MULTIEMPLOYER PLANS

PRE PPA-2006 REGULATIONS

HISTORICAL REFERENCE

431-REG-1

THIS PAGE WAS INTENTIONALLY LEFT BLANK

REGULATIONS

MINIMUM FUNDING

MULTIEMPLOYER PLANS

431-REG-1

§1.412(c)(1)-2
SHORTFALL METHOD

1. Plan must be collectively bargained and have contributions made at rate specified in legally binding agreement (CBA)

2. Can use this with <u>any</u> cost method

3. Annual computation charge:
   NC + amort charges - amort credits, calculated at EOY

4. Estimated unit charge
   Annual comp. charge / (estimated hours)

5. Net shortfall charges
   Est. unit charge * (actual hours)

6. Shortfall Gain/Loss
   $$(5) - (3) = (3) * \left[\frac{\text{actual hours}}{\text{est. hours}} - 1.0\right]$$

SHORTFALL MFSA EXAMPLE

MFSA without Shortfall method:

Normal Cost	**50,000**	**Credit balance**	**5,000**
IAL amort	**30,000**	**Assump amort**	**10,000**
		12/31 Contribution	**60,000**
7% interest	**5,600**	**7% interest**	**1,050**
Total charges	**85,600**	**Total credits**	**76,050**
		Debit balance	**9,550**

CBA contribution rate: 5 cents per hour
Expected hours: 1,500,000

Set up MFSA using the Shortfall method, then calculate Shortfall G/L and credit balance

Actual hours = 1,200,000 = 60,000 / .05
Ann'l comp charge = (1.07)(50,000+30,000-10,000) = 74,900
Net S/F charge = (1,200/1,500)(74,900) = 59,920
Shortfall LOSS = 14,980 = (1 - 1,200/1,500)(74,900) =74,900 - 59,920

Net S/F Charge	59,920	Credit balance	5,000
		12/31 Contribution	60,000
7% interest	0	7% interest	350
Total charges	59,920	Total credits	65,350
		Credit balance	5,430

SHORTFALL AMORTIZATION PERIODS

The first year is the earlier of

i. 5th year following the plan year the S/F G/L arose

ii. 1st year after expiration of CBA in effect at end of plan year the S/F G/L arose

The last year is the 20th year following the year the S/F G/L arose

Use SAME amortization period for regular experience G/L

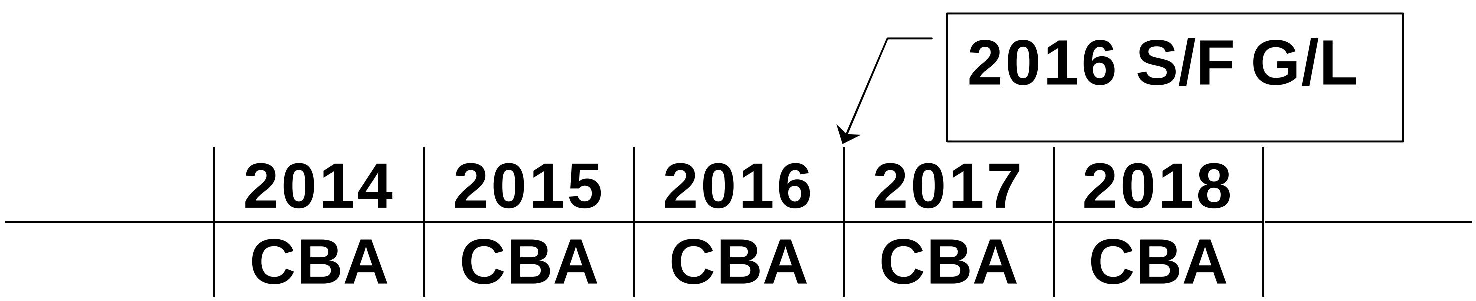
Last sentence of §1.412(c)(1)-2(g)(2)(i): Contract expiring on last day of the year is deemed renewed on the last day of the year for the same number of years as the succeeding contract

SHORTFALL AMORTIZATION EXAMPLES

Plan year = Calendar year
Biennial CBA expires 06/30
What years to amortize 2016 S/F G/L?

First year 2018, last year 2036 - use for both regular G/L and shortfall G/L

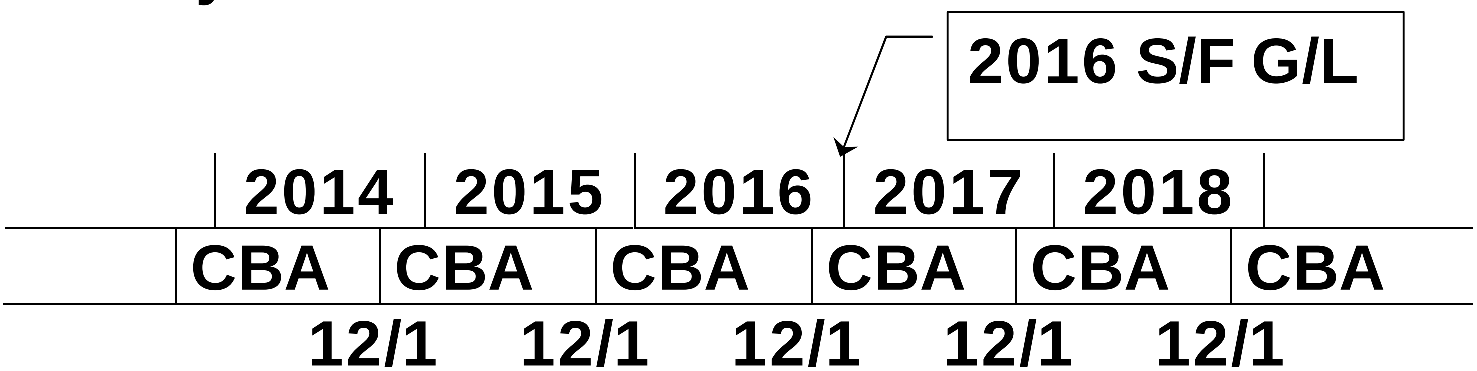
Plan year = Calendar year
Annual CBA expires on 12/31
What years to amortize 2016 S/F G/L?



First year 2018, last year 2036 - use for both regular G/L and shortfall G/L

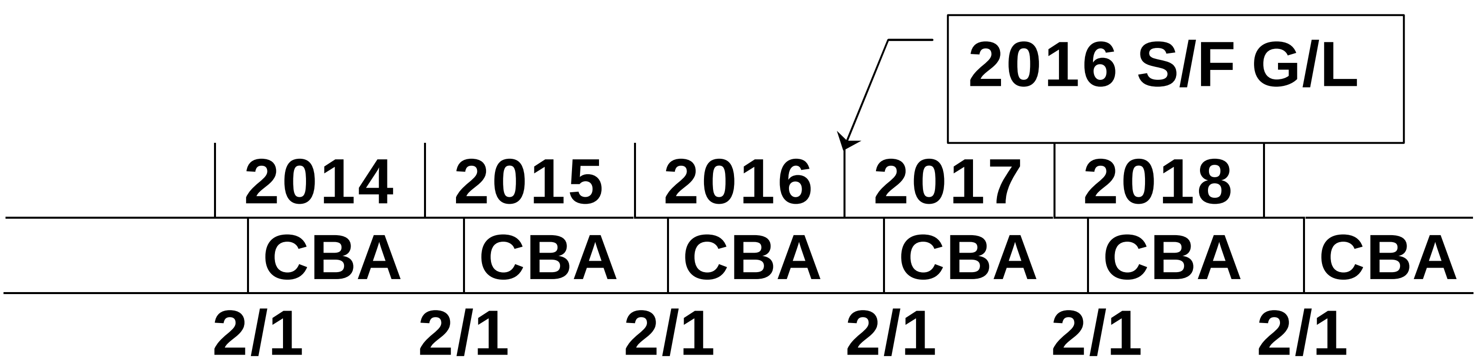
SHORTFALL AMORTIZATION EXAMPLES

Plan year = Calendar year
Annual CBA expires 11/30
What years to amortize 2016 S/F G/L?



First year 2018, last year 2036 - use for <u>both</u> regular G/L and shortfall G/L

Plan year = Calendar year
Annual CBA expires 1/31
What years to amortize 2016 S/F G/L?



First year 2018, last year 2036 - use for <u>both</u> regular G/L and shortfall G/L

§1.412(c)(2)-1
ASSET VALUATION METHODS

Want a smooth value of assets for pension valuation versus "volatile" market value

Requirements of regulation:

1. **Determine AAV on consistent basis**
2. **Describe method in Schedule B attach.**
3. **Use same day(s) to determine AAV**
4. **Must reflect MVA**
5. **Calculate AAV based on a formula**
6. **Result can't be consistently above MVA, or consistently below MVA**

§1.412(c)(2)-1
ASSET VALUATION METHODS

Calculate AAV based on a formula

Multiemployer plan limits:

Lesser of		Greater of
85% AMV and		115% AMV and
80% MVA	< final AAV <	120% MVA

AMV = Average Market Value (see next page)

AVERAGE MARKET VALUE (AMV)

Corridor using 85% AMV and 115% AMV only available for multiemployer plans

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

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

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

Average market value of assets (four years):

$$AMV = \sum_{j=0}^{j=3} X_{t-j} / 4$$

REVENUE RULING 77-2

PPA 2006 changed the rules regarding amendments during the plan year.

The IRS has indicated that Revenue Ruling 77-2 is now obsolete.

THIS PAGE WAS INTENTIONALLY LEFT BLANK

REVENUE RULING 79-237

1. Must maintain MFSA to end of year of plan termination

2. Pro-rate MFSA items to reflect DOPT
   a) Normal cost
   b) Amortizations

3. Don’t pro-rate these items
   a) Employer contribution
   b) Credit balance
   c) Interest

4. Proposed regulation 12/82 - don’t pro-rate amortization of prior MFSA waiver

5. Trick question - calculate FFL in year of plan termination

MULTIEMPLOYER PLANS

PRE PPA-2006 REGULATIONS

HISTORICAL REFERENCE

THIS PAGE WAS INTENTIONALLY LEFT BLANK