



# Qualified Retirement Plans: “The Three Pronged Effect”

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# Types of Qualified Retirement Plans

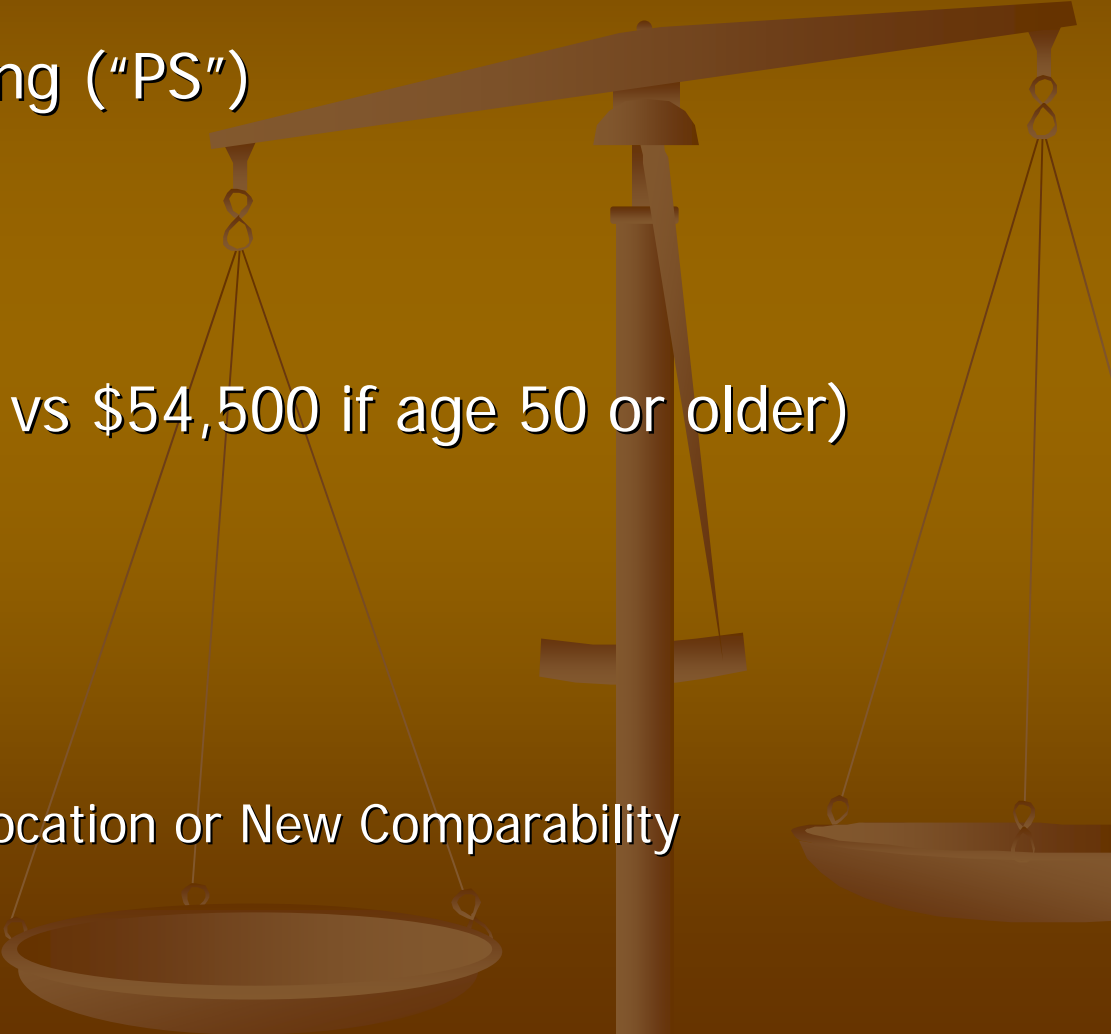
- Defined Benefit Pension Plans
- Defined Contribution Plans



# Defined Benefit Pension Plans ("DB Plans")

- What is a Defined Benefit Pension Plan?
  - Traditional
  - X-Tested (or Tiered Benefit Formulas)
  - 412 (i)
  - Cash Balance
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# Defined Contribution Plans ("DC Plans")

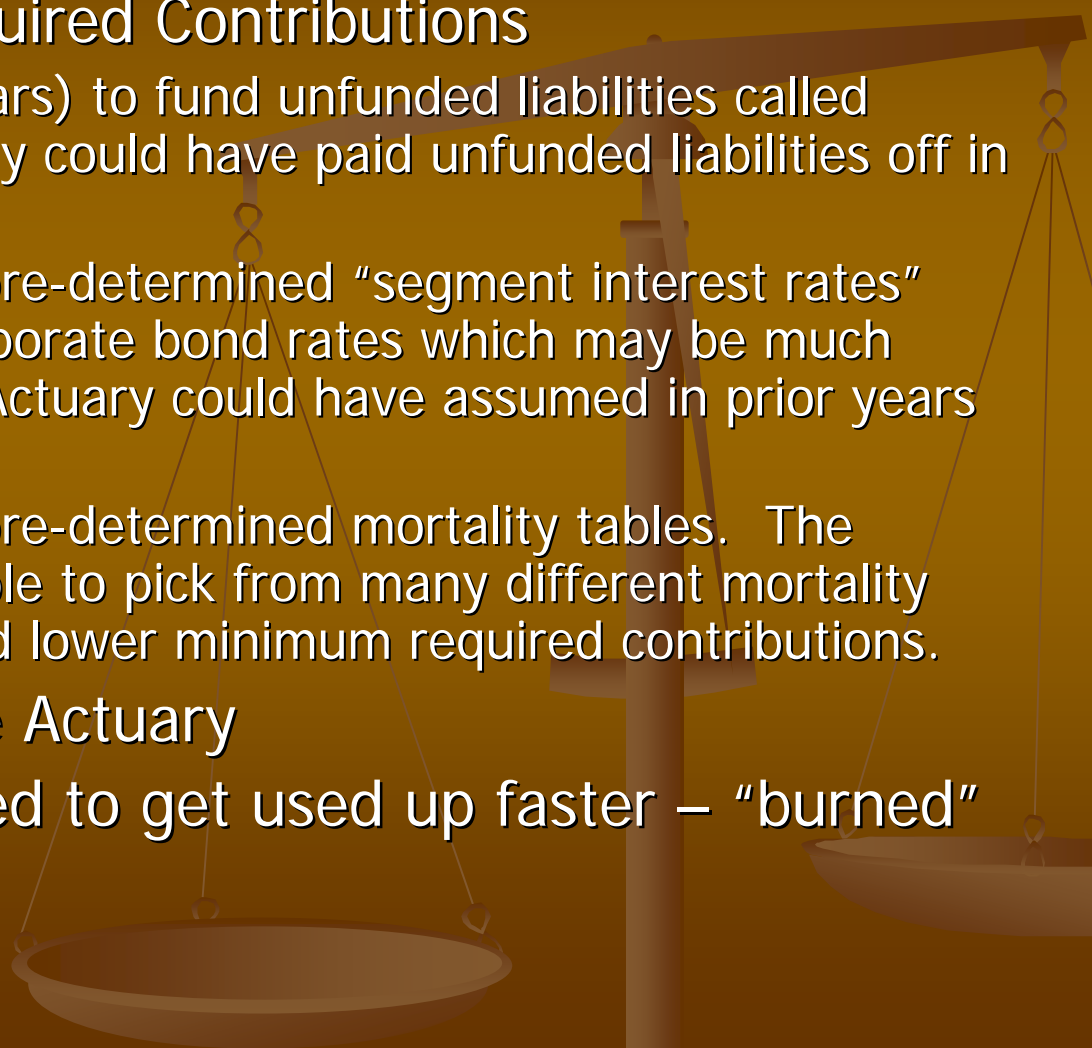
- 401(k) vs Profit Sharing ("PS")
    - EE Deferrals
    - ER Match
    - ER discretionary PS
  - 2010 Limits (\$49,000 vs \$54,500 if age 50 or older)
  - Allocation Types
    - Comp to Comp
    - Integrated
    - Age Weighted
    - X-Tested or Tiered Allocation or New Comparability
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# Prong 1

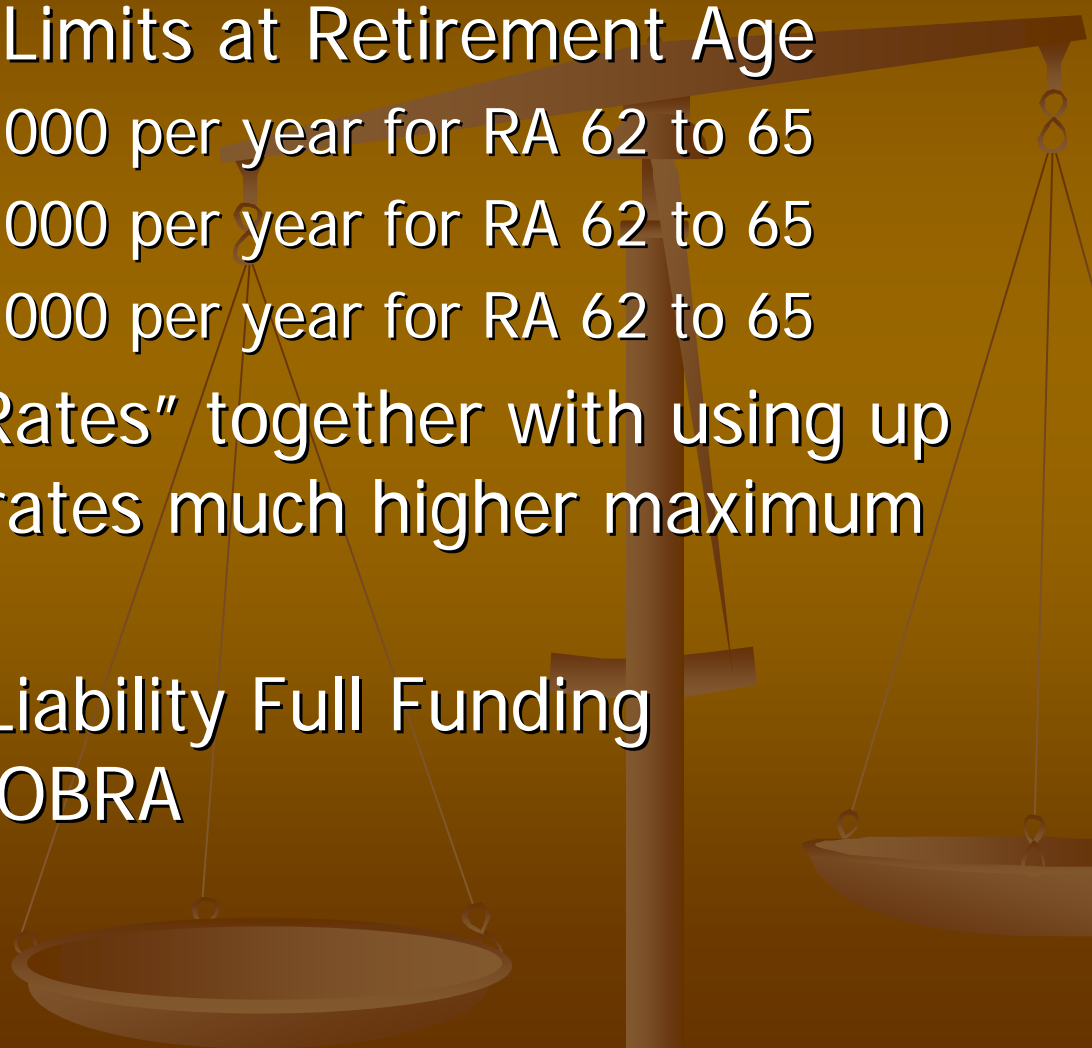
What is the Pension Protection Act of 2006 ("PPA") and why worry about it in 2010?

- New IRC Sections (Single Employer Plans)
  - 430 – Minimum Funding Standards
  - 436 – Funding Based Limits

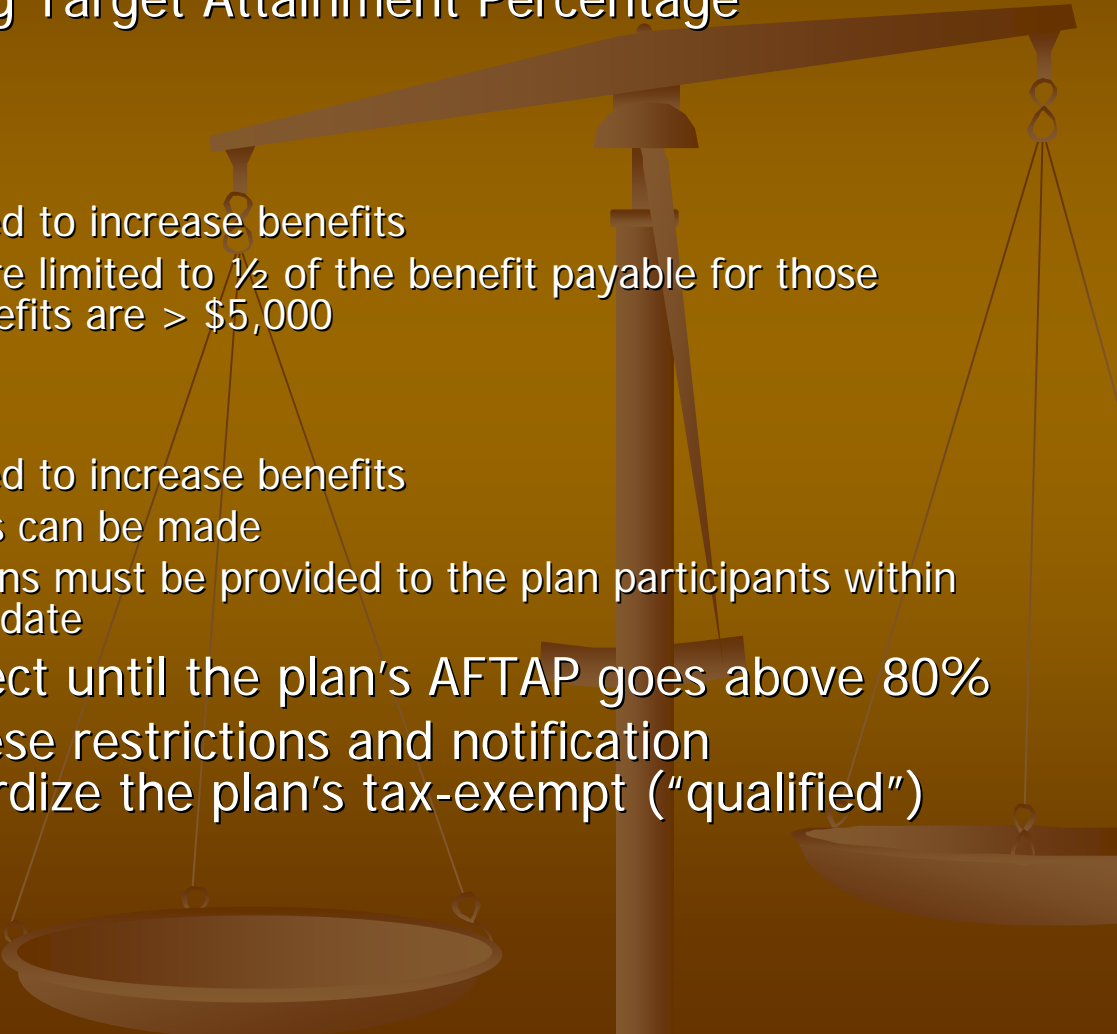
# Section 430 – Minimum Funding Standards

- Higher Minimum Required Contributions
    - Shorter periods (7 years) to fund unfunded liabilities called “shortfalls”. Previously could have paid unfunded liabilities off in 30 years.
    - Required to use IRS pre-determined “segment interest rates” based on 30-year corporate bond rates which may be much lower than what the Actuary could have assumed in prior years (i.e. 6%, 7%, 8%)
    - Required to use IRS pre-determined mortality tables. The Actuary used to be able to pick from many different mortality tables which produced lower minimum required contributions.
  - Less Flexibility by the Actuary
  - Prior Credits may need to get used up faster – “burned”
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# Section 436 – Funding Based Limits

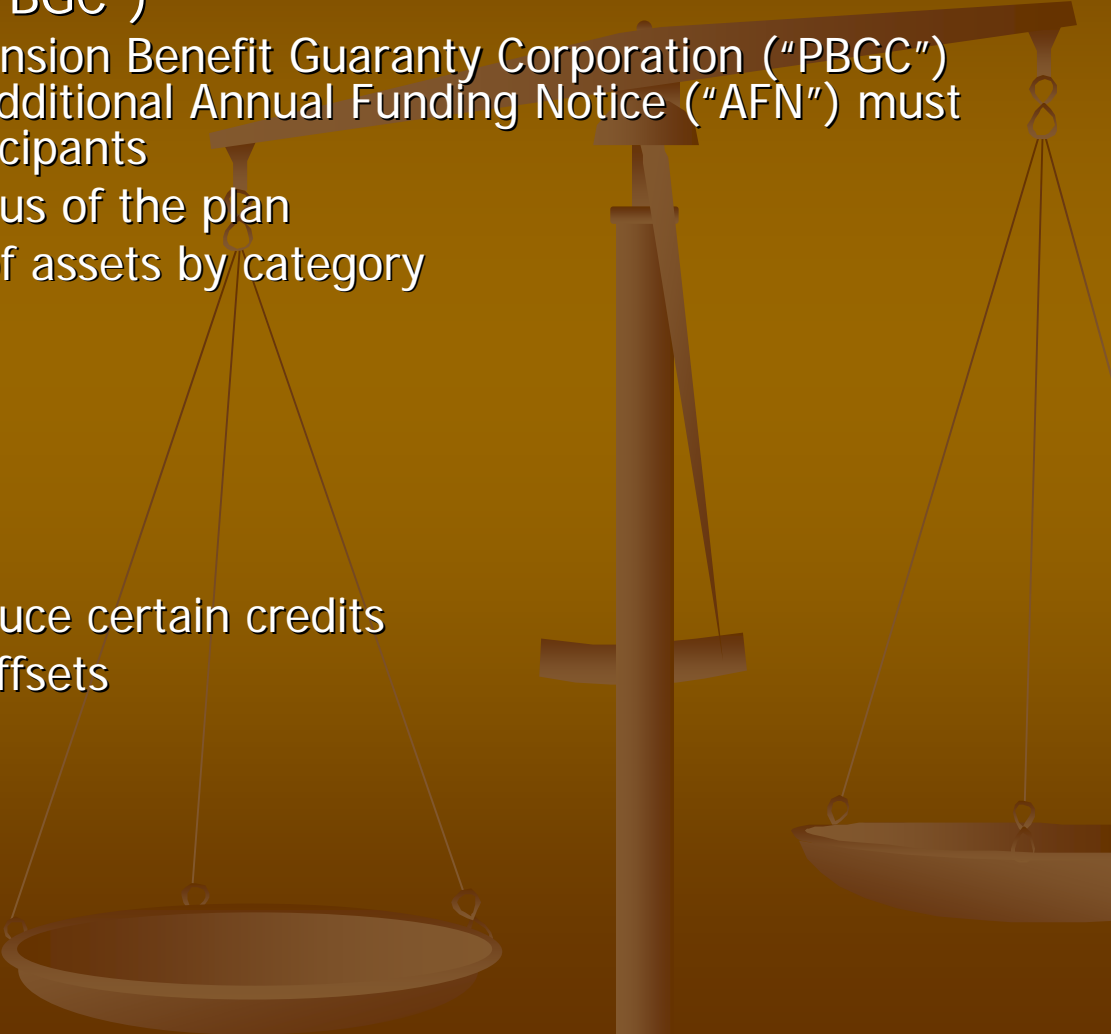
- Increased Benefit Limits at Retirement Age
    - 2008 Limit - \$185,000 per year for RA 62 to 65
    - 2009 Limit - \$195,000 per year for RA 62 to 65
    - 2010 Limit - \$195,000 per year for RA 62 to 65
  - Lower “Segment Rates” together with using up prior credits generates much higher maximum deductions
  - No more Current Liability Full Funding Limitations under OBRA
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# Additional Certifications and Notifications

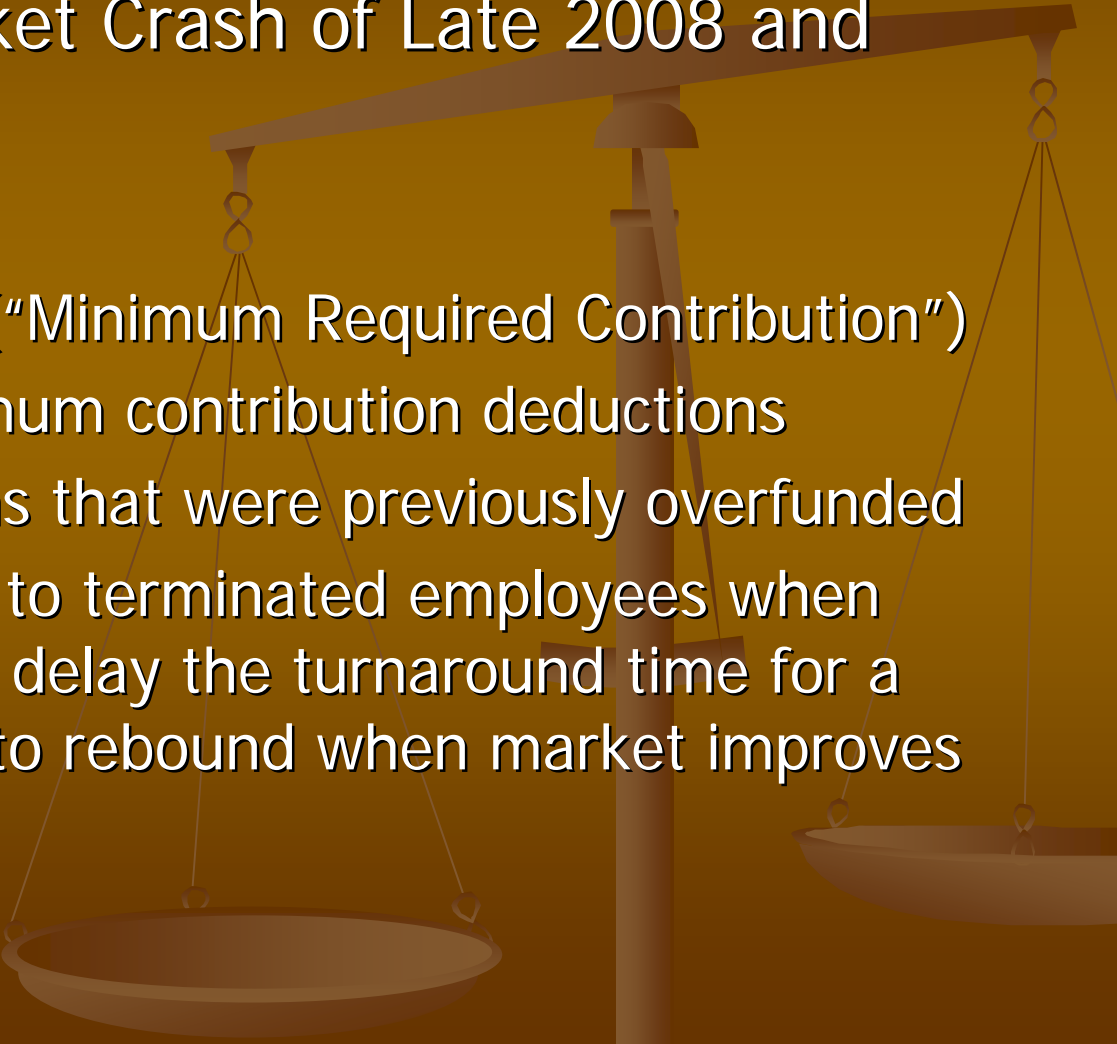
- AFTAP – Adjusted Funding Target Attainment Percentage
    - Above 80 %
      - No restrictions
    - Between 60 % to 80%
      - Plan cannot be amended to increase benefits
      - Lump sum payments are limited to  $\frac{1}{2}$  of the benefit payable for those participants whose benefits are > \$5,000
    - Below 60%
      - Benefits frozen
      - Plan cannot be amended to increase benefits
      - No lump sum payments can be made
      - Notification of restrictions must be provided to the plan participants within 30 days of certification date
  - Restrictions remain in effect until the plan's AFTAP goes above 80%
  - Failure to comply with these restrictions and notification requirements could jeopardize the plan's tax-exempt ("qualified") status
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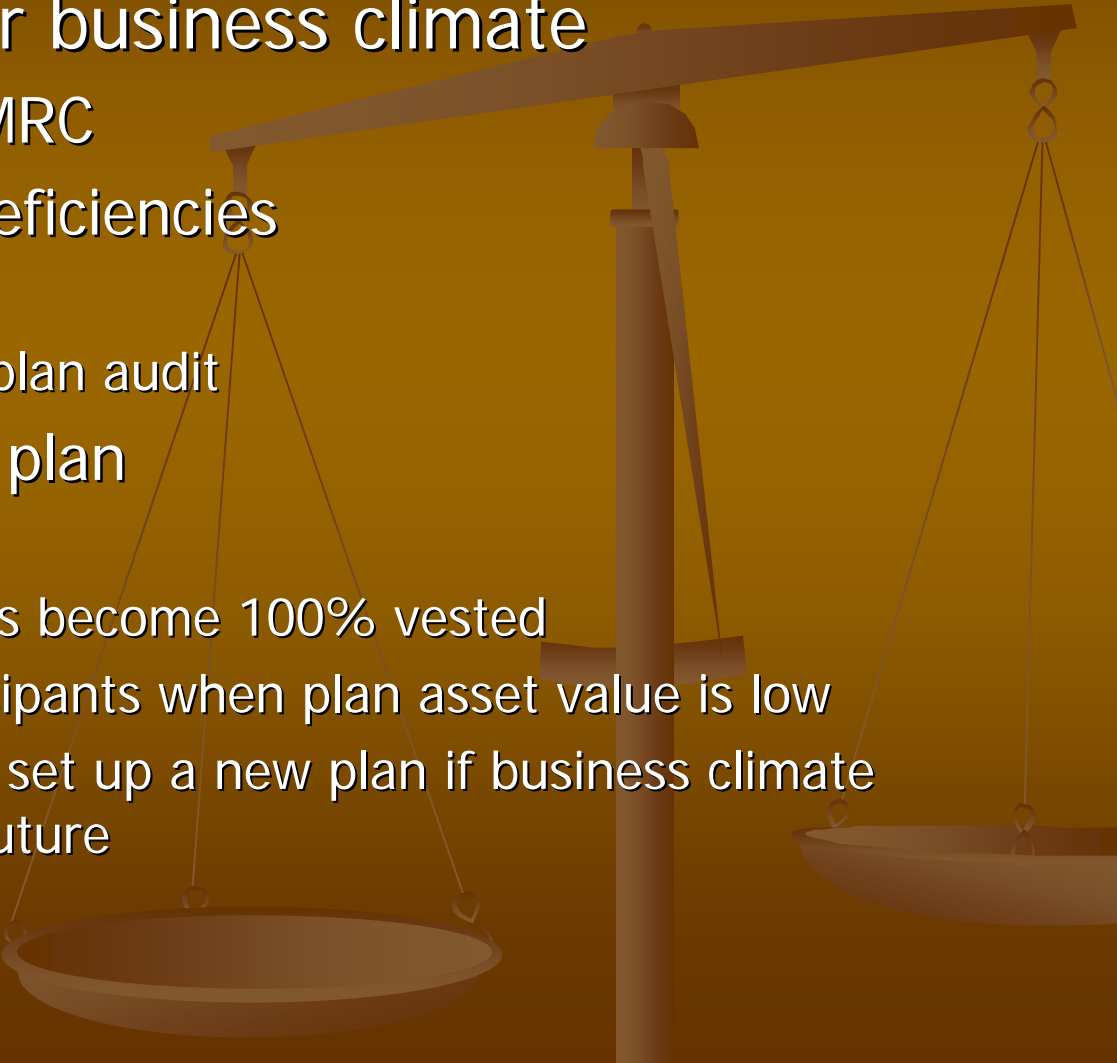
# Additional Certifications and Notifications (cont'd)

- Annual Funding Notice ("PBGC")
    - If plan falls under the Pension Benefit Guaranty Corporation ("PBGC") insurance program, an additional Annual Funding Notice ("AFN") must be provided to plan participants
    - Prior 3 years funded status of the plan
    - Percentage breakdown of assets by category
  
  - PPA Election Form
    - Asset Valuation Method
    - Discount Rates
    - Mortality Assumptions
    - Voluntary Election to reduce certain credits
    - Quarterly Contribution Offsets
    - Amendments
    - PBGC Premium Method
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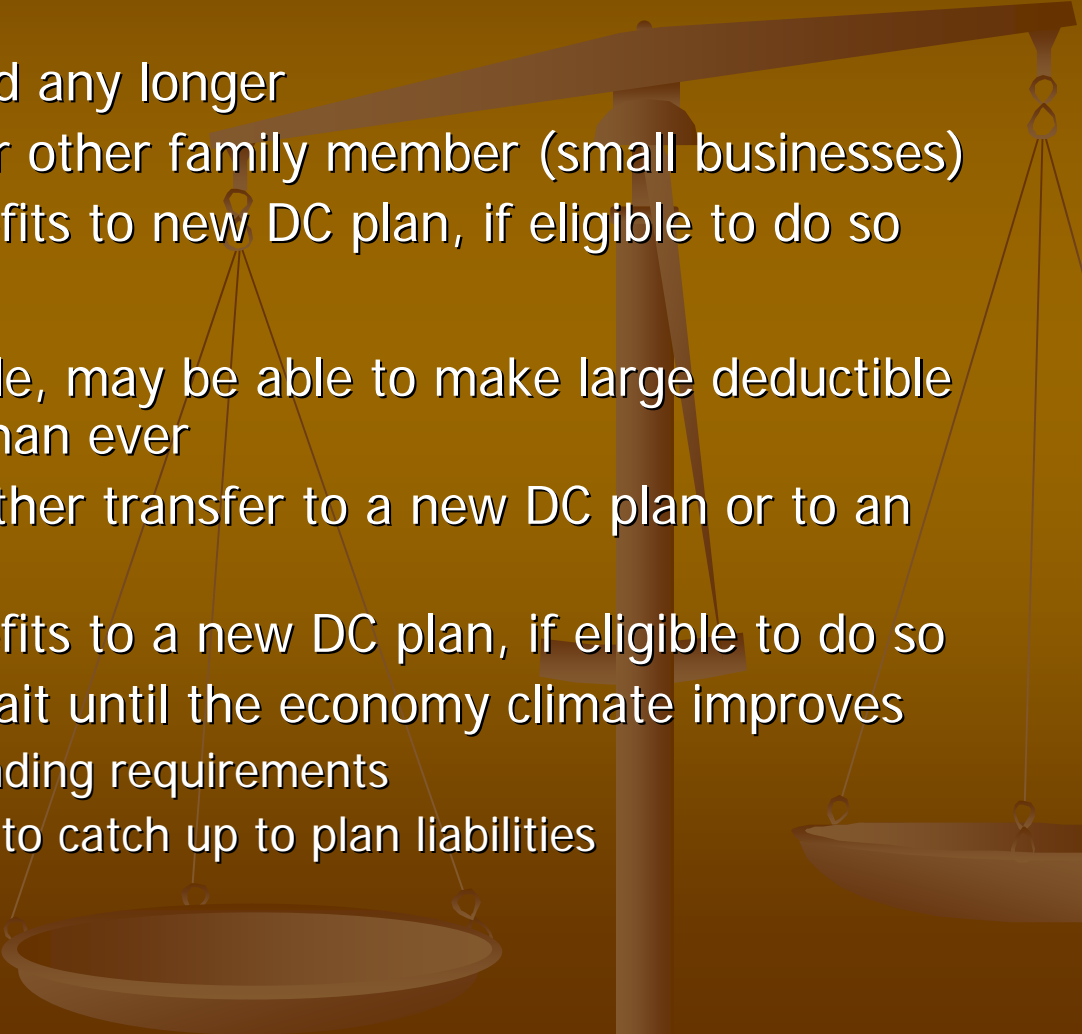
# Prong 2

- Effects of the Market Crash of Late 2008 and Early 2009
    - Much larger MRC (“Minimum Required Contribution”)
    - Much larger maximum contribution deductions
    - Terminate DB plans that were previously overfunded
    - Payout of benefits to terminated employees when market is low may delay the turnaround time for a plan’s investment to rebound when market improves
    - Long-term effect
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# Prong 3

- Effects from a poor business climate
    - Cannot meet the MRC
    - Possible funding deficiencies
      - Penalties
      - Increased risk for plan audit
    - Need to terminate plan
      - Additional costs
      - All plan participants become 100% vested
      - Pay out plan participants when plan asset value is low
      - Additional costs to set up a new plan if business climate improves in near future
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# What Are Businesses Doing With Their Retirement Plans?

- Overfunded Plans
    - May not be overfunded any longer
    - Compensate spouse or other family member (small businesses)
    - Transfer owners' benefits to new DC plan, if eligible to do so
  - Underfunded Plans
    - If company is profitable, may be able to make large deductible contributions, larger than ever
    - Terminate now and either transfer to a new DC plan or to an IRA
    - Transfer owner's benefits to a new DC plan, if eligible to do so
    - Freeze benefits and wait until the economy climate improves
      - Reducing current funding requirements
      - Allowing plan assets to catch up to plan liabilities
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# Where Are We Headed?

- Until the economy turns around, less new qualified plans being created. Too costly for the Employer
  - Great time for profitable businesses to set up plans and take advantage of huge tax deductible contributions
  - Resurgence of Defined Benefit Pension Plans with increase in tax rates, improved economy and more profitable businesses.
  - Defined Benefit Pension Plans are still one of the last great deductions and Asset Protection methods available.
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