SECTION 431(c)

Current Liability and Full Funding

Multiemployer Plans

§431(c)(2)
ASSET VALUATION

These asset valuation techniques are only available for multiemployer plans:

1. **Bonds can be held at amortized value**

2. **Actuarial asset value can use corridor of 85% to 115% of average asset value:**

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

AMV = Average Market Value, as defined in 1.412(c)(2)-1 regulation

§431(c)(3)
ACTUARIAL ASSUMPTIONS / METHODS

- **Each item must be reasonable, <u>and</u>**
- **In combination, offer actuary's best estimate of future experience**

§431(c)(6)(D)
CURRENT LIABILITY - GENERAL

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1. Similar to Unit Credit Accrued Liability

2. Includes Unit Credit normal cost

3. In general, use same assumptions as valuation

4. RPA '94 mandated both mortality and interest for current liability

5. Salary scale only to end of plan year

§431(c)(6)(D)
CURRENT LIABILITY MORTALITY TABLES

- **February 2, 2007 – Final regulation**
  Mortality tables for 2007 current liability based on RP-2000 mortality
  - **Projection scale AA**
  - **Separate tables for healthy / disabled lives**
  - **Can use Disabled life mortality for (i) pre-1995 disabilities, or (ii) post-1994 disabilities that satisfy OASDI definition**

- **May 29, 2007 - Proposed regulation**
  Mortality tables for 2008 current liability based on RP-2000 mortality
  - **Must project mortality improvement**
  - **Can use Generational or static tables**

- **IRS Notice 2016-50**
  Static mortality tables for 2017

§431(c)(6)(E)
CURRENT LIABILITY INTEREST RATE

The rate chosen is not based on experience of the plan - it reflects insurance company settlement rates

1. RPA '94 Current Liability - for FFL “floor”

2. RPA '94 defined permissible range as 90% to 105% of the 4 year average yield on 30 year Treasury securities

§431(c)(6)
FULL FUNDING LIMITATION

- **Defined under §431**
- **Used to determine FFL credit in MFSA**
- **Modified by regulations, also used to calculate deductible limit**
- **RPA '94 added 90% FFL floor, different assumptions for current liability**

§431(c)(6)(A)
FULL FUNDING LIMITATION (ERISA)

(1+i)[Excess, if any, of
accrued liability + normal cost
over
{(lesser of market value of assets or
actuarial value of assets),
reduced by credit balance}]

1. This definition is based on §412 proposed regulations (12/82)

2. Treat debit balance as zero credit balance

3. For aggregate type cost methods, use the Entry Age Normal method for NC, AL

4. Accrued liability only includes benefits that are non-forfeitable upon plan termination

§431(c)(6)(A)
FULL FUNDING LIMITATION (ERISA)

ERISA FFL definition is similar to ${}_eAL_1$ - ${}_eAAV_1$ based on a zero contribution

$$
\begin{aligned}
{}_eAL_1 &= (1+i)(NC_0+AL_0) - BP(1 + i/2) \\
{}_eAAV_1 &= (1+i)(AAV_0) + (zero+i) - BP(1 + i/2) \\
{}_eAL_1 - {}_eAAV_1 &= (1+i)(NC_0+AL_0) - (1+i)(AAV_0) \\
&\quad + BP\ (1 + i/2) - BP\ (1 + i/2)
\end{aligned}
$$

$$
\begin{aligned}
\text{ERISA FFL} &= (1+i)(NC+AL) \\
&\quad - (1+i)[\text{lesser}\ (MV,AAV) - CB] \\
&\quad + [BP\ (1 + i/2) - BP\ (1 + i/2)]
\end{aligned}
$$

Normally do not show benefit payment terms, since they <u>always</u> cancel out in ERISA FFL definition

§431(c)(6)(B)
FULL FUNDING LIMITATION (RPA '94)

RPA '94 added a new definition. Unlike ERISA, the benefit payment terms don't cancel out:

$$\text{RPA '94 FFL} = 90\% \left[(1+i^{CL})(NC^{CL}+AL^{CL}) - BP(1 + i^{CL}/2)\right] - \left[(1+i)(AAV) - BP\,(1 + i/2)\right]$$

Notes:

(1) i^{CL}, NC^{CL}, AL^{CL} are based on current liability interest rate

(2) Assets are always adjusted with interest at valuation rate

§431(c)(6)(D)
FFL ASSUMPTION BASIS

RPA '94 mandated both mortality and interest for current liability

FFL	INTEREST RATE	MORTALITY
ERISA '74	Valuation	Valuation
RPA '94 90% CL	90% to 105% of 48 month average of 30 year Treasury Securities	RP-2000

EFFECT OF FULL FUNDING LIMITATION

1. Calculate accum. funding deficiency (AFD)
   a) ignore credit balance
   b) ignore employer contribution

2. FFL credit is excess (if any) of AFD over FFL

3. If FFL credit occurs this year, eliminate §431 bases in next year's MFSA

PRACTICAL NOTE
Based on EA meetings, when FFL wipes out §431 bases, eliminate the ARA too

EFFECT OF FULL FUNDING LIMITATION

	CASE 1	CASE 2	CASE 3
ERISA FFL	100	200	300
RPA '94 FFL	300	100	200
431 "AFD"	350	300	200
FINAL FFL			
12/31 FFC			
NEXT YEAR			
ELIM PRIOR BASES?			

EFFECT OF FULL FUNDING LIMITATION

	CASE 1	CASE 2	CASE 3
ERISA FFL	100	300	100
RPA '94 FFL	300	200	200
431 "AFD"	250	301	199
FINAL FFL			
12/31 FFC			
NEXT YEAR			
ELIM PRIOR BASES?			

FFL CALCULATION EXAMPLE

01/01/2017 valuation
Entry Age normal cost method
8% interest

CB	8,000	NC	30,000
12/31 CL	291,600	AL	230,000
MVA	200,000	AAV	210,000
§431 amortization	30,000		

1. What is 431 smallest amount to satisfy minimum funding payable at 12/31/2017?

2. What is the FFL based on a debit balance of 8,000 (instead of CB)?

§431(c)(6)(D)(ii)
UNPREDICTABLE CONTINGENT EVENT BENEFIT

This is NOT a benefit contingent on:

- Age
- service
- compensation
- death
- disability
- an event that is "reasonably and reliably predictable"

§431(c)(6)(D)(ii)
UNPREDICTABLE CONTINGENT EVENT BENEFIT LIABILITY

EXAMPLE: Shutdown benefit of $400 per month until attainment of age 62

- This is NOT a benefit contingent on age

- Plant shutdown is an event that is NOT "reasonably and reliably predictable"

- Do not include this liability in the current liability until the event on which the benefit is contingent actually occurs

§431(c)(7)
ANNUAL VALUATION

General Rules:

- Annual Valuation (and G/L)
- Valuation Date within current plan year, or up to one month before

Well Funded Plans:

- Use any valuation date within prior plan year, if AAV $\geq$ 100% of Current Liability at that date
- For initial year of change in valuation date, threshold is 125%
- Must adjust for significant difference in number of participants

§431(c)(8)
CONTRIBUTION TIMING

Multiemployer DB plans:

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

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