(6)

**SHORTFALL AMORTIZATION BASES
ELIMINATE ALL BASES**

FUNDING SHORTFALL:

**Excess, if any of
Funding Target over (AAV - CB - PB)**

**If the Funding Shortfall for a plan year = zero,
then**

- **Eliminate ALL existing S/F and waiver amortization bases, and**
- **Eliminate ALL existing S/F and waiver amortization installments**
- **Final Minimum required contribution =
Target Normal Cost + Funding Target minus
(AAV - CB - PB)**

§430(c)(5) EXEMPTION FROM SHORTFALL AMORTIZATION BASE

If *modified* assets \geq *modified* funding target,
then the new S/F amortization base = ZERO

Modified Assets

AAV – PB

(when any part of PB is applied toward MRC)

or

AAV – 0

(when PB is not applied toward MRC)

Modified Funding Target

100%*Funding Target

2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS

34. “Minimum Required Contribution” is smallest contribution for a year that prevents an unpaid minimum for the year. This is determined before reflecting funding standard carryover balance or prefunding balance.
35. “Smallest amount that satisfies the Minimum Funding Standard” is smallest contribution for a year that prevents an unpaid minimum for the year. This is determined after reflecting funding standard carryover balance or prefunding balance.

2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS

- 40. There has been no early deemed amortization of shortfall bases**
- 41. Expenses are paid directly by the employer, and do not affect funding of the plan**

(see page 430-4)

2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS

27. AAV and MVA given are values prior to any adjustments (such as PB or CB offsets)
28. Plan sponsor does not elect to reduce the funding standard CB / PB prior to
- determining value of plan assets, or
 - reducing the minimum required contribution
- (see page 430-7)
29. Plan sponsor does elect to apply the maximum amount permitted to the prefunding balance
- (see page 430-9)
30. Plan has no funding standard CB

NOTE:

You can not actually reduce the MRC - but you can apply PB or CB toward the MRC (see page 430-16)

2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS

31. Where a prefunding balance or carryover balance exists, the plan was at least 80% funded in the prior year. The PB or CB can be used to reduce the minimum required contribution.

(see page 430-19)

32. If eligible, the plan sponsor does elect to apply the PB / CB to reduce the minimum required contribution.

NOTE:

You can not actually reduce the MRC - but you can apply PB or CB toward the MRC (see page 430-16)