SECTION 414(l)

IRC §414(l)(1)
1.414(l)-(1)(n)(2)

SPINOFF RULES

General rule: Everyone must be as well funded on §4044 basis after the spinoff as they were before the spinoff

De minimis rule: If 100% of PVAB < 3% of total assets, simply spin off assets equal to 100% of PVAB

NOTE - These rules do not apply to multiemployer plans

§4044 of ERISA
PBGC PRIORITY CATEGORIES

PC1 Voluntary employee contributions

PC2 Mandatory employee contributions
Includes refund of EECWI death benefit:
EECWI $(1 - l_{65} / l_x)$

PC3 Early retirement 3 years prior to DOPT, based on plan provisions 5 years prior

PC4 Guaranteed benefits based on five year phase-in

PC5 Vested benefits

PC6 Accrued benefits

Employees usually have benefits in multiple priority categories.

PBGC ALLOCATIONS ON §4044 BASIS

Assume PBGC termination liability consists of multiple priority categories:

PC1	20,000
PC2	0
PC3	40,000
PC4	60,000
PC5	20,000
PC6	40,000
Total	180,000

To allocate assets on PBGC (or §4044) basis, must define allocation rule. Apply assets towards each priority category in order from PC1 (highest priority) to PC6 (lowest priority):

If MVA=	Then allocation rule is
50,000	MVA = 100%(PC1→PC2) + 3/4 PC3
100,000	MVA = 100%(PC1→PC3) + 2/3 PC4
150,000	MVA = 100%(PC1→PC5) + 1/4 PC6

IRC §414(l)(1)
1.414(l)-(1)(e)(1)

MERGER RULES

General rule: Everyone must be as well funded on §4044 basis after the merger as they were before the merger

De minimis rule: If 100% of PVAB < 3% of larger plan's assets, create "PC0" allocation group for the smaller plan

NOTE - These rules do not apply to multiemployer plans

IRC §414(l) SPECIAL SCHEDULE

1. Only way to handle merger of two plans that have different levels of funding

2. Can ignore effect of special schedule 5 years after the date of a merger

3. Data maintenance alternative - can save time and effort if 5 years pass

IRC §414(l) SPECIAL SCHEDULE

Simple example: Plans A and B merge

Plan	PC4 Liab	PC5 Liab	Assets
A	120,000	50,000	60,000
B	100,000	50,000	40,000
Merger	220,000	100,000	100,000

Plan A funded level: 50.00% PC4
Plan B funded level: 40.00% PC4
Merged plan funded level: 45.45% PC4

Special schedule guarantees that merged plan provides minimum values for Plan A PC4 ees. Compare results for higher funded plan based on funding levels of both plans before merger:

60,000 = 50.00%(120,000) Plan A: 50% PC4
48,000 = 40.00%(120,000) Plan B: 40% PC4

Special schedule benefit is difference of 12,000

REVENUE RULING 86-48

PC6 includes total accrued benefit:

- Early retirement subsidies
- Optional forms of benefit payment
- Qualified pre-retirement survivor annuities

All items are included in PC6 even if participant has <u>not</u> yet satisfied the eligibility requirements

IRC SECTION 414(l)(2)
SPINOFF – ASSET ALLOCATION

These rules apply if:

1. Assets exceed the present value of accrued benefits on a termination basis, and

2. Sponsors of spun off plans are members of the same controlled group

3. Only applies to single employer plans – NOT to multiemployer plans

SPINOFF – ASSET ALLOCATION

Allocate the "applicable percentage" of the "excess assets" to each spun off plan

"Excess assets" = MVA – PVAB on PBGC basis

"Applicable percentage" is (A) / (B):

A) Is the excess, if any, of (i) over (ii)
   i) Target NC + Funding target
   ii) Assets required to be allocated upon spinoff

B) The sum of (A) for all plans

IRC SECTION 414(l)(2)
ASSET ALLOCATION

	TOTAL PLAN A	PLAN B	PLAN C
PVAB PBGC	200	150	50
Initial Alloc	200	150	50
Target NC + Funding target	230	170	60
MVA	260		

The sponsors of spun-off plans B and C are both members of the same controlled group.

Based on the rule in IRC section 414(l)(2), what are the assets allocated to Plan B?

Excess Liab	30
Allocation %	100%
Excess MVA	60
Total MVA	260

THIS PAGE WAS INTENTIONALLY LEFT BLANK