

# PBGC TOPICS

# GUARANTEED BENEFITS

**PBGC-GB-1**

# **PBGC GUARANTEED BENEFITS SUMMARY**

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**Priority category 3 and 4**

**MGB limit - lesser of \$ or COMP5**

**Adjust MGB - benefit commencement age**

**Adjust MGB - form of payment**

**5 year phase-in rules**

**10 year adjustment for majority owners**

**Multiemployer GB rules**

**Normalize plan benefits**

# **§4044 of ERISA**

## **PBGC PRIORITY CATEGORIES**

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- PC1 Voluntary employee contributions**
- PC2 Mandatory employee contributions**  
**Includes refund of EECWI death benefit:**  
 **$EECWI (1 - I_{65} / I_x)$**
- 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.**

**Total vested benefit for employee consists of sum of PC1 through PC5.**

**Total accrued benefit for employee consists of sum of PC1 through PC6.**

## **PBGC PRIORITY CATEGORY 3**

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- ) Includes ees in pay status 3 years ago, or those who had reached their earliest PBGC retirement date at DOPT-3**
- ) If not in pay status at DOPT-3, recalculate early retirement benefit at DOPT-3 as if retired at DOPT-3**
- ) Benefits based on lowest benefit level in plan for 5 years preceding DOPT**
- ) Early retirement eligibility based on plan provisions at DOPT-3**
- ) NO PBGC maximum benefit limit on PC3**

# EARLIEST PBGC RETIREMENT DATE

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Let ED = earliest date ee could separate from service and receive immediate annuity

IF ED = date ee attains age 55, then earliest PBGC retirement date (EPRD) = ED

IF ED < date ee attains age 55, then EPRD = age 55 date. PBGC could allow earlier EPRD, based on facts and circumstances.

## NOTES:

1. 04/08/02 amendment added EPRD (4022.10)
2. Old PC3 idea of "eligible to retire" at DOPT-3 did not make sense for plans that
  - ) allow lump sums at any age, or
  - ) don't define retirement at all, or
  - ) define NRA as the age reached after completing 5 years of service

# **GUARANTEEABLE BENEFITS**

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**Requirements to be guaranteeable:**

- ) Nonforfeitable**
- ) Pension benefit**
- ) Participant is entitled**
- ) Benefit can't exceed accrued benefit payable as life annuity at NRA**

# **GUARANTEEABLE BENEFITS**

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## **BASIC BENEFIT**

Benefit which is guaranteed - less than the maximum guaranteed benefit limit

## **BASIC-TYPE BENEFIT**

Total benefit that could be guaranteed, ignoring maximum guaranteed benefit limit

## **NONBASIC-TYPE BENEFIT**

Remainder of benefit, not guaranteeable

# **PBGC GUARANTEED BENEFITS**

## **MAXIMUM GUARANTEED BENEFIT LIMIT**

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- 1. MGB Limit is lesser of:**
  - a) Dollar amount**
    - i) 2016: 5,011.36 / month**
    - ii) 2017: 5,369.32 / month**
    - iii) 2018: 5,420.45 / month**
  - b) High 5 consecutive year average pay**
- 2. MGB Limit applies to total benefit, assumed payable as life annuity at age 65**
- 3. Use PBGC conversion factors for different retirement age or payment form**
- 4. No age reduction in guaranteed limit for disability benefit if satisfy Social Security disability definition**



# **PBGC GUARANTEED BENEFITS FIVE YEAR PHASE-IN**

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- 1. Multiple calculations of vested accrued benefit, using current service**
- 2. Apply guaranteed benefit limit first, then phase in plan changes: 5 years before DOPT**
- 3. Use full years plan has been in effect**
- 4. Benefit improvements include changes in Dollar benefit, Vesting schedule, NRA, Normal form, Early retirement reductions**
- 5. Calculate Guaranteed benefit as monthly amount due to \$20/mo “de minimis”**

# PBGC GUARANTEED BENEFITS

## FIVE YEAR PHASE-IN

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| <b>Monthly<br/>Vested Accd<br/>Ben &lt; M.G.B.<br/>5 yr. old plan</b> | <b>Monthly<br/>Guaranteeable<br/>Benefit<br/>Increase (GBI)<br/>5 yr. old plan</b> | <b>Monthly<br/>Phase-in Amount<br/>100%* GBI</b> |
|---|--|--|
| <b>4 yr. old plan</b>   | <b>“4-5” change<br/>in V.A.B.</b>  | <b>Lesser of GBI,<br/>MAX (80%* GBI, \$80)</b>   |
| <b>3 yr. old plan</b>   | <b>“3-4” change<br/>in V.A.B.</b>  | <b>Lesser of GBI,<br/>MAX (60%* GBI, \$60)</b>   |
| <b>2 yr. old plan</b>   | <b>“2-3” change<br/>in V.A.B.</b>  | <b>Lesser of GBI,<br/>MAX (40%* GBI, \$40)</b>   |
| <b>1 yr. old plan</b>   | <b>“1-2” change<br/>in V.A.B.</b>  | <b>Lesser of GBI,<br/>MAX (20%* GBI, \$20)</b>   |

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**φ = Guaranteed  
Benefit**

# **GUARANTEED BENEFIT PHASE-IN TRIVIA**

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- 1. 5 year phase-in depends on plan existence, NOT on participant's hire date**
- 2. Phase-in amount can't exceed amount of guaranteeable benefit increase**
- 3. If no 5 year old plan, begin phase-in with 0**

**Effect**

**Additional reduction to guaranteed benefit  
under 5 year phase-in rules**

**Definition of Majority Owner**

**Within 5 years prior to DOPT:**

- **Owns entire interest in trade or business**
- **Partner owns 50% or more of capital  
interest or profits interest**
- **Own 50% or more of voting stock (or all  
stock) of a corporation. Use constructive  
ownership rules §1563**

**HISTORY**

**Prior to PPA 06, had 30 year phase-in for  
substantial owner (owned at least 10%)**

# **PBGC GUARANTEED BENEFITS MAJORITY OWNER 10 YEAR PHASE-IN**

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**PPA 06**

## **Final Guaranteed Benefit:**

**$\frac{\text{\#yrs in effect} * (5 \text{ yr phase-in Guaranteed Benefit})}{10}$**

- ) Ratio can't exceed 1.0**
- ) Uses full years, not partial**
- ) Based on later of plan adoption date, or plan effective date**
- ) Employee's hire date / participation date are immaterial**

# **GUARANTEED BENEFITS - MULTIEMPLOYER PBGC TECHNICAL UPDATE 2000-7**

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- 1. No phase-ins, ignore all benefit increases five years prior to DOPT**
- 2. Guaranteed benefit values:**
  - a) 100% of first 11.00 / month of benefit accrual rate, plus**
  - b) 75% of next 33.00 of benefit accrual rate**
  - c) 0% above 44.00 / month**

# NORMALIZATION OF BENEFITS

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**Definition: convert all prior plans (and guaranteed benefit limit) to the same normal form and retirement age as final plan**

**a) Phase-in calculations can't compare apples and oranges:**

|                       |                  |                          |
|-----------------------|------------------|--------------------------|
| <b>3 yr. old plan</b> | <b>\$200/mo.</b> | <b>Life annuity</b>      |
| <b>1 yr. old plan</b> | <b>\$210/mo.</b> | <b>5 C&amp;C annuity</b> |

**b) After normalization, can calculate phase-ins:**

|                       |                  |                          |
|-----------------------|------------------|--------------------------|
| <b>3 yr. old plan</b> | <b>\$190/mo.</b> | <b>5 C&amp;C annuity</b> |
| <b>1 yr. old plan</b> | <b>\$210/mo.</b> | <b>5 C&amp;C annuity</b> |

**c) \$20 / month “floor” is not normalized**

**d) Normalization uses older plan's factors  
(extend by PBGC factors if necessary)**

# PBGC PRACTICE PROBLEM "A"

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**DOPT 04/01/2018**

**Plan defines accrued benefit under the fractional rule**

|                      | <b>Employee C</b>                          | <b>Employee D</b> | <b>Employee E</b> |
|----------------------|--|-------------------|-------------------|
| <b>Plan EFF Date</b> | <b>-----Projected Monthly Benefit-----</b> |                   |                   |
| <b>1/1/2009</b>      | <b>N/A</b>                                 | <b>N/A</b>        | <b>N/A</b>        |
| <b>1/1/2011</b>      | <b>1,400</b>                               | <b>500</b>        | <b>620</b>        |
| <b>1/1/2014</b>      | <b>2,000</b>                               | <b>600</b>        | <b>740</b>        |
| <b>Vesting %</b>     | <b>100%</b>                                | <b>60%</b>        | <b>100%</b>       |
| <b>Past service</b>  | <b>15</b>                                  | <b>5</b>          | <b>15</b>         |
| <b>Total service</b> | <b>30</b>                                  | <b>20</b>         | <b>20</b>         |

**Determine the guaranteed benefit for each participant**



# **PBGC PRACTICE PROBLEM "B"**

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**DOPT 04/01/2018**

**Plan defines accrued benefit under the fractional rule**

|                      | <b>Majority Owner A</b>                    | <b>Majority Owner B</b> |
|----------------------|--|-------------------------|
| <b>Plan EFF Date</b> | <b>-----Projected Monthly Benefit-----</b> |                         |
| <b>1/1/2009</b>      | <b>3,000</b>                               | <b>2,000</b>            |
| <b>1/1/2011</b>      | <b>5,000</b>                               | <b>4,000</b>            |
| <b>1/1/2014</b>      | <b>8,000</b>                               | <b>6,000</b>            |
| <b>Vesting %</b>     | <b>100%</b>                                | <b>100%</b>             |
| <b>Past service</b>  | <b>15</b>                                  | <b>8</b>                |
| <b>Total service</b> | <b>20</b>                                  | <b>16</b>               |

**Determine the guaranteed benefit for each participant**

# **GUARANTEED BENEFIT CONCEPTS**

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**Items tested in recent GB problems:**

- 1. Phase-in plan amendments: use later of effective date and adoption date**
- 2. Actives - adjustment of MGB limit**
  - a) Use age at later of DOPT or benefit commencement**
  - b) Adjust final MGB, even if based on pay**
- 3. Retirees - adjustment of MGB limit**
  - a) Compare reduced early retirement benefit to the MGB limit**
  - b) Use form of benefit payment at later of DOPT or benefit commencement**
  - c) For retirement before / after DOPT, use MGB value at DOPT as starting point**
  - d) Annual COLA → separate increases**

- ) For PPA 2006 bankruptcy termination, treat bankruptcy date as plan termination date for guaranteed benefits and asset allocation**
- ) Plan factors used for plan benefit calculations**
- ) If given pay values, be sure to check MGB limit based on 5 year high average compensation**

**PBGC grants one day extra:**

**01-01-2017 plan change is phased in one complete year based on 12-31-2017 DOPT**

**Rettig case was lost by PBGC. Never phase in benefit changes mandated by law.**

# **STEPS FOR GUAR. BENEFIT PROBLEMS**

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- 1. Basic data: age, service, vesting, final average earnings**
- 2. Final plan at DOPT - form of payment**
- 3. MGB limit - adjust for benefit commencement age and form of payment**
- 4. Five year phase-in calculations - plan accrued benefit, early retirement reduction, early retirement benefit**
- 5. 10 year adjustment for majority owners**

# **PBGC GUARANTEED BENEFITS SUMMARY**

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**5 year phase-in rules**

**10 year adjustment for majority owners**

**Multiemployer GB rules**

**Normalize plan benefits**

## **NOTE:**

- ) Can work most prior GB problems**
- ) PPA 06 changed majority owner calcs**

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