

# SECTION 404

## MULTIEMPLOYER PLANS

**404-ME-1**

**§404(a)(1)(A)**  
**MULTI-EMPLOYER PLANS**  
**MAXIMUM DEDUCTIBLE LIMIT**

---

**Greater of**

- (i) Smallest amount to satisfy §431 MFSA**
- (ii) Normal cost under Aggregate method, or**
- (iii) Normal cost plus limit adjustments for  
other cost methods**

**NOTES:**

- 1. Item (i) interest adjusted to end of plan year**
- 2. Items (ii) and (iii) interest adjusted to earlier  
of end of plan year, or end of tax year**

# **§404(a)(1)(A)**

## **MULTI-EMPLOYER PLANS**

### **LIMIT ADJUSTMENT**

---

**Simplest definition:**

**10 year amortization for IAL, G/L, ASSM CHG, PLAN CHG and METHOD CHG bases**

**404 Regulation definition:**

**Limit Adjustment is defined as lesser of:**

**) Remaining ten year amortization base (TYAB), or**

**) Original TYAB /  $\ddot{s}_{\overline{10}|i\%}$**

## **§404(a)(1)(A)**

### **MAXIMUM DEDUCTIBLE LIMIT**

---

**Can't exceed Full Funding Limitation (§431):**

#### **ERISA FFL**

**$(1+i)(NC+AL) - (1+i)[\text{lesser}(MV, AAV)]$**

#### **RPA '94 FFL**

**$$90\% \quad \left[ (1+i^{CL})(NC^{CL}+AL^{CL}) - BP(1 + i^{CL}/2) \right]$$
  
$$- [(1+i)(AAV) - BP(1 + i/2) ]$$**

#### **NOTES:**

- 1. No details in 404 for FFL calculation, simply refers back to 431 definition**
- 2. In general, 431 CB not used for any calculations under 404**
- 3. FFL is always adjusted with interest to end of plan year (regardless of tax year)**

## **§404(a)(1)(D)**

### **UNFUNDED CURRENT LIABILITY**

**EGTRRA**

---

**Final maximum deductible limit is greater of prior calculations or 140% of Current Liability less the Actuarial value of assets under 431(c)(6):**

$$\begin{aligned} & 140\% * [(1+i^{CL})(NC^{CL}+AL^{CL}) - BP(1 + i^{CL}/2)] \\ - & 100\% * [(1+i)(AAV) - BP(1 + i/2) ] \end{aligned}$$

### **NOTE:**

**No details in 404 for FFL or UCL calculation**

### **PRACTICAL NOTE**

**2004 EA “Gray Book” question 2**

**Informal “non-guidance”: 404 UCL gets interest to earlier of end of plan year / tax year**

## **§404 MAXIMUM DEDUCTIBLE LIMIT   PPA 06**

---

### **Steps in calculation:**

- 1. Deductible limit = Normal cost plus limit adjustments (NC+LA)**
- 2. Calculate §404 FFL. If less than Item 1, skip to step 4, since §431 minimum is irrelevant**
- 3. Calculate §431 minimum**
- 4. Deductible Limit = Lesser of §404 FFL and (Greater of NC+LA and §431 minimum)**
- 5. If §404 UCL > Deductible limit so far,  
Deductible limit = 140%CL - AAV (see P. 5)**

## **§404 MAXIMUM DEDUCTIBLE LIMIT   PPA 06**

---

**Notes regarding steps in calculation:**

**) §431 minimum rarely exceeds NC + LA**

**)  $140\%CL - AAV$  can easily exceed NC + LA**

**) Usually can ignore RPA FFL – if this exceeds ERISA FFL, the deductible limit usually equals  $140\%CL - AAV$**

**§404(a)(1)(D)(iv)**  
**TERMINATING PLANS**

**EGTRRA**

- 
- ) In lieu of 140%CL - AAV in (D)(i), substitute amount required to make plan sufficient for benefit liabilities under ERISA 4041(d)**
  - ) Employer can deduct contribution that makes plan sufficient**
  - ) Plan must be covered by PBGC**



## **§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:**

**Have up to 2½ months after plan year ends, but can get extension to 8½ months after plan year ends**

# **FFL CALCULATION EXAMPLE**

---

**01/01/2017 valuation**

**Entry Age normal cost method**

**8% interest**

|                              |                |                                  |                |
|------------------------------|----------------|----------------------------------|----------------|
| <b>CB</b>                    | <b>8,000</b>   | <b>NC</b>                        | <b>30,000</b>  |
| <b>12/31 CL</b>              | <b>291,600</b> | <b>AL</b>                        | <b>230,000</b> |
| <b>MVA</b>                   | <b>200,000</b> | <b>AAV</b>                       | <b>210,000</b> |
| <b>§431<br/>amortization</b> | <b>30,000</b>  | <b>§404 limit<br/>adjustment</b> | <b>50,000</b>  |

- 1. What is 431 smallest amount to satisfy minimum funding at 12/31/2017?**
- 2. What is the FFL based on a debit balance of 8,000 (instead of CB)?**
- 3. What is the deductible limit for 2017?**

**Example continued from page 431(c)-15**

# **2017 GENERAL CONDITIONS – FUNDING MULTI-EMPLOYER PLANS**

---

- 38. The employer is taxable. All prior plan year contributions have been deducted for the tax year coincident with the plan year.**
- 39. The employer does not use (has never used):**
  - **Fresh start alternative**
  - **Combined limit adjustments**
- 40. The full funding limitation has never applied**
- 43. If not given enough data, ignore full funding limitations based on current liability**
- 44. If not given enough data, ignore unfunded current liability**

THIS PAGE WAS INTENTIONALLY LEFT BLANK

**404-ME-12**