

MULTIEMPLOYER PLANS

PRE PPA-2006 REGULATIONS

HISTORICAL REFERENCE

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404REG-1

SECTION 404

REGULATIONS

404 SUMMARY

MULTIEMPLOYER

PLANS

§404(a)(6)

TIMING OF CONTRIBUTIONS

Deductible contributions must be made by the earlier of

- 1. 2½ months after end of tax year (subject to extension for 6 more months)**
- 2. Date tax return is filed**

§431(c)(8) minimum funding timing

Contribution due date is 2 ½ months after end of plan year, subject to extension for 6 additional months

Single employer plans

§430(j)(1) minimum funding timing

Contribution due date is 8 ½ months after end of plan year

§1.404(a)-14(f)(3)

CALCULATION DETAILS

Should adjust deductible limit with interest to earlier of

- **The last day of the plan year, or**
- **The last day of the tax year**

The resulting deductible limit is “just a number”

- **There is no specific date attached to it**
- **Can contribute same amount at BOY or EOY**

Single employer plans

Application of this regulation not clear – no guidance from IRS yet for 404 calculations

§1.404(a)-14(c)

CALCULATE DEDUCTIBLE LIMIT

Assume plan year and tax year do not coincide. Three options to calculate deductible limit for this tax year:

TAX YEAR	
PLAN YEAR 1	PLAN YEAR 2

1. Use valuation results for plan year that ends in that tax year: $(\text{Ded Limit}_1)(1+i)$
2. Use valuation results for plan year that starts in that tax year: $(\text{Ded Limit}_2)(1+i(k/12))$
3. Use any weighted average of valuation results for plan years that start and end in that tax year
4. Choose once, must be consistent in future

ONLY TESTED ONCE DURING 1980s

§1.404(a)-14(d)(2)

ADJUSTMENTS UNDER §404

Problems always give you UAL and AAV (and MVA) as defined for minimum funding purposes

Under §404, must exclude non-deducted contribution (NDC) from AAV (and include them in UAL):

$$\begin{aligned}\text{§404 AAV} &= \text{§431 AAV} - \text{NDC} \\ \text{§404 UAL} &= \text{§431 UAL} + \text{NDC} \\ &= \text{AL} - \text{§404 AAV}\end{aligned}$$

Except for methods with NO UAL, §404 PVNC should always equal §431 PVNC

NOTE:

Also applies to IRC §430 single employer plans

§1.404(a)-14(d)(2)

ADJUSTMENTS UNDER §404

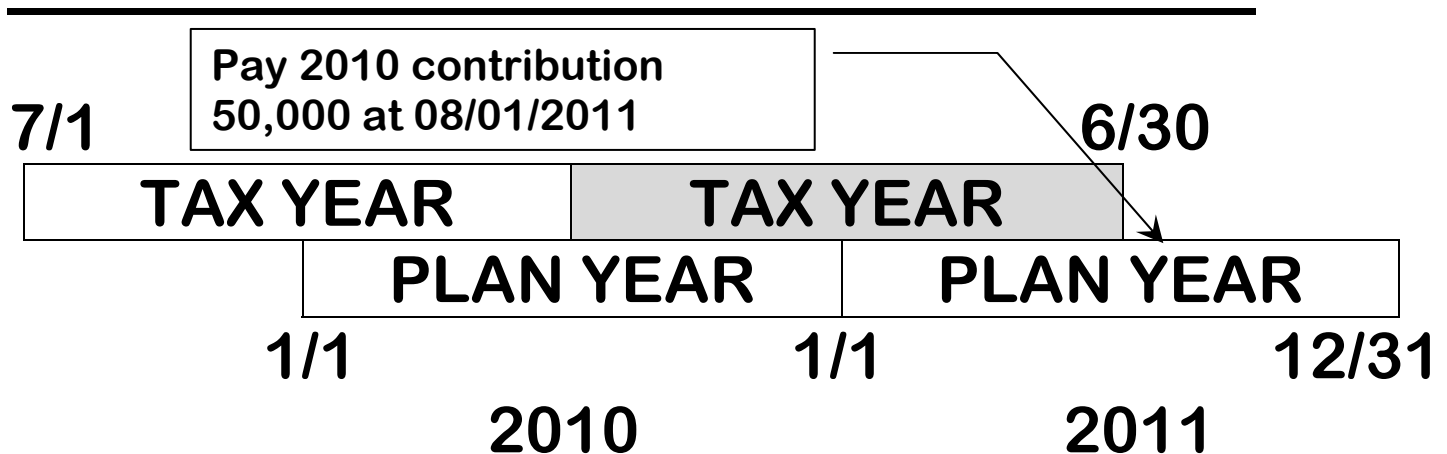
Sources of NDC:

- 1. Contribution exceeds deductible limit**
- 2. Contribution not deductible due to different timing rules §404 versus §431 (or §430)**

NOTE:

Also applies to IRC §430 single employer plans

NON-DEDUCTED CONTRIBUTION EXAMPLE



1. Assume deductible limit for tax year that starts 07/01/2010 is calculated using 01/01/2011 valuation results
2. AAV for §431 valuation at 01/01/2011 includes 50,000 contribution (for 2010 year)
3. 50,000 not deducted for prior tax year. Paid more than 2½ months after end of prior tax year (13 months later)
4. $\text{\$404 AAV} = \text{\$431 AAV} - 50,000 \text{ NDC}$

NOTE:

Also applies to IRC §430 single employer plans

§1.404(a)-14(e)(1)

MINIMUM REQUIRED CONTRIBUTION

Can add the includible employer contribution to the §431 minimum required contribution

Includible employer contribution

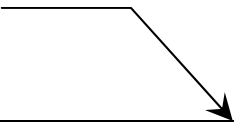
- **Contribution was required under §431 for immediately preceding plan year, AND**
- **Contribution was not deducted for prior tax year solely because it was contributed after the tax return was filed**

NOTE:

Also applies to IRC §430 single employer plans

§1.404(a)-14(e)(1)

INCLUDIBLE EMPLOYER CONTRIBUTION

EXAMPLE:	<div>Pay 2010 minimum at 09/15/2011</div> 	
	TAX YEAR	TAX YEAR
	PLAN YEAR	PLAN YEAR
	2010	2011

1. Assume employer pays 2010 §431 minimum at 09/15/2011
2. Employer could not deduct 2010 minimum for 2010 tax year, paid more than 2½ months after 12/31/2010
3. 2011 deductible limit:
Use greater of (NC + Limit adjustments), or sum of §431 minimums for 2010 and 2011

NOTE:

Also applies to IRC §430 single employer plans

§1.404(a)-14(g)

AMORTIZATION BASES

Bases under both §404 and §431:

- **Gain and loss**
- **Assumption change**
- **Plan amendment and IAL**
- **Cost method change**

Bases under §431 only:

- **Waiver**
- **AMFSA switch-back**
- **Shortfall gain/loss**
- **Full funding credit**

§404(a)(1)(A)(i) DEDUCT CONTRIBUTION UNDER MFSA

§1.404(a)-14(e)(2) requires you to ignore AMFSA when doing this calculation

If employer actually uses the AMFSA, must calculate §404(a)(1)(A)(i) amount under the regular MFSA

HISTORY
AMFSA REMOVED BY PPA 2006

COST METHODS WITH UAL

404 NORMAL COST = 431 NORMAL COST

Adjustments for the ADC or NDC are made both for the 404 AAV and the 404 UAL:

$$\text{404 UAL} = \text{431 UAL} - \text{ADC} + \text{NDC}$$

$$\text{404 AAV} = \text{431 AAV} + \text{ADC} - \text{NDC}$$

$$\begin{aligned}\text{404 PVNC} &= \text{PVB} - \text{404 UAL} - \text{404 AAV} \\ &= \text{PVB} - \text{431 UAL} - \text{431 AAV}\end{aligned}$$

COST METHODS WITH UAL

404 NORMAL COST = 431 NORMAL COST

**The 404 PVNC should equal the 431 PVNC.
It does not matter if you have DB or CB
under 431:**

431 UAL = 431 bases - CB + DB - ARA

**431 PVNC = PVB - 431 AAV
- [431 bases - CB + DB - ARA]**

**431 PVNC = PVB - 431 UAL - 431 AAV
= 404 PVNC**

COST METHODS WITHOUT UAL TWO DIFFERENT NORMAL COSTS

**Generally have different 404 NC ONLY
under a method with no UAL - such as
Aggregate or Individual Aggregate.**

**404 PVNC won't equal 431 PVNC for many
reasons:**

CB / DB under 431, NDC / ADC under 404

404 PVNC = PVB - 404 AAV

404 AAV = 431 AAV + ADC - NDC

431 PVNC = PVB - 431 AAV

- [431 bases - CB + DB]

NOTE:

Never use ARA under methods without UAL

TWO DIFFERENT NORMAL COSTS

5% interest

Aggregate Method

	<u>\$404</u>	<u>\$431</u>
Credit Bal	-0-	10,000
PV Benefits	100,000	100,000
AAV	50,000	50,000
PV future NC	50,000	60,000
PVE/E	10.00	10.00
NC	5,000	6,000
Ded. Limit	5,250	

MFSA

CHARGES		CREDITS	
431 NC	6,000	CB	10,000
5% Int	300	5% Int	500
		Ded. Limit	5,250
Σ	6,300	Σ	15,750

Assume 12/31 contribution = deductible limit
 12/31/XX Credit Balance = 9,450

TWO DIFFERENT NORMAL COSTS

	AGGREGATE METHOD	A.A.N. METHOD
§431 AAV	100,000	100,000
§431 UAL	-0-	50,000
PV Benefits	250,000	250,000
PVE/E	10.00	10.00
PV future NC	150,000	100,000
§431 NC	15,000	10,000
Carryover/NDC	10,000	10,000
§404 AAV	90,000	90,000
§404 UAL	-0-	60,000
PV future NC	160,000	100,000
§404 NC	16,000	10,000

Aggregate has different NC 404 versus 431
Other methods have same NC 404 and 431 due to UAL

MINIMUM VERSUS MAXIMUM FUNDING

Assume FIL method, only IAL base

$$\text{Ded Limit} = (1+i)^*(\text{NC} + \text{IAL} / \ddot{a}_{\overline{10}|i})$$

$$\S 431 \text{ Min} = (1+i)^*(\text{NC} + \text{IAL} / \ddot{a}_{\overline{15}|i})$$

If 12/31 contribution = minimum

CB_t always = zero

If 12/31 contribution = maximum

$$\S 404 \text{ UAL}_t = \text{IAL} * (\ddot{a}_{\overline{10-t}|i} / \ddot{a}_{\overline{10}|i})$$

$$\text{CB}_t = (1+i)^*(\text{IAL} / \ddot{a}_{\overline{10}|i} - \text{IAL} / \ddot{a}_{\overline{15}|i})(s_{\overline{t}|i})$$

§404 UAL VERSUS TYAB

TYAB: Ten Year Amortization Base

Σ O/S TYAB = Σ O/S §404 amortization bases

**§404 UAL = Σ O/S TYAB
= §431 UAL + NDC**

**NOTE: Method for calculating the §404 UAL
takes into account non-deducted
contributions**

Roughly similar to §431 relationship:

§431 UAL = Σ O/S §431 Bases - CB - ARA

§1.404(a)-14(h)

MAINTENANCE OF TYAB

Determination of O/S TYAB each year:

- 1. Determine net contribution towards all bases. In simplest case, this equals (Contribution + int) - (Normal cost + int)**
- 2. Allocate net contribution towards all bases to each base using original TYAB / $\frac{10}{i\%}$**
- 3. Must keep track of separate O/S TYAB each year. In last year of a single TYAB, its limit adjustment equals the O/S base**

NO “HARD” QUESTIONS TESTED ON EXAM!

CHANGE IN INTEREST RATE

		IAL BASE	ADD'L BASE
(1)	O/S TYAB	100,000	-30,000
(2)	Limit Adj	20,000	-5,000
(3)	$\ddot{a}_{n \mid \text{old } i = 8\%}$ = (1)/(2)	5.000	6.000
(4)	Derive n	Exact 6.01 Rounded 6	Exact 7.64 Rounded 8
(5)	$\ddot{a}_{n \mid \text{new } i = 9\%}$	4.897 4.890	5.840 6.033
(6)	New LA = (1)/(5)	20,421 20,451	(5,137) (4,973)

NOTES: 1. Assumption change creates new TYAB, which is not shown here

2. Options for determining "n"
- (a) Maintain all decimals
 - (b) Round to nearest integer

NOTE: For HP-12C calculator, need to derive n "by hand", then can use rounded values

§1.404(a)-14(i) COMBINING BASES

		IAL BASE #0	CHG BASE #1	CHG BASE #2
(1)	O/S TYAB	100,000	-30,000	-20,000
(2)	Limit Adjust	20,421	-5,137	-2,859
(3)	$\ddot{a}_{\overline{n} 9\%} = (1)/(2)$	4.897	5.840	6.995
(4)	Derive "n"	exact rounded 6.01 6	exact rounded 7.64 8	exact rounded 10.0 10
(5)	Single "n"	$\frac{\sum_{j=0}^2 n_j * O/S TYAB_j }{\sum_{j=0}^2 O/S TYAB_j }$ <p>6.9333 = [6(100,000)+8(30,000)+ 10(20,000)] / 150,000</p>		
(6)	new $\ddot{a}_{\overline{n} 9\%}$	exact rounded 6.933 7	5.486 = $\ddot{a}_{\overline{7} .09}$	
(7)	Single TYAB	50,000 = UAL		
(8)	Limit Adjust	9,114		

NEVER TESTED ON EXAM!

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IRC §404 SUMMARY

(1) $\text{§404 AAV} = \text{§431 AAV} + \text{ADC} - \text{NDC}$

(2) $\text{§404 UAL} = \text{§431 UAL} - \text{ADC} + \text{NDC}$

(3) $\text{§404 FFL} = \text{greater of (a) and (b):}$

(a) $(1+i)[90\%(\text{RPA CL}) - (\text{AAV} + \text{ADC})] + \text{NDC}$

(b) $(1+i)[(\text{NC} + \text{AL})$

$- (\text{lesser of (MVA, AAV)} + \text{ADC})] + \text{NDC}$

(4) $\text{§404 UAL} = \text{O/S §404 TYAB}$

(5) Contribution with respect to 404 TYAB

(i) Deduction for the year

+ (ii) Interest on actual contribution

+ (iii) Interest on NDC at beginning of year

- (iv) Normal cost plus interest

IRC §404 SUMMARY - continued

(6) Deductible limit = Normal cost plus Limit adjustments, subject to §431, FFL, etc.

**Ded Limit = Lesser of §404 FFL or
(Greater of NC + LA
or §431 minimum)**

**If 140%(CL) - AAV exceeds resulting
Deductible limit, then can deduct
contribution up to 140%(CL) - AAV**

(7) Amount available to deduct

**Actual contribution - ADC + NDC at
beginning of year**

(8) Next year's NDC

**Amount available to deduct
- Deduction for the year**

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OPENING / CLOSING COMMENTS

READ	Internal Revenue Code and regulations (not just outlines)
WORK	Prior exam problems (5+ years) and practice problems
EXPECT	Similar problems as last 2 years
STUDY	"New stuff" in last 2 years' exams
REVIEW	Lengthy exam solutions give background of WHY - not just HOW to solve problem
EMAIL	Follow-up questions, clarifications after the seminar

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