PBGC TOPICS

GUARANTEED BENEFITS

PBGC GUARANTEED BENEFITS SUMMARY

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

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.

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

- 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

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

Requirements to be guaranteeable:

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

GUARANTEEABLE BENEFITS

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) **2014: 4,943.18 / month**
      ii) **2015: 5,011.36 / month**
      iii) **2016: 5,011.36 / 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

Monthly Vested Accd Ben < M.G.B.	Monthly Guaranteeable Benefit Increase (GBI)	Monthly Phase-in Amount
5 yr. old plan	5 yr. old plan	100%*GBI
4 yr. old plan	"4-5" change in V.A.B.	Lesser of GBI, MAX (80%*GBI, $80)
3 yr. old plan	"3-4" change in V.A.B.	Lesser of GBI, MAX (60%*GBI, $60)
2 yr. old plan	"2-3" change in V.A.B.	Lesser of GBI, MAX (40%*GBI, $40)
1 yr. old plan	"1-2" change in V.A.B.	Lesser of GBI, MAX (20%*GBI, $20)
		Σ = Guaranteed Benefit

GUARANTEED BENEFIT PHASE-IN TRIVIA

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

MAJORITY OWNER

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%)

Final Guaranteed Benefit:

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

- **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**

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

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:**

3 yr. old plan	$200/mo.	Life annuity
1 yr. old plan	$210/mo.	5 C&C annuity

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

3 yr. old plan	$190/mo.	5 C&C annuity
1 yr. old plan	$210/mo.	5 C&C annuity

c) **$20 / month "floor" is not normalized**

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

PBGC PRACTICE PROBLEM "A"

DOPT 04/01/2016
Plan defines accrued benefit under the fractional rule

Plan EFF Date	Employee C	Employee D	Employee E
	----------Projected Monthly Benefit----------		
1/1/2007	N/A	N/A	N/A
1/1/2009	1,400	500	620
1/1/2012	2,000	600	740
Vesting %	100%	60%	100%
Past service	15	5	15
Total service	30	20	20

Determine the guaranteed benefit for each participant

PBGC PRACTICE PROBLEM "B"

DOPT 04/01/2016
Plan defines accrued benefit under the fractional rule

Plan EFF Date	Majority Owner A	Majority Owner B
	-----Projected Monthly Benefit-----	
1/1/2007	3,000	2,000
1/1/2009	5,000	4,000
1/1/2012	8,000	6,000
Vesting %	100%	100%
Past service	15	8
Total service	20	16

Determine the guaranteed benefit for each participant

GUARANTEED BENEFIT CONCEPTS

Items tested in recent GB problems:

1. **Phase-in plan amendments: use <u>later of</u> effective date and adoption date**

2. **Actives - adjustment of MGB limit**
   a) **Use age at <u>later of</u> 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 <u>later of</u> DOPT or benefit commencement**
   c) **For retirement before / after DOPT, use MGB value at DOPT as starting point**
   d) **Annual COLA ➔ separate increases**

GUARANTEED BENEFITS TRIVIA PPA 2006

- **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:
01-01-2015 plan change is phased in one complete year based on 12-31-2015 DOPT

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

STEPS FOR GUAR. BENEFIT PROBLEMS

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

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NOTE:

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

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