

SECTION 430(i)

At-Risk 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)

§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

§430(d)

FUNDING TARGET DEFINITIONS

FUNDING TARGET:

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

FUNDING TARGET ATTAINMENT PERCENTAGE (FTAP):

[AAV – CB – PB]

Funding Target

(ignoring At-Risk plan rules)

§430(i)(6)

SMALL PLAN EXEMPTION

If 500 or less participants on each day of prior plan year, the plan shall not be treated as in At-Risk status for the plan year.

Participant count uses plan aggregation

-) Include all non-multiemployer DB plans in controlled group**
-) Only count participants of employer**

§404(o)(2)(B) MAXIMUM DEDUCTIBLE LIMIT

Calculations based on At-risk status, even if plan is not At-Risk

Still need to do At-Risk calculations for plans with 500 or less participants

Usually does not change the final maximum deductible limit

§430(i)(1)(B)

ADDITIONAL ACTUARIAL ASSUMPTIONS FOR AT-RISK PLANS

Special retirement age assumption

-) For participants eligible to retire within 11 years from valuation date**
-) Assume benefit commencement at earliest retirement date**
-) Earliest date is NOT before end of plan year for which you are calculating the normal cost and funding target**

Earliest retirement date

**Defined as date participant can receive
commence receiving immediate distribution of
fully vested benefit**

1.430(i)-1(c)(3)(ii)

**ADDITIONAL ACTUARIAL ASSUMPTIONS
FOR AT-RISK PLANS**

SPECIAL RETIREMENT AGE ASSUMPTION

**) Does not apply to extent a participant is
assumed to retire during current plan year**

**) EXAMPLE:
25% retirement decrement at valuation date**

1.430(i)-1(c)(3)(iii)

**ADDITIONAL ACTUARIAL ASSUMPTIONS
FOR AT-RISK PLANS**

ASSUMED BENEFIT PAYMENT FORM

-) Requirement applies to all participants and beneficiaries at assumed retirement date**
-) Must assume election of form with highest present value**

§430(i)(4)(C)

DETERMINATION OF AT-RISK STATUS

RULE FOR AUTOMOBILE MANUFACTURERS

-) If employed by "specified automobile manufacturer"
-) Under bona fide retirement incentive program, in 2006 employee is offered either
 - Substantial add'l cash compensation
 - Substantial enhanced retirement bens
 - Materially reduced employment duties
-) Employee does not elect to accept such offer before offer's expiration date
-) Can ignore additional actuarial assumptions in §430(i)(1)(B)

NOTE

Industry specific transition rules have not been tested in prior EA exams

§430(i)(4)

DETERMINATION OF AT-RISK STATUS

General rule

Plan is At-Risk if both

) FTAP for prior plan year (ignoring this subsection) is less than 80%, and

) FTAP for prior plan year (using the additional actuarial assumptions in §430(i)(1)(B)) is less than 70%

§430(i)(4)

DETERMINATION OF AT-RISK STATUS

HISTORY

Transition rule – reduction in 80%

| Year | 2008 | 2009 | 2010 | 2011+ |
|------------------------------------------------------|------|------|------|-------|
| Prior year FTAP NOT At-Risk | 65% | 70% | 75% | 80% |
| Prior year FTAP using 430(i)(1)(B) assumptions | 70% | 70% | 70% | 70% |

NOTE:

-) Funding target using 430(i)(1)(B) assumptions should always exceed not At-Risk funding target
-) FTAP using 430(i)(1)(B) assumptions should always be less than NON At-Risk FTAP

§430(i)(4)

DETERMINATION OF AT-RISK STATUS

| 2016 valuation results | SCENARIO 1 | SCENARIO 2 |
|------------------------------------------|-------------------|-------------------|
| Funding Target | 1,000 | 1,000 |
| AAV | 800 | 780 |
| CB | 20 | 20 |
| PB | 0 | 0 |
| AAV - CB - PB | 780 | 760 |
| 2016 FTAP | | |
| Funding Target using 430(i)(1)(B) | 1,100 | 1,100 |
| 2016 FTAP using 430(i)(1)(B) | | |
| At-RISK in 2017? | | |

§430(i)(1)(A)

FUNDING TARGET FOR AT-RISK PLANS

Funding target equals the sum of

-) PV of all benefits accrued or earned under the plan**
 - As of the beginning of the plan year**
 - Using assumptions in 430(i)(1)(B), plus**
-) For plan in At-Risk status for at least 2 of the 4 preceding plan years, a loading factor under 430(i)(1)(C) – see next page**

§430(i)(1)(C)

LOADING FACTOR FOR FUNDING TARGET

Loading factor equals the sum of
) 700 per participant, plus
) 4% of Funding Target, ignoring 430(i) rules

TARGET NORMAL COST FOR AT-RISK PLANS

Target normal cost equals the sum of

-) PV of all benefits expected to accrue during the plan year under the plan**
 - As of the beginning of the plan year**
 - Plus plan related expenses**
 - Minus expected mandatory employee contributions**
 - Using assumptions in 430(i)(1)(B)**

-) For plans in At-Risk status for at least 2 of the 4 preceding plan years, a loading factor of 4% of the Target normal cost defined in 430(b)(1)(A)(i)**
 - This ignores 430(i) rules**
 - Excludes plan related expenses**
 - Excludes expected mandatory employee contributions**

§430(i)(3)

MINIMUM AMOUNTS FOR AT-RISK PLANS

At-risk Funding Target can not be lower than Funding Target, ignoring 430(i) rules

At-risk Target normal cost can not be lower than Target normal cost, ignoring 430(i) rules

EXAMPLE

Participant is eligible for early retirement at valuation date. Not eligible for special subsidy for five more years.

§430(i)(5)

WEIGHTING RULES FOR AT-RISK PLANS

Weighting between values for Funding target and Target normal cost

| Consecutive years plan has been in At-Risk status | Percent of item using 430(i) rules | Percent of item ignoring 430(i) rules |
|------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| 1 | 20% | 80% |
| 2 | 40% | 60% |
| 3 | 60% | 40% |
| 4 | 80% | 20% |
| 5 | 100% | zero |

Ignore plan years before 2008

§430(i)(5)

WEIGHTING RULES FOR AT-RISK PLANS

ITEM DESCRIPTION

VALUE

| | |
|-------------------------------------------|--------------|
| Funding Target₂₀₁₅ | 1,000 |
| Funding Target₂₀₁₅ {AR} | 1,100 |
| At-RISK for 2015? | NO |
| “Final” Funding Target | |
| Funding Target₂₀₁₆ | 1,100 |
| Funding Target₂₀₁₆ {AR} | 1,300 |
| At-RISK for 2016? | YES |
| “Final” Funding Target | |
| Funding Target₂₀₁₇ | 1,200 |
| Funding Target₂₀₁₇ {AR} | 1,400 |
| At-RISK for 2017? | YES |
| “Final” Funding Target | |

{AR} → At-Risk value

2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS

**45. The plan is not currently in “At-Risk” status
(nor has it ever been)**

**46. “At-Risk funding target” and “At-Risk target
normal cost” mean the values reflecting the
additional actuarial assumptions and loading
factors (if applicable), but prior to weighting of
liabilities under the five year transition rule**

(see page 17)

NOTE

**Older exam problems did not consistently use
the descriptive terms in exam condition 46!**

§430(i) SUMMARY - AT-RISK PLANS

-) Funding Target Attainment Percentage**
-) Determination of At-Risk status**
-) Small plan exception**
-) Additional actuarial assumptions**
-) At-Risk → Modified Funding Target and Target normal cost**
-) Weighting of values for At-Risk**