

SECTION 404

FULL FUNDING

MULTIEMPLOYER

PLANS

§1.404(a)-14(k)

EFFECT OF FULL FUNDING

If the actual deduction \geq Full Funding Limitation, all TYAB are eliminated in the following year

§1.404(a)-14(i)(5)

FRESH START ALTERNATIVE

Recalculate limit adjustment as $UAL / \ddot{a}_{\overline{10}|i}$

On exam, NEVER use Fresh Start unless the problem tells you to, per exam conditions.

In practice, you use the Fresh Start when it produces a higher maximum deductible limit:

- **Little or no contribution, UAL may increase above IAL**
- **FFL under 404 wipes out bases**

FFL EXAMPLE - BOTH §404 AND §431

Assume EAN cost method, and both §404 and §431 hit Full Funding Limitation

1. At beginning of year:

§404 UAL = O/S §404 TYAB

§431 UAL = O/S §431 bases - CB - ARA

2. At end of year:

§404 UAL \leq zero (no bases)

§431 UAL \leq zero - CB - ARA

3. Use Revenue Ruling 81-213 for §431 loss

FFL EXAMPLE - BOTH §404 AND §431

4. At beginning of next year, set up new bases:

§404 loss base = §404 UAL

§431 loss base = §431 UAL + CB

5. Amortize loss over 15 years for §431, but use 10 years for ALL §404 bases

6. Not actually using Fresh Start for §404

§404 CARRYOVER CONTRIBUTIONS

1. Amount contributed towards TYAB
 - i) Total deduction for year, plus
 - ii) Interest on actual contribution, plus
 - iii) Interest on carryover at beginning of year, less
 - iv) Normal cost plus interest

NEVER TESTED ON EXAM

2. Amount available to deduct =
Actual contribution plus carryover
3. Next year's carryover (≥ 0) = Amount
available to deduct minus the actual
deduction for the year

REVENUE RULING 82-125 EXAMPLE

01/01/77 valuation 5% interest ILP

Normal cost	20,000	Carryover	25,000
		12/31/77	
Accd liab	110,000	contribution	10,000
Act'l assets	139,000	1976 Gain	14,000
		Combined	
Market asset	139,000	limit adj	5,000

Use the prior January 1 valuation results to determine the deductible limit for the tax year ending June 30, 1977.

Assume the 12-31-77 contribution was available to be deducted for the tax year ending 06-30-77.

What is the deductible limit for 1977? Assume the employer deducts the maximum for 1977. What is the carryover contribution at 01/01/78?

REVENUE RULING 82-125 EXAMPLE

01/01/78 valuation 5% interest ILP

Normal cost	25,000	Carryover	???????
		12/31/78	
Accd liab	130,000	contribution	-0-
Act'l assets	146,450	1977 Loss	3,000
Market asset	146,450		

Use the prior January 1 valuation results to determine the deductible limit for the tax year ending June 30, 1978.

What is the deductible limit for 1978? Assume the employer deducts the maximum for 1978. What is the carryover contribution at 01/01/79?

§4972(c)(6)
EXCISE TAX EXEMPTION

**Multiemployer plans are not subject to
404(a)(7)**

**§4972(c)(6) only applies to single employer
plans that are not covered by the PBGC with
contributions that are not deductible due to
§404(a)(7)**

§4972(c)(7) EXCISE TAX EXEMPTION

10% excise tax only applies to contributions in excess of the Full Funding Limitation

Since 4972(c)(6) does not apply to multiemployer plans, should always assume election under 4972(c)(7)

4972(c)(7) EXCISE TAX EXEMPTION

<u>Item description</u>	<u>Sample 1</u>	<u>Sample 2</u>	<u>Sample 3</u>
DB plan contribution	450,000	500,000	550,000
DB plan deductible limit	<u>400,000</u>	<u>300,000</u>	<u>250,000</u>
DB plan non-ded contribution	50,000	200,000	300,000
404 Full Funding Limitation	450,000	450,000	450,000
DB plan contribution > FFL	0	50,000	100,000
DB plan: subject to excise tax	0	50,000	100,000
10% excise tax - DB plan	0	5,000	10,000

ASSET ADJUSTMENTS FOR §404 ADVANCE DEDUCTED CONTRIBUTION

**Remember: AAV = assets used for §431 costs
ADC = advance deducted contrib
NDC = non-deducted contrib**

EXAM PROBLEM 2004-20

**Selected valuation results for IRC section 412 purposes
as of 1/1/2004:**

Actuarial value of assets	200,000
Market value of assets	185,000

**Contribution for 2004 minimum funding purposes paid
on 1/1/2004: \$20,000.**

**Portion of the 1/1/2004 contribution deducted for
calendar year 2003: \$12,000.**

ASSET ADJUSTMENTS FOR §404

Remember: AAV = assets used for §431 costs
ADC = advance deducted contrib
NDC = non-deducted contrib

$$\begin{aligned}\text{§404 AAV} &= \text{AAV} - \text{NDC} \quad (\text{or } \text{AAV} + \text{ADC}) \\ \text{§404 MVA} &= \text{MVA} - \text{NDC} \quad (\text{or } \text{MVA} + \text{ADC})\end{aligned}$$

Revenue Ruling 82-125

ERISA FFL

$$\begin{aligned}&= (1+i)(\text{NC}+\text{AL}) - (1+i)[\text{lesser}(\text{MV}, \text{AAV})] + \text{NDC} \\ &= (1+i)(\text{NC}+\text{AL}) - (1+i)[\text{lesser}(\text{MV}, \text{AAV}) + \text{ADC}]\end{aligned}$$

RPA '94 FFL

$$\begin{aligned}&= 90\% * [(1+i^{\text{CL}})(\text{NC}^{\text{CL}}+\text{AL}^{\text{CL}}) - \text{BP}(1 + i^{\text{CL}}/2)] \\ &\quad - 100\% * [(1+i)(\text{AAV}) - \text{NDC} - \text{BP}(1 + i/2)] \\ &= 90\% * [(1+i^{\text{CL}})(\text{NC}^{\text{CL}}+\text{AL}^{\text{CL}}) - \text{BP}(1 + i^{\text{CL}}/2)] \\ &\quad - 100\% * [(1+i)(\text{AAV} + \text{ADC}) - \text{BP}(1 + i/2)]\end{aligned}$$

ASSET ADJUSTMENTS FOR §404

Remember: AAV = assets used for §431 costs
ADC = advance deducted contrib
NDC = non-deducted contrib

$$\text{§404 AAV} = \text{AAV} - \text{NDC} \quad (\text{or } \text{AAV} + \text{ADC})$$

$$\text{§404 MVA} = \text{MVA} - \text{NDC} \quad (\text{or } \text{MVA} + \text{ADC})$$

§404 Unfunded Current Liability (EOY)

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

THE Aggregate cost method:

$$\begin{aligned} \text{§404 PVNC} &= \text{PVB} - (\text{AAV} - \text{NDC}) \\ &= \text{PVB} - (\text{AAV} + \text{ADC}) \end{aligned}$$

Other cost methods:

$$\text{§404 PVNC} = \text{PVB} - \text{§404 AAV} - \text{§404 UAL}$$