MULTIEMPLOYER PLANS

PRE PPA-2006 REGULATIONS

HISTORICAL REFERENCE

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METHOD-1

METHOD CHANGES

MULTIEMPLOYER PLANS

REVENUE PROCEDURE 2000-40
AUTOMATIC APPROVAL - METHOD CHANGES

Section 6.01 - Basic Restrictions

1) Schedule B Filed
2) Plan Administrator Approval
3) Funding Waiver
4) EP Examination
5) Plan Termination
6) Shortfall Method

These apply to Special approvals and to the specified method changes

REVENUE PROCEDURE 2000-40

Section 4 - Special Approvals

1) Remedy Unreasonable Cost Allocation
   - Negative normal cost (Ind AGG)
   - Negative normal cost or UAL (FIL/AAN)
   - Plan hits Full Funding Limit (FIL/AAN)
   - Actuarial Asset < PV Inactive (Ind AGG)
   - Benefit accruals ceased

2) Fully Funded Terminated Plans
   - Change valn date to DOPT
   - Change AAV method to MVA
   - Change to Unit Credit method

3) Takeover Plans

4) Change in Valuation Software

5) De Minimis Plan Mergers (and others)

REVENUE PROCEDURE 2000-40

Section 3 - Specific Approvals

1) Projected Unit Credit
2) Level % pay - Aggregate
3) Level dollar - Aggregate
4) Level % pay - Individual Aggregate
5) Level dollar - Individual Aggregate
6) Level % pay - Frozen Initial Liability
7) Level dollar - Frozen Initial Liability
8) Level % pay - Entry Age Normal
9) Level dollar - Entry Age Normal
10) Assets - Fair Market Value
11) Assets - Average Value
12) Assets - Average Value (phase-in)
13) First day of plan year valuation date
14) Change from One Year Term
15) Assets - Smoothed Market Value
16) Assets - Smoothed Market Value(phase-in)
17) Assets - Average Value (altern. phase-in)

REVENUE PROCEDURE 2000-40

Section 6.02 - Restrictions
Apply to specific approvals in Section 3

1) **Reversion cases**
2) **Plans using universal life**

3) **Four year limitation**
   - **Request to change AAV method, and AAV method changed in prior four years**
   - Request to change valn date, and valn date changed in prior four years
   - **Request to change cost method, and cost method changed in prior four years**
   - **Limitation does not apply to Section 4**

4) **Liabilities adjusted for assets**
5) **Benefit accruals are frozen**
6) **Negative NC or UAL after new method**
7) **Spin-off or merger**

5.01(1) - Bases which must be maintained after method change, e.g. Aggregate

- Waiver
- Shortfall
- AMFSA switch-back

REVENUE PROCEDURE 2000-40

5.01(2) If new method has no UAL:
Eliminate all bases - except 5.01(1)

5.01(2) If new method has UAL:
1. Derive change base using rule:
UAL = O/S bases - CB - ARA
2. Maintain any Prior G/L bases,
also calculate LY G/L
(if LY individual cost method)

5.01(3) Amortization period is 10 years

(11) Average market value without phase-in

Formula approach given in §1.412(c)(2)-1

Define cash flow as contributions - benefit payments - expenses + interest + dividends

Adjust market values for earlier years to current date by adding in cash flows for intervening years:

Market Values	$\underline{MVA_{t-4}}$	$\underline{MVA_{t-3}}$	$\underline{MVA_{t-2}}$	$\underline{MVA_{t-1}}$	$\underline{MVA_{t}}$
Cash flows	$cash_{t-0}$	$cash_{t-0}$	$cash_{t-0}$	$cash_{t-0}$	
Cash flows	$cash_{t-1}$	$cash_{t-1}$	$cash_{t-1}$		
Cash flows	$cash_{t-2}$	$cash_{t-2}$			
Cash flows	$cash_{t-3}$				
Add columns	$\Sigma=X_{t-4}$	$\Sigma=X_{t-3}$	$\Sigma=X_{t-2}$	$\Sigma=X_{t-1}$	$\Sigma=X_{t}$

Average market value of assets (five years):

$$AMV = \sum_{j=0}^{j=4} X_{t-j} \, / \, 5$$

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

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(11) Average market value without phase-in

Alternate calculation shown in AAV study note. Define unrealized gain as "balancing item" between successive market values:

$$MV_t = MV_{t-1} + \text{Realized gains} + \text{Unrealized gains} + \text{Contrib} - \text{Ben pmts} - \text{Expenses} + \text{Interest}$$

5 year Average market value can also be calculated this way:

$$AMV = MV_5 - 4/5(RG_4+UG_4) - 3/5(RG_3+UG_3) - 2/5(RG_2+UG_2) - 1/5(RG_1+UG_1)$$

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

(12) Average market value with phase-in

Calculations similar to Approval 11.

Adjusted values for years before the year preceding the year of change are replaced by the adjusted value for the year preceding the year of change. Realized and unrealized gains are zeroed out for the earlier years.

Assume the actuarial asset valuation method is changed in 2002, with five year averaging period:

$$AAV_{2002} = MV_{2002} - 4/5(RG_{2001}+UG_{2001}) - 3/5(\text{zero}) - 2/5(\text{zero}) - 1/5(\text{zero})$$

$$AAV_{2003} = MV_{2003} - 4/5(RG_{2002}+UG_{2002}) - 3/5(RG_{2001}+UG_{2001}) - 2/5(\text{zero}) - 1/5(\text{zero})$$

$$AAV_{2004} = MV_{2004} - 4/5(RG_{2003}+UG_{2003}) - 3/5(RG_{2002}+UG_{2002}) - 2/5(RG_{2001}+UG_{2001}) - 1/5(\text{zero})$$

$$AAV_{2005} = MV_{2005} - 4/5(RG_{2004}+UG_{2004}) - 3/5(RG_{2003}+UG_{2003}) - 2/5(RG_{2002}+UG_{2002}) - 1/5(RG_{2001}+UG_{2001})$$

(17) Average market value with alternate phase-in

Calculations similar to Approval 12.

Adjusted values for years before the year preceding the year of change are replaced by the adjusted value for the year preceding the year of change. AAV is set equal to market value at the date the method was changed.

"Alternate phase-in" means the fractions will vary until the method has been in place 4 years (with a 5 year averaging period).

Assume method is changed in 2002:

$$AAV_{2002} = MV_{2002}$$

$$AAV_{2003} = MV_{2003} - 1/2(RG_{2002}+UG_{2002})$$

$$AAV_{2004} = MV_{2004} - 2/3(RG_{2003}+UG_{2003}) - 1/3(RG_{2002}+UG_{2002})$$

$$AAV_{2005} = MV_{2005} - 3/4(RG_{2004}+UG_{2004}) - 2/4(RG_{2003}+UG_{2003}) - 1/4(RG_{2002}+UG_{2002})$$

$$AAV_{2006} = MV_{2006} - 4/5(RG_{2005}+UG_{2005}) - 3/5(RG_{2004}+UG_{2004}) - 2/5(RG_{2003}+UG_{2003}) - 1/5(RG_{2002}+UG_{2002})$$

(15) Smoothed market value without phase-in

Calculate expected MVA from last year MVA using valuation rate for expected interest on cash flows (excluding expenses).

Determine G/L each year based on the expected value of assets versus the market value.

Assume the actuarial asset valuation method is changed in 2002, and five year averaging period:

01/02 AAV =
01/02 MVA - 4/5(G/L$_{2001}$) - 3/5(G/L$_{2000}$) - 2/5(G/L$_{1999}$) - 1/5(G/L$_{1998}$)

01/03 AAV =
01/03 MVA - 4/5(G/L$_{2002}$) - 3/5(G/L$_{2001}$) - 2/5(G/L$_{2000}$) - 1/5(G/L$_{1999}$)

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

(16) Smoothed market value with phase-in

Similar calculations to Method 15. G/L for years prior to the change in asset valuation method are zeroed out. AAV is set equal to market value at the date the method was changed.

Assume the actuarial asset valuation method is changed in 2002:

01/02 AAV = 01/02 MVA

01/03 AAV = 01/03 MVA - 4/5(G/L 2002) - 3/5(zero) - 2/5(zero) - 1/5(zero)

01/04 AAV = 01/04 MVA $- 4/5(G/L_{2003}) - 3/5(G/L_{2002}) - 2/5(\text{zero}) - 1/5(\text{zero})$

01/05 AAV = 01/05 MVA $- 4/5(G/L_{2004}) - 3/5(G/L_{2003}) - 2/5(G/L_{2002}) - 1/5(\text{zero})$

01/06 AAV = 01/06 MVA $- 4/5(G/L_{2005}) - 3/5(G/L_{2004})$

$- 2/5(G/L_{2003}) - 1/5(G/L_{2002})$

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

SUMMARY – AAV METHODS

(11) Average value without phase-in

$$AAV_{2002} = MV_{2002} - 4/5(RG_{2001}+UG_{2001}) - 3/5(RG_{2000}+UG_{2000}) - 2/5(RG_{1999}+UG_{1999}) - 1/5(RG_{1998}+UG_{1998})$$

(12) Average value with phase-in

$$AAV_{2002} = MV_{2002} - 4/5(RG_{2001}+UG_{2001}) - 3/5(\text{zero}) - 2/5(\text{zero}) - 1/5(\text{zero})$$

.

.

.

$$AAV_{2005} = MV_{2005} - 4/5(RG_{2004}+UG_{2004}) - 3/5(RG_{2003}+UG_{2003}) - 2/5(RG_{2002}+UG_{2002}) - 1/5(RG_{2001}+UG_{2001})$$

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

SUMMARY – AAV METHODS

(17) Average value with alternative phase-in.

$AAV_{2002} = MV_{2002}$

$AAV_{2003} = MV_{2003} - 1/2(RG_{2002}+UG_{2002})$

.
.
.

$AAV_{2006} = MV_{2006} - 4/5(RG_{2005}+UG_{2005}) - 3/5(RG_{2004}+UG_{2004})$
$- 2/5(RG_{2003}+UG_{2003}) - 1/5(RG_{2002}+UG_{2002})$

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

SUMMARY – AAV METHODS

(15) Smoothed market value without phase-in

01/02 AAV =
01/02 MVA - 4/5(G/L_{2001}) - 3/5(G/L_{2000}) - 2/5(G/L_{1999}) - 1/5(G/L_{1998})

(16) Smoothed market value with phase-in

01/02 AAV = 01/02 MVA

01/03 AAV =
01/03 MVA - 4/5(G/L_{2002}) - 3/5(zero) - 2/5(zero) - 1/5(zero)
.
.
.
01/06 AAV =
01/06 MVA - 4/5(G/L_{2005}) - 3/5(G/L_{2004}) - 2/5(G/L_{2003}) - 1/5(G/L_{2002})

For each method, the final asset value must be compared to both corridors:
80%MVA, 85%AMV < AAV < 120%MVA, 115%AMV

REVENUE PROCEDURE 2000-41
REQUEST APPROVAL - METHOD CHANGES

Section 3 - Examples of method changes

Section 4 - Details of application

Section 5 - Class rulings

Section 6 - Supersedes RP 78-37

Section 7 - Effective date 12/01/2000

MFSA - STARTING DATE
1976 FOR MOST PLANS

If plan is in existence at 1-1-74, MFSA is effective at start of first plan year starting in 1976. Amortize IAL over <u>40 years</u>

If plan is not in existence at 1-1-74, MFSA is effective at start of first plan year starting <u>after</u> 9-2-74. Amortize IAL over <u>30 years</u>

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