

**PRESENT LAW, DATA, AND SELECTED PROPOSALS
RELATING TO
MULTIEMPLOYER DEFINED BENEFIT PLANS**

Scheduled for a Public Hearing
Before the
SENATE COMMITTEE ON FINANCE
on March 1, 2016

Prepared by the Staff
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INTRODUCTION AND SUMMARY

The Committee on Finance of the Senate has scheduled a public hearing on March 1, 2016, on The Multiemployer Pension Plan System: Recent Reforms and Current Challenges. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a discussion of present law and data relating to retirement plans generally and to multiemployer defined benefit plans in particular, as well as descriptions of selected proposals relating to multiemployer plans.

Present Law

Qualified retirement plans

A plan of deferred compensation that meets the qualification requirements under the Code (a “qualified retirement plan”) is accorded tax-favored treatment

Tax-favored treatment for these vehicles generally consists of pretax treatment of contributions, tax-exempt status of the trust or account holding assets, and income inclusion by an individual only at the time of distribution, with the option of deferring income inclusion by rolling the distribution over to another tax-favored retirement vehicle. Any after-tax contributions, including Roth contributions, result in basis, which reduces the portion of a subsequent distribution that is included in income. Certain distributions from Roth arrangements are fully excluded from income. Tax-favored treatment includes a current deduction for contributions by a taxable employer.

Some requirements applicable to qualified retirement plans define participant rights and provide participant protections and generally have parallels under ERISA, which is within the jurisdiction of the Department of Labor (DOL). Some Code requirements limit tax benefits; some are aimed at providing retirement security for both lower-paid and higher-paid employees.

Enforcement of a qualified retirement plan requirement depends on the source of the requirement. Failure to meet a qualification requirement may mean the loss of tax-favored status; certain Code requirements are enforced through an excise tax. ERISA requirements are generally enforced by the Department of Labor (DOL) or participant suit.

Qualified retirement plans are of two general types: defined contribution plans, under which benefits are based on a separate account for each participant, to which are allocated contributions, earnings and losses; and defined benefit plans, under which benefits are determined under a plan formula and paid from general plan assets, rather than individual accounts. Some qualified retirement plans are referred to as hybrid plans because they have features of both a defined benefit plan and a defined contribution plan.

¹ This document may be cited as follows: Joint Committee on Taxation, *Present Law, Data, and Selected Proposals Relating to Multiemployer Defined Benefit Plans* (JCX-9-16), February 26, 2016. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

Qualified retirement plans are also categorized by the number of employers that maintain the plan and the type of employees covered by the plan. A single-employer plan is a plan maintained by one employer (treating members of controlled groups and affiliated service groups as one employer) and may cover collectively bargained employees (employees covered by a collective bargaining agreement), noncollectively bargained employees or both. A multiple-employer plan is a single plan in which two or more unrelated employers (not members of the same controlled group or affiliated service group) participate. Multiemployer plans (also known as “Taft-Hartley” plans) are maintained pursuant to one or more collective bargaining agreements with two or more unrelated employers; the collective bargaining agreements require the employers to contribute to the plan. Multiemployer plans are operated by a board of trustees (the “joint board” or “plan sponsor” for Code and ERISA purposes).

Defined benefit plans

Benefits under a defined benefit plan are generally determined under a plan formula that generally takes into account compensation and service, referred to as a traditional defined benefit plan. However, hybrid defined benefit plans, such as cash balance plans, under which a participant’s benefit is expressed as a hypothetical account balance, are also common. The employer generally determines the benefit formula under a defined benefit plan, and benefits vary among plans. In the case of a multiemployer plan, the relevant collective bargaining agreements and the board of trustees determine the contributions and benefit formula.

Defined benefit plans are generally funded by employer contributions. Private defined benefit plans are subject to minimum funding requirements (and withdrawal liability rules in the case of multiemployer plans), and benefits under most private plans are guaranteed, within limits, by the Pension Benefit Guaranty Corporation (PBGC).

Defined benefit plans are generally subject to the same qualification requirements as defined contribution plans, though some requirements apply to the two types of plans differently. Defined benefit plans are also subject to some requirements that do not apply to defined contribution plans.

Defined benefit plans must provide benefits in the form of an annuity. In addition, a defined benefit plan generally cannot make in-service distributions before the earliest of normal retirement age, age 62, or plan termination.

Under the Code, annuity distributions from a defined benefit plan for a year generally cannot exceed the lesser of \$210,000 (for 2016) or the employee’s high-three-year average compensation. The dollar limit is generally reduced if distributions begin before age 62 and increased if distributions begin after age 65, and an actuarially adjusted limit applies to benefits paid in other forms, such as lump sums.

Spousal protections applicable to defined benefit plans generally require that benefits be paid in the form of a qualified joint and survivor annuity (QJSA) unless the participant elects a different form of distribution and the participant’s spouse consents to the election. A QJSA is generally a life annuity for the participant with an annuity of at least 50 percent of the participant’s annuity amount payable to the surviving spouse after the participant’s death. Other

forms of benefit offered to a married participant may not be actuarially more valuable than the QJSA. If a married participant dies before benefits begin, the plan must offer a survivor benefit for the spouse in the form of a qualified preretirement survivor annuity (QPSA), which is a survivor annuity for the spouse that is at least 50 percent of the employee's accrued benefit.

Defined contribution plans

Defined contribution plans may provide for nonelective contributions and matching contributions by employers and pretax or after-tax contributions by employees, generally subject to a limit of the lesser of \$53,000 (for 2016) or the employee's compensation. Defined contribution plans may themselves be of different types (profit-sharing plans, stock bonus plans, or money purchase plans) and may include special features, such as a qualified cash or deferred arrangement (a section 401(k) plan) or an employee stock ownership plan (ESOP). A target benefit plan is a type of money purchase pension plan under which contributions are determined by reference to the amount necessary, on an actuarially determined basis, to fund a "target" annuity benefit determined under a formula contained in the plan.

Selected Qualification Requirements Applicable to Multiemployer Defined Benefit Plans

Definitely determinable requirement

The formula under a defined benefit plan must provide benefits that are definitely determinable, that is, the plan must contain an express formula for determining benefits that is not subject to the discretion of the employer (or joint board in the case of a multiemployer plan). Any actuarial assumptions relevant in determining benefits must be specified in the plan.

Vesting, accrual and anti-cutback rules

In the case of a defined benefit plan, a participant's accrued benefit is the portion of the normal retirement benefit (that is, the annuity payable at normal retirement age under the plan's benefit formula) that has accrued under the accrual method provided under the plan. A participant must be vested at all times in the portion of the accrued benefit under a defined benefit plan attributable to his or her own contributions, if any. With respect to the employer-provided portion of the accrued benefit under a defined benefit plan using a traditional benefit formula, minimum vesting must occur under one of two vesting schedules: 100 percent vesting after five years of service, or 20 percent, 40 percent, 60 percent, 80 percent, and 100 percent, respectively, over the period of three to seven years of service. Under a hybrid plan, full vesting must occur after three years of service. Full vesting must also occur at normal retirement age and, generally, on plan termination.

Under the accrual (or anti-backloading) rules, benefits must accrue in one of three permissible patterns over a participant's period of service in order to prevent significant accruals to be delayed until later years of service. Reductions in an employee's rate of accrual due to increasing age generally are prohibited.

Various forms of benefits under a defined benefit plan (referred to as optional forms of benefit) must generally be actuarially equivalent to the normal retirement benefit or may be

provided on an actuarially subsidized basis. Lump-sum benefits must be no less than the amount determined using certain specified interest and mortality assumptions.

Under the anti-cutback rules, a plan amendment generally may not reduce accrued benefits or reduce or eliminate an optional form of benefit, early retirement benefit or retirement-type subsidy with respect to accrued benefits. Amendments are generally permitted only to reduce future rates of accrual, or eliminate optional forms of benefits or eliminate or reduce early retirement benefits or retirement-type subsidies only with respect to future accruals, and, in those cases, notice must be provided.

Anti-cutback exceptions for multiemployer plans

In the case of a multiemployer defined benefit plan that is in critical status or critical and declining status, or is insolvent, subject to notice and other procedural requirements, certain plan benefits that would otherwise be protected under the anti-cutback rules are required or permitted to be reduced or eliminated.

In the case of a multiemployer plan in critical status, payments in excess of a single life annuity (plus any social security supplement, if applicable) may not be made to a participant or beneficiary who begins receiving benefits after notice that the plan is in critical status is provided. In addition, the plan sponsor may reduce certain benefits (“adjustable benefits”) that the plan sponsor deems appropriate, but not for a participant or beneficiary who began to receive benefits before receiving notice that the plan is in critical status. Adjustable benefits generally includes disability benefits not in pay status, early retirement benefits or retirement-type subsidies, and most benefit payment options, but not the amount of an accrued benefit payable at normal retirement age.

In general, a multiemployer plan is insolvent when its available resources in a plan year are not sufficient to pay the plan benefits for that plan year. In that case, benefits must be reduced to the level that can be covered by the plan’s assets, but not below the level of benefits that are eligible for guarantee under the PBGC’s multiemployer plan program. If plan assets are insufficient to pay benefits at the guarantee level, the PBGC provides financial assistance to the plan in the form of loans.

A multiemployer plan is in critical and declining status if the plan (1) is in critical status and (2) is projected to become insolvent during the current plan year or any of the 14 succeeding plan years (19 succeeding plan years if either the ratio of inactive plan participants to active plan participants is more than two to one or the plan’s funded percentage is less than 80 percent). In that case, subject to certain conditions, limitations and procedural requirements, including the appointment of a retiree representative in some cases and approval by the Secretary of Treasury, previously earned benefits may be reduced (referred to as benefit suspensions), including benefits of some participants and beneficiaries in pay status.

Benefit suspensions are permitted only if the plan actuary certifies that, taking the benefit suspensions into account, the plan is projected to avoid insolvency, and the plan sponsor determines that, despite all reasonable measures to avoid insolvency, the plan is projected to become insolvent unless benefits are suspended.

The plan sponsor generally determines the amount of the benefit suspensions and how the suspensions apply to plan participants and beneficiaries. However, benefits cannot be reduced below 110 percent of the monthly PBGC guarantee level; disability benefits cannot be suspended; benefit reductions for a participant or beneficiary between the ages of 75 and 80 are limited; benefit reductions are not permitted for a participant or beneficiary age 80 or over; and benefit suspensions in the aggregate must be at the level reasonably estimated to achieve, but not materially exceed, the level that is necessary to avoid insolvency.

Funding and Deduction Rules for Multiemployer Defined Benefit Plans

In general

Employer contributions to a defined benefit plan are generally subject to minimum funding requirements, the details of which depend on whether the plan is a single-employer plan or a multiemployer plan. Unless a funding waiver is obtained, an employer may be subject to a two-tier excise tax if the funding requirements are not met.

In general, the annual deduction limit on employer contributions to a multiemployer defined benefit plan for a year is the excess of (1) 140 percent of the plan's current liability (the present value of all benefits earned under the plan), over (2) the value of plan assets. However, the deduction limit is never less than the amount of contributions required under the funding rules. If contributions exceed the amount deductible, the employers that contribute to the multiemployer plan are generally subject to an excise tax.

General funding rules for multiemployer plans

General funding requirements apply to all multiemployer plans. Additional funding requirements apply to plans in endangered or critical status. An employer that withdraws from a multiemployer plan is generally liable to the plan for a portion of the plan's unfunded vested benefits, referred to as withdrawal liability. Various provisions limit the amount of an employer's withdrawal liability.

Under the general funding requirements, a multiemployer defined benefit plan maintains a funding standard account, to which charges (such as for benefit accruals and negative plan experience) and credits (such as for positive plan experience and contributions) are made. The minimum required contribution for a plan year is the amount, if any, needed to balance accumulated credits and accumulated charges to the funding standard account. If required contributions are not made, so the funding standard account has a negative balance, an accumulated funding deficiency results.

A multiemployer plan is required to use an acceptable actuarial cost method (referred to as the plan's funding method) to determine the elements included in its funding standard account for a year, including normal cost and supplemental cost. Normal cost generally represents the cost of future benefits allocated to the year under the plan's funding method. The supplemental cost for a plan year is the cost of future benefits that would not be met by future normal costs, future employee contributions, or plan assets. Supplemental costs may be attributable to past service liability or to worse than expected plan experience. Supplemental costs are amortized (that is, recognized for funding purposes) over a specified number of years (generally 15 years)

by annual charges to the funding standard account over that period. Factors that result in a supplemental loss can alternatively result in a gain that is recognized by annual credits to the funding standard account over a 15-year amortization period (in addition to a credit for contributions made for the plan year).

Actuarial assumptions used under the multiemployer plan funding rules must be reasonable. The interest rate used in funding computations, which represents the expected return on plan assets over time, and mortality assumptions used are subject to these general standards; the funding rules do not specify the interest rate or mortality tables that must be used. For funding purposes, the actuarial value of plan assets may be used, rather than fair market value, subject to certain conditions.

Additional requirements for multiemployer plans in endangered or critical status

Additional funding rules apply to a multiemployer defined benefit pension plan that is in endangered or critical status, which is determined by reference to several funding-related factors, such as the plan's funded percentage (generally the ratio of the actuarial value of plan liabilities over the value of plan assets). These rules require the adoption of and compliance with: (1) a funding improvement plan in the case of a multiemployer plan in endangered status; and (2) a rehabilitation plan in the case of a multiemployer plan in critical status. In the case of a plan in critical status, additional required contributions apply, certain benefit reductions are permitted, and employers are relieved of liability for minimum required contributions under the otherwise applicable funding rules, provided that a rehabilitation plan is adopted and followed.

Multiemployer Plan Program of the Pension Benefit Guaranty Corporation

The PBGC, a corporation within DOL, provides an insurance program for benefits under most defined benefit plans maintained by private employers. The PBGC is administered by a director. Its board of directors consists of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Commerce.

The PBGC is financed through the payment of premiums by covered defined benefit plans, assets from terminated single-employer defined benefit plans trustee by the PBGC, and investment income on PBGC assets. The PBGC insures pension benefits under separate programs for single-employer and multiemployer defined benefit plans.

In the case of a multiemployer plan, flat-rate premiums apply at a rate of \$27 per participant for 2016. The PBGC provides financial assistance to insolvent multiemployer plans in the amount needed to pay benefits at the guarantee limit, which is the sum of 100 percent of the first \$11 of monthly benefits plus 75 percent of the next \$33 of monthly benefits multiplied by the participant's years of service.

In order to avoid plan insolvency, the PBGC may provide support and financial assistance in connection with a merger of multiemployer plans, or may order the partition of a multiemployer plan and provide financial assistance to the new plan created by the partition, subject to various conditions, including a determination that the PBGC's ability to meet financial assistance obligations to other plans will not be impaired and notice to the House Committees on

Education and the Workforce and on Ways and Means and the Senate Committees on Finance and on Health, Education, Labor, and Pensions.

Pension and Retiree Health Benefits for Employees in the Coal Industry

UMWA 1974 Pension Plan

The UMWA (United Mine Workers of America) 1974 Pension Plan is a multiemployer defined benefit plan that provides retirement, disability, and survivors' benefits to employees in the coal industry and their beneficiaries. The plan was certified to be in critical and declining status for the plan year beginning July 1, 2015.

UMWA retiree health benefits

Retiree health benefits employees in the coal industry (and their beneficiaries) are provided under three UMWA multiemployer plans, the UMWA Combined Benefit Fund, the UMWA 1992 Benefit Plan, and the UMWA 1993 Benefit Plan, as well plans maintained by their particular employers. The three UMWA plans are funded in part by premiums paid by coal mining operators under the Code, as well as by transfers made by the Secretary of the Treasury from the Abandoned Mine Lands Reclamation Fund under the Surface Mining Control and Reclamation Act of 1977.

Data Relating to Retirement Plans

General Data on Retirement Plan Participation and Assets

The Bureau of Labor Statistics' National Compensation Survey, Form 5500 filings with the Department of Labor, and the Federal Reserve's Flow of Funds provide data with respect to access and participation in employer-sponsored retirement plans and assets held in employer-sponsored plans and IRAs.

Data on Funding of Multiemployer Plans and Status of PBGC Multiemployer Program

As of 2014, 1,425 defined benefit plans were insured under the PBGC multiemployer program with a total of about 10.3 million participants. The aggregate funded status of multiemployer plans as of 2012 was 41 percent, with total plan assets of about \$390 billion and liabilities of about \$964 billion. Among underfunded multiemployer plans, the 50 plans with the highest levels of underfunding accounted for about 54 percent of the total underfunding (about \$307 billion in underfunding).

As of September 30, 2015, PBGC's multiemployer plan insurance program had total assets of about \$1.9 billion and total liabilities of about \$54 billion (including the present value of future nonrecoverable financial assistance provided to multiemployer plans), for a net negative position of about \$52 billion, reflecting sharp increases in liabilities in recent years.

Selected proposals relating to multiemployer plans

Bills Relating to Multiemployer Plans

S. 1631, “Keep Our Pension Promises Act”

The bill repeals the MPRA provisions relating to benefit suspensions under plans in critical and declining status; revises the rules relating to partitions of multiemployer plans and provides for additional funds to be used for partitioned plans; and provides for an employer’s withdrawal liability to take first priority among claims in bankruptcy.

S. 2147, the “Pension Accountability Act”

The bill amends the rules for ratification by plan participants and beneficiaries of benefit suspensions under a plan in critical and declining status, and repeals the override of a rejection in the case of a systemically important plan.

S. 1714, the “Miners Protection Act of 2015”

The bill expands the group of retirees whose benefits are taken into account in determining transfers to the UMWA 1993 Benefit Plan from the Abandoned Mine Lands Reclamation Fund. The bill also allows transfers from the Abandoned Mine Lands Reclamation Fund to the UMWA 1974 Pension Plan and imposes new reporting requirements with respect to the UMWA 1974 Pension Plan.

New Plan Designs

Variable annuity plans and composite plans have been suggested as new multiemployer plan designs, under which benefits are provided in the form of life annuities, but the amount of a participant’s benefit may change in response to changes in the value of plan assets, as well as limiting employers’ risks of underfunding and withdrawal liability.

I. PRESENT LAW

A. Qualified Retirement Plans²

1. In general

A qualified retirement plan is a plan of deferred compensation that meets the qualification requirements under the Internal Revenue Code of 1986 (“Code”)³ and, as a result, is accorded tax-favored treatment.⁴ Tax-favored treatment generally consists of pretax treatment of employer and some employee contributions,⁵ tax-exempt status of the trust or account holding assets, and income inclusion by a participant or beneficiary only at the time of benefit distributions from the plan, with the option of deferring income inclusion by rolling the distribution over to another tax-favored retirement vehicle.⁶ To the extent employee contributions are made on an after-tax basis, the contributions result in basis, which reduces the amount included in income at the time of distribution. In the case of Roth contributions made to an employer-sponsored plan, contributions are always made on an after-tax basis, and certain distributions are fully excluded from income.⁷ In addition, in the case of a taxable employer, the

² For a more detailed discussion of tax-favored retirement savings generally, including individual retirement arrangements (“IRAs”), see Joint Committee on Taxation, *Present Law and Background Relating to Tax-Favored Retirement Saving and Certain Related Legislative Proposals* (JCX-3-16), January 26, 2016, available at www.jct.gov.

³ Except as otherwise indicated, all section references herein are to the Code.

⁴ Sec. 401(a). A qualified annuity plan under section 403(a) is similar to a qualified retirement plan (and subject to similar requirements) except that plan assets consist of annuity contracts, rather than investments held in a trust or custodial account. References herein to a qualified retirement plan include a qualified annuity plan. Additional options for tax-favored retirement plans are available to certain tax-exempt or State or local government employers: tax-deferred annuities under section 403(b) for organizations exempt from tax under section 501(c)(3) and public schools (called section 403(b) plans) and State and local government eligible deferred compensation plans under section 457(b) (called governmental section 457(b) plans). Certain small employers have the option of maintaining a SIMPLE IRA plan under section 408(p), or an employer may maintain simplified employee pension (“SEP”) under section 408(k), either of which is funded through direct contributions by the employer to an IRA established for each employee.

⁵ Employer contributions to tax-favored retirement plans are also exempt from Social Security and Medicare taxes applicable to wages under the Federal Insurance Contributions Act (“FICA”), sections 3101-3128; the Railroad Retirement Tax Act (“RRTA”), sections 3201-3241; and the Federal Unemployment Tax Act (“FUTA”), sections 3301-3311.

⁶ Subject to some exceptions, a distribution from a tax-favored retirement savings arrangement before age 59½ that is includible in income is also subject to an additional 10-percent early withdrawal tax. Under the minimum distribution requirements, distributions from a tax-favored retirement savings arrangement (other than a Roth IRA) are generally required to begin within a certain period after attainment of age 70½ and must be taken over the individual’s life or life expectancy. Minimum distribution requirements also apply after a participant’s death (including to Roth IRAs). An excise tax may apply if required minimum distributions are not made.

⁷ Sec. 402A.

employer is entitled to a current deduction (within limits) for contributions even though the contributions are not currently included in an employee's income.

Present law imposes a number of requirements on qualified retirement plans that must be satisfied for favorable tax treatment to apply.⁸ Some of these requirements define the rights of plan participants and beneficiaries, such as the minimum participation and vesting requirements.

Under the minimum participation rules, a plan generally cannot delay an employee's participation in the plan beyond the later of completion of one year of service (that is, a 12-month period with at least 1,000 hours of service) or attainment of age 21.⁹ In addition, a plan cannot exclude an employee from participation on the basis of attainment of a specified age. Employees can be excluded from plan participation on other bases, such as job classification, as long as the other basis is not an indirect age or service requirement.

Under the vesting rules, a participant's right to the benefits he or she has accrued under a plan ("accrued benefit") generally must become nonforfeitable after a specified period of service and at attainment of normal retirement age under the plan.¹⁰ Benefits attributable to employee contributions must be fully vested at all times. The period of service after which benefits attributable to employer contributions must be vested depends on the type of plan (defined benefit or defined contribution), as discussed below.

The amount of an employee's compensation taken into account in determining plan contributions and benefits cannot exceed an annual limit (\$265,000 for 2016). A qualified retirement plan is prohibited from discriminating in favor of highly compensated employees, referred to as the nondiscrimination requirements. These requirements are intended to ensure that a qualified retirement plan provides meaningful benefits to an employer's rank-and-file employees as well as highly compensated employees, so that qualified retirement plans achieve the goal of retirement security for both lower-paid and higher-paid employees. The nondiscrimination requirements consist of a minimum coverage requirement and general nondiscrimination requirements.¹¹ For purposes of these requirements, an employee generally is treated as highly compensated if the employee (1) was a five-percent owner of the employer at any time during the year or the preceding year, or (2) had compensation for the preceding year in

⁸ In general, for purposes of these requirements, members of controlled groups under section 414(b) or (c) and affiliated service groups under section 414(m) or (o) are treated as a single employer.

⁹ Sec. 410(a).

¹⁰ Sec. 411.

¹¹ Sections 401(a)(3) and 410(b) deal with the minimum coverage requirement; section 401(a)(4) deals with the general nondiscrimination requirements, with related rules in section 401(a)(5). Detailed regulations implement the statutory requirements. In addition to the minimum coverage and general nondiscrimination requirements, the group employees who accrue benefits under a defined benefit plan for a year must consist of at least 50 employees, or, if less, 40 percent of the workforce, subject to a minimum of two employees accruing benefits. Governmental plans are not subject to these requirements.

excess of \$120,000 (for 2016).¹² A plan covering collectively bargained employees, including a multiemployer plan, is generally deemed to satisfy the nondiscrimination requirements.

Assets of a qualified retirement plan must be held in a trust or custodial account for the exclusive benefit of plan participants, and prohibited transaction rules (that is, rules prohibiting self-dealing by employers and plan fiduciaries) apply to plan assets.¹³ Defined benefit plans and some defined contribution plans are subject to minimum funding requirements.

Qualified retirement plans of private employers are generally also subject to regulation under Title I of the Employee Retirement Income Security Act of 1974 (“ERISA”), which is under the jurisdiction of the Department of Labor (“DOL”). The ERISA rules generally relate to the rights of plan participants and beneficiaries, reporting and disclosure, and the obligations of plan fiduciaries. Some of the provisions of the Code and ERISA that apply to qualified retirement plans are identical or very similar.¹⁴ For example, ERISA includes minimum participation and vesting requirements that parallel those under the Code.¹⁵

Enforcement of qualified retirement plan requirements

Enforcement of a qualified retirement plan requirement depends on the source of the requirement. The qualification requirements under the Code are enforced by the IRS. If a plan fails to meet the qualification requirements, then the favorable tax treatment for such plans may be denied; that is, the employer may lose tax deductions and employees may have current income taxation. As a practical matter, the IRS rarely disqualifies a plan. Instead, the IRS may impose sanctions short of disqualification and require the employer to correct any violation of the qualification rules.

Certain Code requirements for qualified plans are enforced through an excise tax rather than through disqualification. For example, a failure to satisfy the minimum funding requirements for defined benefit plans, discussed below, does not result in disqualification of the plan. Instead, in general, an excise tax is imposed on the employer, subject to exceptions in the case of certain multiemployer plans. Employees do not have a right to sue to enforce the qualified retirement plan requirements under the Code.

¹² Sec. 414(q). At the election of the employer, employees who are highly compensated based on compensation may be limited to the top 20 percent highest paid employees. A nonhighly compensated employee is an employee other than a highly compensated employee.

¹³ Secs. 401(a)(2) and 4975. Under this exclusive benefit requirement, prior to satisfaction of all liabilities under the plan with respect to employees and their beneficiaries, assets are not allowed to be used for or diverted to purposes other than the exclusive benefit of employees or their beneficiaries.

¹⁴ Governmental plans and church plans are generally exempt from ERISA and from the Code requirements that correspond to ERISA requirements.

¹⁵ ERISA secs. 202 and 203.

ERISA's requirements generally may be enforced through administrative actions by DOL or by lawsuits brought by plan participants, DOL, or plan fiduciaries.

2. Types of qualified retirement plans

Defined benefit and defined contribution plans

Qualified retirement plans are broadly classified into two categories, defined contribution plans and defined benefit plans, based on the nature of the benefits provided.¹⁶ Although both types of plans are subject to the qualification requirements, the requirements differ somewhat for the two types of plans.

Under a defined contribution plan, a separate account is maintained for each participant, to which contributions are allocated and investment earnings (and losses) are credited, and a participant's benefits are based solely on the participant's account balance.¹⁷ Defined contribution plans commonly allow participants to direct the investment of their accounts. Because the account balance, and thus the participant's benefits, depends on the rate of return on the account, the risk of investment loss (and reward of investment gain) under a defined contribution plan lies with the participant rather than the employer.

Under a defined benefit plan, benefits are determined under a plan formula.¹⁸ Benefits under a defined benefit plan are funded by the general assets of the trust established under the plan, which are invested by plan fiduciaries in accordance with plan terms; individual accounts are not maintained for employees participating in the plan. Defined benefit plans maintained by one or more private employers are generally subject to minimum funding requirements intended to ensure that plan assets are sufficient to pay the benefits under the plan. Benefits under private defined benefit plans are generally guaranteed (within limits) by the Pension Benefit Guaranty Corporation ("PBGC") under Title IV of ERISA.

¹⁶ Under the Code as in effect since before ERISA, retirement plans fall into three general types - pension plans, profit-sharing plans, and stock bonus plans, defined respectively at Treas. Reg. sec. 1.401-1(b)(1)(i), (ii), and (iii). Defined benefit plans and money purchase pension plans (a type of defined contribution plan, discussed below) are pension plans under the Code; other defined contribution plans are either profit-sharing plans or stock bonus plans (discussed below). The application of some Code and ERISA requirements depends on whether the plan is a pension plan, a profit-sharing plan, or a stock bonus plan. Under ERISA, the term "pension plan," defined at ERISA section 3(2)(A), includes both defined benefit plans and defined contribution plans.

¹⁷ Defined contribution plan is defined at Code section 414(i) and ERISA section 3(34). Under ERISA, defined contribution plans are also referred to as individual account plans.

¹⁸ As defined in Code section 414(j) and ERISA section 3(35), a defined benefit plan is any plan that is not a defined contribution plan. As discussed further below, the Code requires benefits under a defined benefit plan to be determined under a formula specified in the plan.

Certain types of qualified retirement plans are referred to as hybrid plans because they have features of both a defined benefit plan and a defined contribution plan. However, legally, the plan is either a defined contribution plan or a defined benefit plan.¹⁹

Single-employer, multiple-employer and multiemployer plans

Qualified retirement plans are categorized for some purposes as one of three types, based on the number of employers that maintain the plan and the type of employees covered by the plan. The three types are single-employer plans, multiple-employer plans, and multiemployer plans.

A single-employer plan is a plan maintained by one employer. For this purpose, businesses and organizations are that members of a controlled group, a group under common control, or an affiliated service group are treated as one employer (referred to as “aggregation”). A single-employer plan may cover employees who are also covered by a collective bargaining agreement (“collectively bargained employees”), pursuant to which the plan is maintained (a “collectively bargained plan”). An employer may maintain separate single-employer plans for collectively and noncollectively bargained employees, or they may be covered by the same plan.

A multiple-employer plan is a single plan maintained by two or more unrelated employers (that is, employers that are not treated as a single employer under the aggregation rules) and which is not a multiemployer plan (as defined below).²⁰ Multiple-employer plans are commonly maintained by employers in the same industry. A multiple-employer plan may cover collectively bargained employees or noncollectively bargained employees.

A multiemployer plan (also known as a “Taft-Hartley” plan, and distinct from a multiple-employer plan) is a plan maintained pursuant to one or more collective bargaining agreements with two or more unrelated employers and to which the employers are required to contribute under the collective bargaining agreement(s).²¹ Multiemployer plans commonly cover collectively bargained employees in a particular industry. A multiemployer plan is not operated by the contributing employers; instead, it is governed by a board of trustees (“joint board”) consisting of labor and employer representatives. In applying Code and ERISA requirements, the joint board has a status similar to an employer maintaining a single-employer plan and is referred to as the “plan sponsor.”

¹⁹ Under section 414(k) and ERISA section 3(35), a defined benefit plan that provides a benefit based partly on the balance of a separate account for a participant is treated as a defined contribution plan for certain purposes.

²⁰ Sec. 413(c) and ERISA sec. 210(a).

²¹ Sec. 414(f) and ERISA sec. 2(37). The terms of the relevant collective bargaining agreements specify the amounts employers are required to contribute to a multiemployer plan.

3. Defined benefit plans

In general

As discussed above, benefits under defined benefit plan are based on a plan formula, rather than based on assets in an actual account balance maintained for a participant or actual plan assets. Traditionally, a defined benefit plan formula has provided benefits expressed as a life annuity commencing at normal retirement age, based on a formula that takes into account an employee's compensation and years of service or provides a dollar amount of benefit per year of service (often referred to as a traditional defined benefit plan formula or a traditional defined benefit plan). However, under some defined benefit plans, such as cash balance plans, benefits are determined by reference to hypothetical account balances that resemble accounts maintained for participants under a defined contribution plan. These plans are commonly referred to as hybrid plans because they have features of both a defined benefit plan and a defined contribution plan. However, legally, they are defined benefit plans.²²

Subject to the applicable qualification rules, the employer (and, in the case of collectively bargained plans, employee representatives) generally determines the benefit formula under a defined benefit plan, as well as other plan features. Thus, benefits under such plans vary from employer to employer, and, in some cases, from plan to plan of the same employer. In the case of a multiemployer plan, the plan may include more than one benefit formula, with the benefit formula applicable to a group of employees determined by the employer contribution rate under the collective bargaining covering the group.

Benefits under a defined benefit plan are funded by the general assets of the trust established under the plan, which are invested by plan fiduciaries. Defined benefit plans are generally funded by employer contributions, in an amount determined on an actuarial basis to be needed over time to provide the benefits under the plan, and, as discussed below, employers are generally subject to minimum funding requirements with respect to defined benefit plans.

Historically, the common view has been that, because benefits under a defined benefit plan are funded by trust assets generally and the funding rules require employer contributions to fund the promised benefits, investment risk under a defined benefit plan is born by the employer. However, participants in an underfunded defined benefit plan also bear the risk of losing benefits in the case of a distress termination of a single-employer defined benefit plan or, in the case of a multiemployer defined benefit plan, as a result of benefit reductions under a plan in critical or critical and declining status or as a result of plan insolvency, as discussed below. In addition, as discussed below, the PBGC bears some of the risk associated with underfunded defined benefit plans.

²² Under section 411(a)(13)(C) and ERISA 203(f)(3), these plans are called "applicable defined benefit plans."

Qualification requirements

In general

The specifics of some qualification requirements vary between defined benefit plans and defined contribution plans. In some cases, such as the vesting requirements, some aspects apply only to defined benefit plans. In addition, some qualification requirements apply only to defined benefit plans. For example, under a defined benefit plan, forfeitures cannot be used to increase benefits.²³

Defined benefit plans are subject to certain additional distribution requirements under the Code, including a requirement that the plan provide benefits in the form of an annuity after retirement.²⁴ These requirements apply to all qualified defined benefit plans, including governmental plans and church plans. Defined benefit plans may not provide for distributions to a participant during employment (referred to as in-service distributions) unless the participant has attained normal retirement age (or age 62, if earlier) or in the case of plan termination.²⁵

Benefit limits applicable to defined benefit plans

A participant's annual benefit under a defined benefit plan generally must be limited to the lesser of a dollar amount (\$210,000 for 2016) and the participant's average compensation for the three years resulting in the highest average.²⁶ The compensation limit does not apply to benefits under certain plans, including a multiemployer plan. The benefit limit applies to the aggregate of all benefits accrued by an employee under all defined benefit plans maintained by the same employer, other than multiemployer plans.²⁷ In general, the dollar limit is prorated in the case of a participant with fewer than 10 years of participation in a plan, and the compensation limit is prorated in the case of a participant with fewer than 10 years of service with the employer.

The dollar limit applies to benefits commencing between age 62 and age 65 in the form of a straight life annuity for the life of the employee. For this purpose, a straight life annuity is an annuity payable in equal installments for the life of the participant that terminates upon the participant's death. If benefits under a plan are paid in a form other than a straight life annuity commencing between age 62 and age 65, the benefits payable under the other form (including any benefit subsidies) generally cannot exceed the dollar limit when actuarially converted to a

²³ Sec. 401(a)(8).

²⁴ Treas. Reg. secs. 1.401-1(b)(1)(i) and 1.401(a)-1(b)(1)(i). The plan may also provide benefits in other distribution forms.

²⁵ Sec. 401(a)(36); Treas. Reg. secs. 1.401-1(b)(1)(i) and 1.401(a)-1(b)(1)(i).

²⁶ Sec. 415(b).

²⁷ For purposes of aggregating plans, members of a controlled group or affiliated service group are treated as a single employer, except a 50-percent ownership test is used.

straight life annuity commencing at age 62.²⁸ Thus, the dollar limit is effectively reduced for distributions commencing before age 62, or for a form of benefit more valuable than a straight life annuity, and increased for distributions commencing after age 65. However, if benefits are paid in the form of a qualified joint and survivor annuity (discussed below), no actuarial reduction is required to reflect the value of the survivor benefit, even if the surviving spouse annuity is 100 percent of the participant's benefit.

QJSA and QPSA requirements

Defined benefit plans must comply with requirements that provide certain annuity benefits to the participant and to the spouse of a married participant.²⁹ In particular, defined benefit plans must provide that, whenever a distribution is permitted under the plan, the default form of benefit under the plan is a qualified joint and survivor annuity ("QJSA"). For an unmarried employee, a QJSA is a life annuity; for a married employee, a QJSA generally is a life annuity for the employee with a survivor annuity of at least 50 percent (and not more than 100 percent) for the employee's spouse.³⁰ The benefit must be paid in the form of a QJSA unless, after receiving a notice explaining the relative value of the QJSA to other forms of distribution, the employee elects another form of distribution and, if the employee is married, the employee's spouse provides notarized consent to the alternative form of distribution elected, as well as to any other beneficiary designated by the employee with respect to the form of distribution elected by the employee.

If a married employee dies before beginning the payment of benefits, the plan must offer a survivor benefit for the spouse in the form of a qualified preretirement survivor annuity ("QPSA"), which is a survivor annuity for the spouse that is at least 50 percent of the employee's accrued benefit. Notarized spousal consent by the employee's spouse is required also for the employee to waive the QPSA or elect a different beneficiary or a different form of survivor benefit.

In the case of a defined benefit plan, the other forms of benefit offered to a married participant under the plan are not permitted to be actuarially more valuable than the QJSA payable at the time of the distribution. Finally, the QJSA and QPSA requirements only apply if the actuarial present value of the employee's accrued benefit at the time of the distribution (calculated using the same actuarial assumptions that apply in determining minimum lump-sum benefits) is more than \$5,000.³¹

²⁸ Specified interest and, in some cases, mortality assumptions apply in making these adjustments.

²⁹ Secs. 401(a)(11) and 417 and ERISA sec. 205.

³⁰ The plan generally must provide a second joint and survivor annuity option for married participants, a qualified optional survivor annuity ("QOSA") with a survivor annuity rate (as a percentage of the annuity during the participant's lifetime) of 50 percent or 75 percent, depending on the survivor annuity rate under the plan's QJSA.

³¹ The portion of an accrued benefit attributable to amounts that were rolled over to the plan may be disregarded in determining whether present value exceeds \$5,000.

4. Defined contribution plans

Defined contribution plans may provide for nonelective contributions and matching contributions by employers and pretax or after-tax contributions by employees. Total contributions made to an employee's account for a year cannot exceed the lesser of \$53,000 (for 2016) or the employee's compensation. A participant must at all times be fully vested in his or her own contributions to a defined contribution plan and must vest in employer contributions under three-year cliff vesting or two-to-six-year graduated vesting.

Defined contribution plans may themselves be of different types, specifically, profit-sharing plans, stock bonus plans, or money purchase plans, and may include special features, such as a qualified cash or deferred arrangement (a section 401(k) plan) or an employee stock ownership plan ("ESOP").

Profit-sharing plans were originally intended as a means of enabling employees to share in the profits of the employer's business. However, under present law, contributions to a profit-sharing plan are permitted regardless of whether the business has profits. A profit-sharing plan may provide for regular employer contributions each year or may provide that contributions are made each year at the discretion of the employer (called a "discretionary" profit-sharing plan). A profit-sharing plan must provide a definite formula under which contributions are allocated to participant accounts and must specify the events upon which distributions will be made to participants, such as severance from employment.

A stock bonus plan is similar to a profit-sharing plan except that benefits are distributable in stock of the employer. The plan may provide for cash distributions, but must also allow participants to take distributions in the form of employer stock. In the case of employer stock that is not publicly traded, participants generally must be given the right to require the employer to repurchase the stock under a fair valuation formula.

An ESOP is a stock bonus plan that is designated as an ESOP and is designed to invest primarily in employer stock.³² An ESOP can be an entire plan or it can be a portion of a defined contribution plan. ESOPs are subject to additional requirements that do not apply to other plans that hold employer stock. In addition, certain benefits are available to ESOPs that are not available to other types of qualified retirement plans, including an exception to the prohibited transaction rules for certain loans and, in the case of a C corporation, higher deduction limits.

A profit-sharing plan or a stock bonus plan may be a section 401(k) plan, under which an employee may elect to have contributions (elective deferrals) made to the plan, rather than receive the same amount in cash.³³ For 2016, elective deferrals of up to \$18,000 may be made, plus up to \$6,000 in catch-up contributions for employees aged 50 or older, or, if less, the employee's compensation. Elective deferrals are generally made on a pretax basis. However, a section 401(k) plan may include a qualified Roth contribution program under which elective

³² Sec. 4975(e)(7).

³³ Sec. 401(k).

deferrals are made on an after-tax basis (designated Roth contributions), and certain distributions (“qualified distributions”) are excluded from income.³⁴ Many section 401(k) plans provide for matching contributions and may also provide for employer nonelective contributions and after-tax employee contributions.

A money purchase pension plan must provide for a set level of required employer contributions (that is, employer contributions may not be discretionary), generally as a specified percentage of participants’ compensation. A money purchase pension plan is subject to the minimum funding requirements, and the employer is generally subject to an excise tax if it fails to make the contributions required under the plan. Similar to defined benefit plans, a money purchase pension plan must offer benefits payable in the form of an annuity and may not provide for in-service distributions except at normal retirement age (or age 62, if earlier) or in the case of plan termination. Money purchase pension plans are subject to the QJSA and QPSA requirements described above.³⁵

A target benefit plan is a money purchase pension plan under which contributions to an employee’s account are determined by reference to the amount necessary, on an actuarially determined basis, to fund a “target” benefit for the employee in the amount of an annuity commencing at normal retirement age determined under a formula contained in the plan. However, as in the case of defined contribution plans generally, an employee’s benefit under a target benefit plan is based on the employee’s account balance, which, depending on investment experience, may be more or less than the target benefit.

³⁴ Sec. 402A.

³⁵ Profit-sharing plans and stock bonus plans are generally not subject to the QJSA and QPSA requirements unless the participant elects an annuity form of distribution. However, a profit-sharing or stock bonus plan must provide that a participant’s entire vested account balance under the plan will be paid to the participant’s surviving spouse unless the spouse consents in writing to a different beneficiary.

B. Selected Requirements for Benefits Under a Defined Benefit Plan

1. Definitely determinable benefit formula

As noted above, a defined benefit plan is required to provide benefits in the form of an annuity and may offer other forms of distributions as options. The benefit formula under a defined benefit plan must provide benefits that are definitely determinable (referred to as the “definitely determinable requirement”).³⁶ In order to meet the definitely determinable requirement, the plan must contain an express formula under which participants’ benefits can be computed and that is not subject to the discretion of the employer or, in the case of a multiemployer plan, the plan sponsor.³⁷ A formula may include a variable factor that provides for self-adjusting changes that are independent of employer or plan sponsor discretion.³⁸

In order to satisfy the definitely determinable requirement, if the amount of a benefit under a defined benefit plan is determined on the basis of actuarial assumptions, the assumptions must be specified in the plan in a way that precludes employer or plan sponsor discretion.³⁹ For example, a plan may specify that a variable interest rate will be used in determining actuarial equivalent forms of benefit, but may not give the employer discretion to choose the interest rate.

IRS guidance considers a plan under which benefits payable to participants are determined on the basis of a number of shares or units of interest in the total assets of the plan (from which benefits are to be paid), with the dollar amount of the benefit payable varying from time to time to the extent of variation in the market value of plan assets (determined as of the date of a benefit payment or as of a specified date preceding the date of payment by no more than a year).⁴⁰ As described in the guidance, the number of shares or units on which a benefit is based is definitely determinable under the plan. The guidance holds that the plan provides for definitely determinable benefits.⁴¹

³⁶ Treas. Reg. sec. 1.401-1(b)(1)(i). Under the regulations and section 401(a)(8), funds resulting from benefit forfeitures may not be used to increase benefits under the plan.

³⁷ Rev. Rul. 79-90, 1979-1 C.B. 155; Rev. Rul. 74-385, 1974-2 C.B. 130.

³⁸ Rev. Rul. 79-90.

³⁹ Sec. 401(a)(25); Rev. Rul. 79-90.

⁴⁰ Rev. Rul. 185, 1953-2 C.B. 202.

⁴¹ The guidance deals with the application of the definitely determinable requirement under Treas. Reg. sec. 29.165-1(a), the predecessor to Treas. Reg. sec. 1.401-1(b)(1)(i). The guidance also holds that a plan provides for definitely determinable benefits when, under the plan, benefits that are otherwise definitely determinable in amount are subject to increase or decrease in amount at the time of payment to the extent (but only to the extent) of the fluctuation of a specified and generally recognized cost-of-living index.

2. Vesting, accrual, and anti-cutback rules

Vesting

The vesting and related requirements applicable under the Code and ERISA generally provide protection for the participant's accrued benefit and optional forms of benefit, including subsidized optional forms of benefit under a defined benefit plan.⁴² In the case of a defined benefit plan, a participant's accrued benefit is generally the portion of the normal retirement benefit (that is, the annuity payable at normal retirement age under the plan's benefit formula, based on the participant's compensation and years of service) that has accrued under the accrual method provided under the plan. For purposes of these rules, normal retirement age is generally the age specified for normal retirement under the plan, but may not be later than age 65 or, if later, the fifth anniversary of the time a participant commences participation in the plan.⁴³

Generally, an employee's accrued benefit must become nonforfeitable (that is, vested) after the completion of a specified number of years of service in accordance with a vesting schedule, or, if earlier, at normal retirement age or on plan termination (to the extent benefits are funded).⁴⁴ In the case of a defined benefit plan (other than a hybrid plan), the plan can use one of two vesting schedules with respect to a participant's accrued benefit derived from employer contributions. Under the first vesting schedule, the participant's accrued benefit derived from employer contributions must become 100-percent vested upon completion of no more than five years of service (referred to as five-year cliff vesting). Under the second vesting schedule, the participant's accrued benefit derived from employer contributions must become vested ratably over the period from three to seven years of service. Under a hybrid plan (that is, an "applicable defined benefit plan"), the participant's accrued benefit generally must be 100 percent vested after completion of three years of service (three-year cliff vesting).⁴⁵ A plan may provide for the employer-provided portion of the accrued benefit to become fully vested after fewer years of service than under one of the required vesting schedules or to become immediately vested when accrued.

Accrued benefits attributable to employee contributions must be nonforfeitable at all times. Specific rules apply for determining the portion of any accrued benefit under a defined benefit plan that is attributable to mandatory employee contributions.⁴⁶

⁴² Sec. 411 and ERISA secs. 203-204.

⁴³ Sec. 411(a)(8) and ERISA sec. 3(24).

⁴⁴ Certain forfeitures are permitted for accrued benefits that are otherwise fully vested; for example, forfeiture upon the participant's death or withdrawal of mandatory employee contributions and suspension of benefits upon reemployment.

⁴⁵ Sec. 411(a)(13) and ERISA sec. 203(f).

⁴⁶ Sec. 411(c) and ERISA sec. 204(c).

A defined benefit plan may also provide for certain ancillary benefits, which are not part of the participant's accrued benefit, such as disability or death benefits. Ancillary benefits are not subject to the vesting requirements or to the accrual or anti-cutback requirements discussed below.

Accrual rules

General rules

In general terms, a participant's accrued benefit represents the benefit that the participant has earned or "accrued" under the plan as of a given time. For example, if a participant terminates employment before reaching normal retirement age, the benefit to which the participant is entitled to receive on reaching normal retirement age is the accrued benefit. The plan must specify the method (referred to as the plan's "accrual method") used to determine the participant's accrued benefit, that is, the portion of a participant's normal retirement benefit that has been earned as of a given time.

Under the accrual rules, participants' accrued benefits under a defined benefit plan must be determined under one of three permissible accrual methods.⁴⁷ These rules relate to the pattern in which a participant's normal retirement benefit is earned over the participant's years of service. The accrual rules limit the extent to which benefit accruals can be "backloaded," that is, they limit the extent to which rates of accrual can be higher for later years of service, which could undercut the vesting requirements. The accrual rules are sometimes referred to as the anti-backloading rules.

Reductions in an employee's rate of accrual under a defined benefit plan due to increasing age generally are also prohibited. Special rules apply for purposes of determining whether a hybrid plan satisfies this requirement.

Accrual methods

The three permissible accrual methods are (1) the 133-1/3 percent method, (2) the fractional method, and (3) the three percent method. Most defined benefit plans use the 133-1/3 percent method or the fractional method.

Under the 133-1/3 percent method, (1) the accrued benefit payable at normal retirement age must equal the normal retirement benefit under the plan, and (2) the annual rate at which any individual who is or could be a participant can accrue the retirement benefits payable at normal retirement age for any plan year cannot be more than 133-1/3 percent of the annual rate at which he or she can accrue benefits for any earlier plan year. For example, if the plan provides that a participant accrues a benefit of 1.5 percent of compensation for each year of service up to 20 and 2 percent of compensation for each year of service in excess of 20, the plan satisfies the requirements of the 133-1/3 percent method. However, a benefit that accrues at the rate of one percent of compensation for each year of service up to 20 and 1.5 percent of compensation for

⁴⁷ Sec. 411(b) and ERISA sec. 204(b).

each year of service in excess of 20 does not satisfy the requirements of the 133-1/3 percent method.

Under the fractional method, the accrued benefit to which a participant is entitled at any time must equal or exceed the participant's "fractional rule benefit," multiplied by a fraction (not exceeding one), the numerator of which is the participant's total years of participation in the plan, and the denominator of which is the total number of years of plan participation the participant would have if he or she separated from service at normal retirement age. A participant's "fractional rule benefit" is the normal retirement benefit to which the participant would be entitled under the plan if the participant attained normal retirement age on the date the benefit is being determined (that is, based on the participant's current amount of compensation and years of service).

The fractional method is illustrated by the following example. Suppose a plan provides a normal retirement benefit at age 65 of two percent of compensation for each year of service up to 30 years, so that a participant with 15 years of service has a fractional rule benefit of 30 percent of compensation (determined as if the participant attained normal retirement age on the date the benefit is being determined). For a participant who began participation in the plan at age 21 and is now age 36, the participant's accrued benefit under the fractional method is the participant's fractional rule benefit (30 percent of compensation), multiplied by the fraction $15/44$ (that is, the participant's 15 years of participation over the participant's projected years of plan participation at normal retirement age of 65) or 10.23 percent of compensation. For a participant who began participation in the plan at age 35 and is now age 50, the participant's accrued benefit under the fractional method is the participant's fractional rule benefit (30 percent of compensation), multiplied by the fraction $15/30$ (that is, the participant's 15 years of participation over the participant's projected years of plan participation at normal retirement age of 65) or 15 percent of compensation.

Under the three percent method, the accrued benefit to which each participant is entitled (computed as if the participant separated from the service as of the end of the plan year) must be at least three percent of the "three percent method benefit," multiplied by the participant's years of plan participation as of the end of the year (but not more than $33\frac{1}{3}$ years). A participant's "three percent method benefit" is the normal retirement benefit to which the participant would be entitled if he or she began participation at the earliest age possible under the plan and participated in the plan continuously until the earlier of age 65 or the normal retirement age under the plan.

The fractional method and the three percent method provide the minimum rate at which a participant's benefit must accrue. Therefore, a plan may use an accrual method under which participants' accrued benefits exceed the minimum, provided that no participant's accrued benefit can be less than the minimum.

Other forms of benefit

Optional forms of benefit

A defined benefit plan is permitted to provide a wide variety of optional forms in which distribution of the accrued benefit will be made, but each form must provide payments that are not less than the actuarial equivalent of the accrued benefit, or an impermissible forfeiture will occur.

In some cases, a defined benefit plan may provide for an early retirement benefit that is subsidized (that is, it has a greater actuarial value than the normal form of benefit) or another retirement-type subsidy. For example, the normal form of benefit under a plan might be a life annuity commencing at normal retirement age, but the plan may provide an early retirement benefit without a full actuarial reduction in the participant's annuity payments. The right to subsidized forms of benefit is not required to vest or accrue in accordance with the vesting schedules or accrual rules described above. For example, a plan with a normal retirement age of 65 might provide for payment of a participant's accrued benefit at age 55 without actuarial reduction for early commencement, but condition entitlement to the subsidized benefit on retirement from service with the employer after attaining age 55 with at least 30 years of service.

Minimum lump-sum calculation

In the case of a distribution from a defined benefit plan of an individual's entire accrued benefit in the form of a single sum (generally referred to as a lump-sum benefit), the amount of the lump-sum benefit generally must not be less than the actuarial present value of the accrued benefit calculated using specified interest rates and a specified mortality table.⁴⁸ The specified interest rates (referred to as corporate bond segment rates) are determined by the Treasury Department based on a corporate bond yield curve that reflects the monthly yields on investment grade corporate bonds with varying maturities.⁴⁹ The segment rates depend on the timing of the expected payments under a participant's annuity benefit, with the first segment rate applicable to payments that would be made in the next five years, the second segment rate applicable to payments that would be made in the following 15 years, and the third segment rate applicable to payments that would be made thereafter. Thus, the interest rate that applies depends on how many years in the future a participant's annuity payment will be made.

The vesting rules also prohibit a plan from distributing an employee's accrued benefit without the employee's consent (an "involuntary" distribution) before the later of the time the participant has attained normal retirement age under the plan or attained age 62.⁵⁰ An exception

⁴⁸ Sec. 417(e) and ERISA sec. 205(g)(3). These actuarial assumptions are required to determine minimum actuarial equivalent benefits under all forms of benefit other than life annuities. Under sec. 411(a)(13) and ERISA sec. 203(f), subject to certain conditions, an employee's lump-sum benefit under a hybrid plan may be determined as the balance of the employee's hypothetical account.

⁴⁹ Corporate bond segment rates apply also in determining minimum required contributions under the funding rules applicable to single-employer plans.

⁵⁰ Sec. 411(a)(11) and ERISA sec. 203(e).

generally allows a lump-sum distribution without the employee's consent if the present value of the employee's accrued benefit at the time of the distribution is not more than \$5,000 ("mandatory cash-out").⁵¹

Anti-cutback requirements

In general, a plan amendment may not reduce an employee's accrued benefit (whether or not vested), eliminate an optional form of benefit, or eliminate or reduce early retirement benefits or retirement-type subsidies with respect to the employee's accrued benefit.⁵² These restrictions are referred to as the anti-cutback requirements.

If the benefit formula under a defined benefit plan includes a variable factor, variation in the factor in accordance with the plan formula is not an amendment subject to the anti-cutback requirements.⁵³ However, an amendment substituting a fixed factor, or another variable factor, for the variable factor is subject to the anti-cutback requirements.

Amendments generally are permitted only to reduce future rates of accrual, or, in the case of optional forms of benefits, early retirement benefits and retirement-type subsidies, eliminate or reduce them only with respect to benefits that accrue after the amendment. However, as discussed below, certain benefits may be reduced or eliminated in the case of an underfunded multiemployer defined benefit plan. In addition, Treasury regulations may provide exceptions to the prohibition on eliminating an optional form of benefit.

⁵¹ As with respect to application of the QJSA and QPSA requirements, for this purpose, the portion of an accrued benefit attributable to amounts that were rolled over to the plan may be disregarded in determining whether present value exceeds \$5,000.

⁵² Sec. 411(d)(6) and ERISA sec. 204(g).

⁵³ Rev. Rul. 81-12, 1981-1 C.B. 228.

C. Exceptions to the Anti-Cutback Requirements for Certain Multiemployer Plans

1. Multiemployer plans in critical status

Not later than the 90th day of each plan year, the actuary for any multiemployer plan must certify to the Secretary of the Treasury and to the plan sponsor whether or not the plan is in endangered or critical status for the plan year.⁵⁴ If a plan is certified as being in endangered or critical status, notice of endangered or critical status must be provided within 30 days after the date of certification to plan participants and beneficiaries, the bargaining parties, the PBGC and the Secretary of Labor.⁵⁵ If a plan is in critical status,⁵⁶ the notice of critical status must include an explanation of the possibility that adjustable benefits may be reduced (as discussed below) for participants and beneficiaries whose benefit commencement date is on or after the date the notice is provided for the first plan year for which the plan is in critical status.

In the case of a multiemployer plan in critical status, notwithstanding the anti-cutback rules, certain distributions may not be made as of the date notice of critical status is sent to participants and beneficiaries; thus, those forms of distribution may be eliminated. Specifically, payments in excess of a single life annuity (plus any social security supplement, if applicable) may not be made to a participant or beneficiary who begins receiving benefits after the notice is sent.

In addition, subject to providing advance notice, notwithstanding the anti-cutback rules, the plan sponsor of a plan in critical status may make certain reductions to adjustable benefits that the plan sponsor deems appropriate.⁵⁷ However, benefits generally may not be reduced for a participant or beneficiary who began to receive benefits before receiving notice of the multiemployer plan's critical status.

Adjustable benefits means (1) benefits, rights, and features under the plan, including post-retirement death benefits, 60-month guarantees, disability benefits not yet in pay status, and similar benefits; (2) any early retirement benefit or retirement-type subsidy and any benefit payment option (other than the qualified joint-and-survivor annuity); and (3) benefit increases that would not be eligible for PBGC guarantee on the first day of the initial critical year because the increases were adopted (or, if later, took effect) less than 60 months before such first day. Adjustable benefits that are otherwise protected under the anti-cutback rules, such as early

⁵⁴ The rules for multiemployer plans in endangered or critical status are discussed in Part I.D.3. These rules were enacted by the Pension Protection Act of 2006 ("PPA"), Pub. L. No. 109-280, effective for plan years beginning after 2007, and were amended by the Multiemployer Pension Reform Act of 2014 ("MPRA"), Division O of Pub. L. No. 113-235.

⁵⁵ Copies of notices of endangered or critical status are available at <http://www.dol.gov/ebsa/criticalstatusnotices.html>.

⁵⁶ See Part I.D.3 for the definition of critical status.

⁵⁷ In some circumstances, reductions in adjustable benefits may be required in order to enable a multiemployer plan to meet the requirements of its rehabilitation plan, discussed in Part I.D.3.

retirement benefits, retirement-type subsidies and optional forms of benefit, may be reduced notwithstanding the anti-cutback rules. However, the level of a participant's accrued benefit payable at normal retirement age may not be reduced.

No adjustable benefits may be reduced unless 30 days advance notice is given to plan participants and beneficiaries, any employer that has an obligation to contribute to the plan, and any employee organization that, in collective bargaining, represents plan participants employed by a contributing employer. The notice must contain sufficient information to enable participants and beneficiaries to understand the effect of any reduction of their benefits, including an estimate (on an annual or monthly basis) of any affected adjustable benefit that a participant or beneficiary would otherwise have been eligible for, and information as to the rights and remedies of plan participants and beneficiaries as well as how to contact DOL for further information and assistance where appropriate.

The required notice must be provided in a form and manner prescribed by the Secretary in consultation with the Secretary of Labor, must be written in a manner so as to be understood by the average plan participant, and may be provided in written, electronic, or other appropriate form to the extent such form is reasonably accessible to persons to whom the notice is required to be provided. The Secretary is to establish a model notice that a plan sponsor may use to meet the notice requirements.

2. Multiemployer plans in insolvency

Benefits under a multiemployer plan may be suspended (that is, reduced) if the plan is insolvent.⁵⁸ A multiemployer plan is insolvent when its available resources in a plan year are not sufficient to pay the plan benefits for that plan year, or when the sponsor of a plan in critical status reasonably determines, taking into account the plan's recent and anticipated financial experience, that the plan's available resources will not be sufficient to pay benefits that come due in the next plan year.

Notwithstanding the anti-cutback rules, an insolvent plan is required to reduce benefits to the level that can be covered by the plan's assets. Notice of the benefit reductions must be provided to the participants and beneficiaries, the bargaining parties, the Secretary of the Treasury, and the PBGC. In general, the suspension of benefits must apply in substantially uniform proportions to the benefits of participants and beneficiaries in pay status.⁵⁹ Under an insolvent plan, benefits cannot be reduced below the level guaranteed under the PBGC's multiemployer plan program. The PBGC benefit guarantee level for a participant in a multiemployer plans is the sum of 100 percent of the first \$11 of vested monthly benefits and 75 percent of the next \$33 of vested monthly benefits, multiplied by the participant's number of years of service.

⁵⁸ Sec. 418E and ERISA sec. 4245.

⁵⁹ The Secretary has the authority to prescribe rules under which benefit suspensions for different participant groups may be varied equitably to reflect variations in contribution rates and other relevant factors including differences in negotiated levels of financial support for plan benefit obligations.

If a multiemployer plan is insolvent, the PBGC guarantee is provided in the form of unsecured loans to the plan (referred to as financial assistance), regardless of the plan's ability to repay the loan. However, if a plan were later to recover from insolvency status, loans from the PBGC would have to be repaid.

3. Multiemployer plans in critical and declining status under the Multiemployer Pension Reform Act of 2014 (“MPRA”)

In general

Subject to certain conditions, limitations and procedural requirements, including approval by the Secretary of Treasury as described below, in the case of a multiemployer plan in critical and declining status, notwithstanding the anti-cutback rules, the plan sponsor may amend the plan to suspend benefits that the plan sponsor deems appropriate.⁶⁰ In that case, the plan is not liable for any benefit payments not made as a result of a suspension of benefits.

In the annual certification of whether a multiemployer plan is in endangered or critical status for a plan year, the plan actuary must also certify whether the plan is or will be in critical and declining status for the plan year.⁶¹ A plan is in critical and declining status if the plan (1) otherwise meets one of the definitions of critical status and (2) is projected to become insolvent during the current plan year or any of the 14 succeeding plan years. In applying (2), 19 succeeding plan years is substituted for 14 if either the ratio of inactive plan participants to active plan participants is more than two to one or the plan's funded percentage is less than 80 percent.

For purpose of these rules, suspension of benefits means the temporary or permanent reduction of any current or future payment obligation of the plan to any plan participant or beneficiary, whether or not the participant or beneficiary is in pay status at the time of the suspension. Any suspension of benefits made will remain in effect until the earlier of when the plan sponsor provides benefit improvements as described below or when the suspension expires by its own terms. Thus, unless the terms of the suspension of benefits provide for the suspension to expire (and for benefits to return to the same level as before the suspension), a suspension of benefits may result in a permanent benefit reduction.

⁶⁰ The rules for plans in critical and declining status were enacted by the MPRA, effective December 16, 2014, the date of enactment of MPRA. The Department of the Treasury issued temporary and proposed regulations under these rules on June 19, 2015 and September 2, 2015. See T.D. 9735, 80 Fed. Reg. 170, at 52972; Notice of Proposed Rulemaking, 80 Fed. Reg. 170, at 53068; T.D. 9327, 80 Fed. Reg. 118, at 35207; and Notice of Proposed Rulemaking, 80 Fed. Reg. 118, at 35262. Under Reorganization Plan No. 4 of 1978, 43 Fed. Reg. 47713, October 17, 1978, the regulations apply for purposes of both the Code and ERISA.

⁶¹ If a plan is certified to be in critical and declining status, the annual funding notice required under ERISA section 101(f) with respect to a multiemployer plan must include (1) whether the plan was in critical and declining status for the plan year and if so, (2) the projected date of insolvency, (3) a clear statement that such insolvency may result in benefit reductions, and (4) a statement describing whether the plan sponsor has taken legally permitted actions to prevent insolvency. The annual funding notice must be provided to plan participants and beneficiaries, the bargaining parties, and the PBGC within 120 days after the end of the plan year to which the notice relates.

Conditions for suspensions

In addition to the procedural requirements described below, two conditions must be met in order for the plan sponsor of a multiemployer plan in critical and declining status for a plan year to suspend benefits:

1. Taking into account the proposed suspensions of benefits (and, if applicable, a proposed partition of the plan under ERISA⁶²), the plan actuary certifies that the plan is projected to avoid insolvency, assuming the suspensions of benefits continue until the suspensions expire by their own terms or, if no specific expiration date is set by the terms, indefinitely; and
2. The plan sponsor determines, in a written record to be maintained throughout the period of the suspension of benefits, that, although all reasonable measures to avoid insolvency have been taken (and continue to be taken during the period of the benefit suspensions), the plan is still projected to become insolvent unless benefits are suspended.

In making the determination described above, the plan sponsor may take into account factors including the following:

- current and past contribution levels,
- levels of benefit accruals, including any prior reductions in the rate of benefit accruals,
- prior reductions of adjustable benefits, if any,
- prior suspensions of benefits, if any,
- the impact on plan solvency of the subsidies and ancillary benefits available to active participants,
- compensation levels of active participants relative to employees in the participants' industry generally,
- competitive and other economic factors facing contributing employers,
- the impact of benefit and contribution levels on retaining active participants and bargaining groups under the plan,
- the impact of past and anticipated contribution increases under the plan on employer attrition and retention levels, and
- measures undertaken by the plan sponsor to retain or attract contributing employers.

⁶² The partition rules are discussed in Part I.E.3.

Application of and limitations on suspensions

In general, any suspensions of benefits must be equitably distributed across the plan participant and beneficiary population, taking into account factors (with respect to the participants and beneficiaries and their benefits) that may include one or more of the following:

- age and life expectancy,
- length of time in pay status,
- amount of benefit,
- type of benefit, such as survivor, normal retirement, early retirement,
- the extent to which a participant or beneficiary is receiving a subsidized benefit,
- the extent to which a participant or beneficiary has received post-retirement benefit increases,
- any history of benefit increases and reductions,
- the number of years to retirement for active employees,
- any discrepancies between active and retiree benefits,
- the extent to which active participants are reasonably likely to withdraw support for the plan, accelerating employer withdrawals from the plan and increasing the risk of additional benefit reductions for participants in and not in pay status, and
- the extent to which benefits are attributable to service with an employer that failed to pay its full withdrawal liability.

In addition to these factors, any suspensions of benefits are subject to an aggregate limit and several limits at the individual level. Specifically, in the aggregate (considered, if applicable, in combination with a partition of the plan), any suspensions of benefits must be at the level reasonably estimated to achieve, but not materially exceed, the level that is necessary to avoid insolvency.⁶³

At the individual level, no benefits based on disability (as defined under the plan) may be suspended. In addition, the monthly benefit of any participant or beneficiary may not be reduced below 110 percent of the monthly PBGC guarantee level, as determined for that participant or beneficiary.

In the case of a participant or beneficiary who is age 75 or over as of the effective date of the benefit suspension, the amount of the benefit suspension is phased out ratably over the number of months until age 80, with the result that no benefit suspension applies to a participant or beneficiary who, as of the effective date of the benefit suspension, is age 80 or older. Specifically, for a participant or beneficiary who is between age 75 and 80 as of the effective

⁶³ If suspensions of benefits under a plan are made in combination with a partition of the plan, the suspensions may not take effect before the effective date of the partition.

date of the benefit suspension, not more than the applicable percentage of the participant's or beneficiary's maximum suspendable benefits may be suspended. For this purpose, the applicable percentage for a participant or beneficiary is obtained by dividing (1) the number of months during the period beginning with the month after the month containing the effective date of the suspension and ending with the month in which the participant or beneficiary attains the age of 80, by (2) 60 months. Thus, the applicable percentage is determined on the basis of a participant's or beneficiary's age as of the effective date of the benefit suspension and does not change as the participant or beneficiary gets older. A participant's or beneficiary's maximum suspendable benefits is the portion of the participant's or beneficiary's benefits that would otherwise be suspended if the applicable percentage limitation did not apply.⁶⁴ For example, if a participant is exactly age 77 (that is, age 77 and zero months) as of the effective date of the benefit suspension, with a period of 36 months until attainment of age 80, the participant's applicable percentage is 36/60 or 60 percent, and the amount of the suspension of benefits applied to the participant is 60 percent of the portion of the participant's benefits that would otherwise be suspended.

Besides these limitations, an ordering rule applies if benefits under a multiemployer plan include benefits that are directly attributable to a participant's service with an employer that, before the date of enactment of the critical and declining rules, (1) withdrew from the plan in a complete withdrawal and paid the full amount of its withdrawal liability,⁶⁵ and (2) pursuant to a collective bargaining agreement, assumed liability for providing benefits to plan participants and beneficiaries under a separate, single-employer plan sponsored by the employer, in the amount by which those participants' and beneficiaries' benefits under the multiemployer plan are reduced as a result of the financial status of the multiemployer plan.⁶⁶ In that case, suspensions of benefits are applied: first, to the maximum extent permissible, to benefits attributable to service with an employer that withdrew from the plan and failed to pay (or is delinquent in paying) the full amount of its withdrawal liability; second, to all other benefits that may be suspended, other than those in the following (third) category; and third, to benefits directly attributable to service with an employer described in the preceding sentence.

Benefit improvements

Several requirements apply with respect to benefit improvements under a multiemployer plan while a suspension of benefits under the plan is in effect. For this purpose, a benefit

⁶⁴ The maximum suspendable benefits does not mean a participant's or beneficiary's entire benefit, but only the portion of the benefit that that would otherwise be suspended under the proposed suspensions of benefits, taking into account the other rules applicable to benefit suspensions. For example, in determining the portion of a participant's or beneficiary's benefit that that would otherwise be suspended, the prohibition on reducing benefits below 110 percent of the PBGC guarantee level is taken into account.

⁶⁵ For purposes of the ordering rule, the full amount of an employer's withdrawal liability with respect to a plan is determined under the withdrawal liability rules under ERISA or an agreement with the plan sponsor, whichever is applicable.

⁶⁶ The ordering rule does not apply if benefits under a multiemployer plan do not include benefits directly attributable to service with such an employer.

improvement means a resumption of suspended benefits, an increase in benefits, an increase in the rate at which benefits accrue under the plan, or an increase in the rate at which benefits vest under the plan. Except for resumptions of suspended benefits as discussed below, any limit on benefit improvements while a suspension of benefits is in effect is in addition to any other applicable limits imposed on a plan with respect to benefit increases.

Subject to certain conditions, the plan sponsor may, in its sole discretion, provide benefit improvements while any suspension of benefits remains in effect. However, the plan sponsor may not increase the liabilities of the plan by reason of a benefit improvement for any participant or beneficiary who is not in pay status by the first day of the plan year for which the benefit improvement takes effect (referred to herein as the “benefit improvement year”) unless (1) the benefit improvement is accompanied by equitable benefit improvements (as described below) for all participants and beneficiaries who are in pay status before the first day of the benefit improvement year, and (2) the plan actuary certifies that, after taking any benefit improvements into account, the plan is projected to avoid insolvency indefinitely.

In order to satisfy (1) above, the projected value of the total liabilities attributable to benefit improvements for participants and beneficiaries who are not in pay status by the first day of the benefit improvement year (with this projected value determined as of that day) may not exceed the projected value of the liabilities attributable to benefit improvements for participants and beneficiaries who are in pay status before the first day of the benefit improvement year (with this projected value also determined as of that day). In addition, with respect to the required benefit improvements for participants and beneficiaries who are in pay status before the first day of the benefit improvement year, the plan sponsor must equitably distribute any increase in total liabilities attributable to the benefit improvements to some or all of those participants and beneficiaries, taking into account the factors relevant in equitably distributing benefit suspensions among participants and beneficiaries (as described above) and the extent to which the benefits of the participants and beneficiaries were suspended.

Benefit improvements only for participants and beneficiaries in pay status are permitted. However, a plan sponsor may increase plan liabilities through a resumption of benefits for participants and beneficiaries in pay status only if the plan sponsor equitably distributes the value of resumed benefits to some or all of the participants and beneficiaries in pay status, taking into account the factors relevant in equitably distributing benefit suspensions among participants and beneficiaries (as described above).

The requirements with respect to benefit improvements do not apply to a resumption of suspended benefits or a plan amendment that increases liabilities with respect to participants and beneficiaries not in pay status by the first day of the benefit improvement year that (1) the Secretary (in consultation with the PBGC and the Secretary of Labor) determines to be reasonable and that provides for only de minimis increases in plan liabilities, or (2) is required as a condition of qualified retirement plan status under the Code or to comply with other applicable law, as determined by the Secretary.

Procedural requirements for suspension of benefits

In general

A series of procedural steps must be taken and certain approvals must be obtained before any proposed suspension of benefits under a multiemployer plan in critical and declining status may be implemented by the plan sponsor. Below is a summary of these procedural steps and approvals. The approval procedures for a proposed suspension of benefits are administered by the Treasury. However, every step of the process requiring action by Treasury is required to be done in consultation with the Pension Benefit Guaranty Corporation (“PBGC”) and the Department of Labor (“DOL”). Thus, all references below to Treasury with respect to these procedures include this required consultation with the PBGC and DOL (including references to information to be provided in required notices).

- Not less than 60 days before submitting an application to Treasury for approval of proposed benefit suspensions, the plan sponsor must appoint a retiree representative if the plan has more than 10,000 participants.
- Plan sponsor submits an application to Treasury for approval of the proposed benefit suspensions. Concurrently with submitting the application, the plan sponsor must provide certain parties (which include plan participants) notice of the application and the proposed benefit suspensions.
- Within 30 days after receipt of the application, Treasury must publish the application on the Treasury website and publish notice requesting comments on the application in the Federal Register.
- Within 225 days after receipt of the application, Treasury must approve or disapprove the application, or the application is deemed to be approved in the absence of an affirmative decision. If the application is denied by Treasury at this step, then the suspension of benefits cannot be implemented and the process does not continue.
- Within 30 days after the approval, if the application is approved, or deemed approved, by Treasury, Treasury must administer a participant and beneficiary vote on the proposed benefit suspension.
- Within 7 days after the vote, unless a majority of participants and beneficiaries vote to reject the proposed benefit suspensions (“negative vote”), Treasury must issue a final authorization to allow implementation of the benefit suspensions.
- Within 14 days after a negative vote, Treasury must determine whether the plan is systemically important. In the event of a negative vote, the benefits suspensions cannot be implemented unless the plan is systemically important.
- Within 90 days after a negative vote with respect to a plan determined to be systemically important, Treasury must issue a final authorization permitting benefit suspensions to be implemented by the plan sponsor and in sufficient time to allow implementation before the end of this 90 day period, but can impose modifications to the proposed suspensions.

Appointment of retiree representative

If a multiemployer plan has 10,000 or more participants (as of the end of the plan year for the most recently filed Form 5500, “Annual Return/Report of Employee Benefit Plan”), the plan sponsor is required to appoint a participant of the plan in pay status to act as a retiree representative to advocate for the interests of the retired and deferred vested participants and beneficiaries of the plan throughout the suspension approval process.⁶⁷ The appointment must be made no later than 60 days before the plan sponsor submits an application to Treasury for approval of proposed benefit suspensions. The plan is required to provide for reasonable expenses by the retiree representative, including reasonable legal and actuarial support, commensurate with the plan’s size and funded status. Duties performed by the retiree representative are not subject to prohibited transaction rules under the Code and the fiduciary responsibility requirements under ERISA.⁶⁸ However, this relief from fiduciary responsibility does not apply to those duties associated with an application to suspend benefits that are performed by a retiree representative who is also a plan trustee.

Plan sponsor notice of application for Treasury approval of proposed suspension

The first step in satisfying the procedural requirements for being allowed to implement proposed benefit suspensions (after appointing a retiree representative if applicable) is applying to Treasury for approval of the proposed suspensions, as described below.⁶⁹ Concurrently with submitting that application, the plan sponsor must provide a notice to plan participants and beneficiaries, employers with an obligation to contribute to the plan and any employee organization representing participants employed by the employers. The notice must contain the following information:⁷⁰

- sufficient information to enable participants and beneficiaries to understand the effect of any suspensions of benefits, including an individualized estimate (on an annual or monthly basis) of such effect on each participant or beneficiary,⁷¹
- a description of the factors considered by the plan sponsor in designing the benefit suspensions;

⁶⁷ Sec. 432(e) (9)(B)(v) and Treas. Reg. sec. 1.432(e)(9)-1T(b)(4). A deferred vested participant is a participant who has a vested benefit under the plan, is no longer accruing benefits under the plan, and has not yet begun receiving benefits. In the discretion of the plan sponsor, the retiree representative may continue in this role throughout the period of the benefit suspension.

⁶⁸ Sec. 4975 and ERISA sec. 404(a).

⁶⁹ Application procedures are provided in Rev. Proc. 2015-34, 2015-27 I.R.B. 1218, issued June 17, 2015.

⁷⁰ Sec. 432(e)(9)(F)(ii) and Treas. Reg. sec. 1.432(e)(9)-1T(f),

⁷¹ If it is not possible to provide an individualized estimate on an annual or monthly basis of the quantitative effect of the suspension on a participant or beneficiary, such as in the case of a suspension that affects the payment of any future cost-of-living adjustment, a narrative description of the effect of the suspension must be provided.

- a statement that the application for approval of any suspension of benefits will be available on the Treasury website and that comments on the application will be accepted;
- information as to the rights and remedies of plan participants and beneficiaries;
- if applicable, a statement describing the appointment of a retiree representative, the date of appointment of the representative, identifying information about the retiree representative (including whether the representative is a plan trustee), and how to contact the representative;
- a statement that the plan sponsor has determined that the plan will become insolvent unless the proposed suspension takes effect, and the year in which insolvency is projected to occur without a suspension of benefits;
- a statement that insolvency of the plan could result in benefits lower than benefits paid under the proposed suspension and a description of the projected benefit payments upon insolvency;
- a description of the proposed suspension and its effect, including a description of the different categories or groups affected by the suspension, how those categories or groups are defined, and the formula that is used to calculate the amount of the proposed suspension for individuals in each category or group;
- a description of the effect of the proposed suspension on the plan's projected insolvency;
- a description of whether the suspension will remain in effect indefinitely or will expire by its own terms;
- a statement describing the right to vote on the suspension application; and
- information on how to contact Treasury for further information and assistance where appropriate.

The notice must be provided in a form and manner prescribed in guidance by Treasury. It must be written in a manner so as to be understood by the average plan participant. It may be provided in written, electronic, or other appropriate form to the extent such form is reasonably accessible to persons to whom the notice is required to be provided.⁷² Treasury is directed to publish a model notice that a plan sponsor may use to meet these requirements.⁷³

⁷² Section 4980F of the Code and section 204(h) of ERISA require notice of any amendment to significantly reduce the rate of future benefit accrual under a pension plan to be provided to affected plan participants and alternate payees (and employee organizations representing these participants and alternate payees and participating employers) within a reasonable time before the amendment is effective. The notice of the application fulfills the requirement for providing notice of a significant reduction in the future rate of benefit accrual

⁷³ Rev. Proc. 2015-34 includes a model notice.

Public notice of the application by Treasury

The application for approval of the suspension of benefits must be published on the Treasury website.⁷⁴ In addition, not later than 30 days after receipt of the application, Treasury must publish a notice in the Federal Register soliciting comments from contributing employers, employee organizations, and participants and beneficiaries of the plan for which an application was made.

Approval procedures by Treasury

Treasury must approve the plan sponsor's application for a suspension of benefits upon finding that the plan is eligible for the suspensions and has satisfied the criteria, as previously described, for suspending benefits, limitations on suspensions, and benefit improvements (if any) during suspension and has provided the required notice of the proposed suspensions.

In general, in evaluating an application, Treasury is to accept a plan sponsor's determinations unless Treasury concludes that the plan sponsor's determinations were clearly erroneous. As previously discussed, as a condition for benefit suspensions, the plan sponsor must determine that, although all reasonable measures to avoid insolvency have been taken (and continue to be taken during the period of the benefit suspensions), the plan is still projected to become insolvent unless benefits are suspended. The plan sponsor may take various factors into account in making this determination. In evaluating whether the plan sponsor has met the criteria for its required determination, Treasury must review the plan sponsor's consideration of relevant factors.

Treasury is directed to approve or deny the application within 225 days of the submission by the plan sponsor, and the application for suspension of benefits is deemed approved unless, within such 225 days, Treasury notifies the plan sponsor that it has failed to satisfy one or more of the criteria for approval.⁷⁵

If Treasury rejects a plan sponsor's application, Treasury must provide notice to the plan sponsor detailing the specific reasons for the rejection, including reference to the specific requirement not satisfied.

Participant vote to ratify or reject the proposed suspensions

Not later than 30 days after Treasury approves the proposed benefit suspension, Treasury must administer a vote of plan participants and beneficiaries. No suspension of benefits may take effect prior to a vote of the plan participants and beneficiaries with respect to the proposed benefit suspension.

⁷⁴ Applications are published at <https://www.treasury.gov/services/Pages/Plan-Applications.aspx>.

⁷⁵ Under Prop. Treas. Reg. sec. 1.432€(9)-1(g)(3)(iv) provide that the Treasury and the sponsor may mutually agree in writing to stay the 225-day period.

The plan sponsor is required to provide a ballot for the vote (subject to approval by Treasury) that includes the following statements:

- from the plan sponsor in support of the suspension,
- in opposition to the suspension compiled from comments received pursuant to the Notice published in the Federal Register (as described above),
- that the suspension has been approved by Treasury,
- that the plan sponsor has determined that the plan will become insolvent unless the suspension takes effect,
- that insolvency of the plan could result in benefits lower than benefits paid under the suspension, and
- that insolvency of the PBGC would result in benefits lower than benefits paid in the case of plan insolvency.

The ballot must be written in a manner readily understandable by the average plan participant, and may not include false or misleading information (or omit information in a manner that causes the information provided to be misleading). The ballot must be approved by Treasury.

A negative vote occurs only if a majority of all plan participants and beneficiaries vote to reject the proposed benefit suspensions (“negative vote”).⁷⁶ The suspension goes into effect following the vote if the result is not a negative vote. In that case, not later than seven days after the vote, Treasury must issue a final authorization of the suspension.

If the result is a negative vote, the plan sponsor may not implement the benefit suspension unless the plan is systemically important. However, after a negative vote with respect to a plan that is not systemically important, the plan sponsor may start the process again by developing different proposed benefit suspensions, subject to the conditions applicable to benefits suspensions, and submitting a new application for approval to Treasury.

Systemically important plan

Not later than 14 days after a negative vote, Treasury must determine whether the plan is a systemically important plan. A systemically important plan is a plan with respect to which the PBGC projects that, if suspensions are not implemented, the present value of projected financial assistance payments exceeds \$1 billion (indexed).⁷⁷ Not later than 30 days after a determination

⁷⁶ Thus, a participant’s or beneficiary’s failure to vote has the effect of a vote in favor of the benefit suspension.

⁷⁷ This determination is expected to be made using the assumptions that PBGC generally uses in evaluating the financial position of its multiemployer program. For calendar years beginning after 2015, the \$1 billion is indexed by reference to the change in the wage base applicable for purposes of Social Security taxes and benefits since 2014. If the amount otherwise determined under this calculation is not a multiple of \$1 million, the amount is rounded to the next lowest multiple of \$1 million.

by Treasury that the plan is systemically important, if applicable, the Participant and Plan Sponsor Advocate (“Advocate”)⁷⁸ may submit recommendations to Treasury with respect to the proposed benefit suspensions or any revisions to the proposed suspensions.

If Treasury determines that the plan is a systemically important plan, not later than the end of the 90-day period beginning on the date the results of the vote are certified, Treasury must, notwithstanding the negative vote, issue a final authorization either:

- permitting the implementation of the benefit suspensions proposed by the plan sponsor, or
- permitting the implementation of a modification by Treasury of the benefit suspensions (giving consideration to any recommendations submitted by the Advocate), provided that the plan is projected to avoid insolvency under the modification.

However, Treasury must issue the final authorization at a time sufficient to allow implementation of the benefit suspension before the end of the 90-day period. Thus, the deadline for issuance of the final authorization of the suspension is actually earlier than the end of the 90-day period.

Appeal of decisions

For purposes of judicial review of agency action, approval or denial by Treasury of an application is treated as a final agency action.⁷⁹

An action by a plan sponsor challenging the denial of an application for suspension of benefits by Treasury may only be brought following the denial. An action challenging a suspension of benefits may only be brought following a final authorization to suspend by Treasury. A participant or beneficiary affected by a benefit suspension does not have a cause of action under the Code or Title I of ERISA.⁸⁰ No action challenging a suspension of benefits following the final authorization to suspend or the denial of an application for suspension of benefits may be brought after one year after the earliest date on which the plaintiff acquired or should have acquired actual knowledge of the existence of the cause of action.

⁷⁸ The Advocate is selected under section 4004 of ERISA.

⁷⁹ Rules for judicial review of agency action are provided at 5 U.S.C. chap. 7 (part of the Administrative Procedure Act). These rules are not specifically applicable to Treasury’s approval or denial of an application for benefit suspensions. However, under 5 U.S.C. sec. 701, these rules apply except to the extent that statutes preclude judicial review or agency action is committed to agency discretion by law. Pursuant to 5 U.S.C. sec. 704, agency action made reviewable by statute and final agency action for which there is no other adequate remedy in a court are subject to judicial review under these rules.

⁸⁰ A participant or beneficiary might otherwise have a cause of action against the plan sponsor under ERISA section 502 with respect to the benefit suspension.

A court review of an action challenging a suspension of benefits is to be done in accordance with the rules for judicial review of agency actions.⁸¹ A court reviewing an action challenging a suspension of benefits may not grant a temporary injunction with respect to the suspension unless the court finds a clear and convincing likelihood that the plaintiff will prevail on the merits of the case.

⁸¹ In reviewing an agency action, under 5 U.S.C. sec. 706, the reviewing court is to decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of an agency action. The reviewing court is to set aside agency action in certain circumstances, such as when found to be arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law. In making its determinations, the court is to review the whole record, or those parts of it cited by a party, and due account is to be taken of the rule of prejudicial error.

D. Funding and Deduction Rules for Multiemployer Defined Benefit Plans

1. In general

Funding requirements and waivers

Employer contributions to a defined benefit plan are subject to minimum funding requirements to ensure that plan assets are sufficient to pay the benefits under the plan.⁸² In the case of a multiemployer plan, the amount of required annual contributions is determined under certain actuarial methods, and additional rules apply in the case of a plan in endangered or critical status.⁸³ Minimum required contributions for a plan year must generally be made no later than 8½ months after the end of the plan year.

In general, an employer is subject to a two-tier excise tax for a failure to make required contributions unless a funding waiver is obtained.⁸⁴ The initial tax is five percent of the plan's accumulated funding deficiency in the case of a multiemployer plan. (However, as discussed below, in the case of a multiemployer plan in critical status, the excise tax does not apply, subject to compliance with the requirements for a plan in critical status.) An additional tax is imposed if the failure is not corrected before the date that a notice of deficiency with respect to the initial tax is mailed to the employer by the IRS or the date of assessment of the initial tax. The additional tax is equal to 100 percent of the accumulated funding deficiency.

Within limits, the IRS is permitted to waive all or a portion of the contributions required under the minimum funding standard for a plan year (a "funding" waiver).⁸⁵ In the case of a multiemployer plan, a funding waiver may be granted if 10 percent or more of the employers responsible for the contribution could not make the required contribution without substantial business hardship. In addition, a funding waiver may be granted only if requiring the contribution would be adverse to the interests of plan participants in the aggregate. Generally, no more than five waivers may be granted to a multiemployer plan within any period of 15 consecutive plan years. Additional requirements apply, including notice to participants and the PBGC, and restrictions on benefit increases, as well as conditions that the IRS may require.

Deduction limit

The Code limits the amount of employer contributions to a defined benefit plan that may be deducted for a year.⁸⁶ The deduction limit for employer contributions to a multiemployer plan

⁸² The funding rules generally do not apply to governmental or church plans.

⁸³ Secs. 412 and 431-432 and ERISA secs. 302 and 304-305. For a description of the funding rules applicable to single-employer defined benefit plans, see Joint Committee on Taxation, *Present Law and Background Relating to Qualified Defined Benefit Plans* (JCX-99-14), September 15, 2014, Part I.D.2, available at www.jct.gov.

⁸⁴ Sec. 4971.

⁸⁵ Sec. 412(c).

⁸⁶ Sec. 404.

is generally the excess of (1) 140 percent of the plan's current liability (the present value of all benefits earned under the plan, determined using specified interest and mortality assumptions), over (2) the value of plan assets. However, the deduction limit is never less than the contributions required for the year under the minimum funding rules. The deduction limit applies to the total contributions made by all employers participating in the multiemployer plan.

If contributions exceed the amount deductible, an excise tax generally applies, in the amount of 10 percent of the excess for each year the excess remains in the plan.⁸⁷ The excise tax is allocated among the employers that contribute to the multiemployer plan.

2. General funding rules for multiemployer plans

Minimum required contributions

In connection with the funding requirements, a multiemployer defined benefit plan maintains a notional account called a "funding standard account" to which specific charges and credits (including plan contributions) are made for each plan year the multiemployer plan is maintained. The minimum required contribution for a plan year is the amount, if any, needed so that the accumulated credits to the funding standard account as of that plan year are not less than the accumulated charges (that is, so the funding standard account does not have a negative balance). If, as of the close of a plan year, accumulated charges to the funding standard account exceed credits, the plan has an "accumulated funding deficiency" equal to the amount of the excess. For example, if, as of a plan year, the balance of charges to the funding standard account would be \$200,000 without any contributions, then a minimum contribution equal to that amount is required to meet the minimum funding standard for the year (that is, to prevent an accumulated funding deficiency). If credits to the funding standard account exceeds charges, a "credit balance" results. The amount of the credit balance, increased with interest, reduces future required contributions.

Funding method; charges and credits to the funding standard account

A multiemployer plan is required to use an acceptable actuarial cost method (referred to as a funding method) to determine the elements included in its funding standard account for a year. Generally, an actuarial cost method breaks up the cost of benefits under the plan into annual charges to the funding standard account consisting of two elements for each plan year. These elements are referred to as: (1) normal cost and (2) supplemental cost.

The plan's normal cost for a plan year generally represents the cost of future benefits allocated to the year by the funding method used by the plan for current employees and, under some funding methods, for separated employees. Specifically, it is the amount actuarially determined that would be required as a contribution by the employer for the plan year in order to maintain the plan if the plan had been in effect from the beginning of service of the included

⁸⁷ Sec. 4972. If contributions for a subsequent year are less than the deduction limit for that year, the difference reduces the excess contributed for the previous year, thus reducing the amount taken into account for purposes of the excise tax for the subsequent year.

employees and if the costs for prior years had been paid, and all assumptions (such as interest and mortality) had been fulfilled. A plan's normal cost for a plan year is charged to the funding standard account for that year.

The supplemental cost for a plan year is the cost of future benefits that would not be met by future normal costs, future employee contributions, or plan assets. The most common supplemental cost is that attributable to past service liability, which represents the cost of future benefits under the plan: (1) on the date the plan is first effective; or (2) on the date a plan amendment increasing plan benefits is first effective. Other supplemental costs may be attributable to net experience losses (for example, worse than expected investment returns or actuarial experience), losses from changes in actuarial assumptions, and amounts necessary to make up funding deficiencies for which a waiver was obtained. Supplemental costs are amortized (that is, recognized for funding purposes) over a specified number of years (generally 15 years) by annual charges to the funding standard account over that period.⁸⁸

Factors that result in a supplemental loss can alternatively result in a gain that is recognized by annual credits to the funding standard account over a 15-year amortization period (in addition to a credit for contributions made each the plan year). These include a reduction in plan liabilities as a result of a plan amendment decreasing plan benefits, net experience gains (for example, better than expected investment returns or actuarial experience), and gains from changes in actuarial assumptions.

Actuarial assumptions; value of plan assets

In applying the funding rules to a multiemployer plan, all costs, liabilities, interest rates, and other factors are required to be determined on the basis of actuarial assumptions and methods, each of which is reasonable (taking into account the experience of the plan and reasonable expectations). In addition, the assumptions are required to offer the actuary's best estimate of anticipated experience under the plan. The interest rate used in multiemployer plan funding computations, which represents the expected return on plan assets over time, and the mortality assumptions used are subject to these general standards.

For funding purposes, the actuarial value of plan assets may be used, rather than fair market value. The actuarial value of plan assets is the value determined under a reasonable actuarial valuation method that takes into account fair market value and is permitted under Treasury regulations. Any actuarial valuation method used generally must result in a value of plan assets that is not less than 80 percent of the fair market value of the assets and not more than 120 percent of the fair market value. In addition, if the valuation method uses average value of the plan assets, values may be used for a stated period generally not to exceed the five most recent plan years, including the current year.

⁸⁸ If certain requirements are met, the IRS may grant an extension of up to ten years of the amortization period used in determining certain charges to the funding standard account. In some circumstances, a five-year extension is automatic with an additional five-year extension available if granted by the IRS.

3. Additional requirements for multiemployer plans in endangered or critical status

In general

Additional funding requirements apply to multiemployer defined benefit plans in effect on July 16, 2006, that are in endangered or critical status.⁸⁹ In connection with these requirements, a multiemployer plan's actuary is required to certify to the IRS and to the plan sponsor each year whether the plan is in endangered status, critical status, or neither.⁹⁰ If a plan is certified to be in endangered or critical status, the plan sponsor must provide notification of the plan's status within 30 days after the date of certification to the participants and beneficiaries, the bargaining parties, the PBGC and the Secretary of Labor. In addition, as discussed further below, the plan sponsor must adopt a funding improvement plan in the case of a multiemployer plan in endangered status and a rehabilitation plan in the case of a multiemployer plan in critical status.⁹¹

Definitions of endangered and critical status

A multiemployer plan is generally in endangered status if the plan is not in critical status and, as of the beginning of the plan year, (1) the plan's funded percentage for the plan year is less than 80 percent, or (2) the plan has an accumulated funding deficiency for the plan year or is projected to have an accumulated funding deficiency in any of the six succeeding plan years (taking into account amortization extensions). A plan's funded percentage is the percentage determined by dividing the value of plan assets by the accrued liability of the plan. A plan that meets the requirements of both (1) and (2) is treated as in seriously endangered status.⁹²

A multiemployer plan is generally in critical status for a plan year if as of the beginning of the plan year:

- The funded percentage of the plan is less than 65 percent and the sum of (1) the market value of plan assets, plus (2) the present value of reasonably anticipated employer and employee contributions for the current plan year and each of the six succeeding plan years (assuming that the terms of the collective bargaining

⁸⁹ Sec. 432 and ERISA sec. 305. The rules for multiemployer plans in endangered or critical status as originally enacted by PPA were generally scheduled to expire for plan years beginning after December 31, 2014. The rules were amended and made permanent by MPRA.

⁹⁰ In the case of a plan that is in a funding improvement or rehabilitation period, as discussed below, the actuary must certify whether or not the plan is making scheduled progress in meeting the requirements of its funding improvement or rehabilitation plan.

⁹¹ Certain operational restrictions, such as limits on increasing benefits, apply while a plan is in endangered or critical status.

⁹² A plan is treated as not being in endangered status if the plan was not in critical or endangered status for the immediately preceding plan year and the plan actuary certifies that the plan is projected to no longer be described in (1) or (2) above as of the end of the tenth plan year ending after the plan year to which the certification relates.

agreements continue in effect) is less than the present value of all benefits projected to be payable under the plan during the current plan year and each of the six succeeding plan years (plus administrative expenses);

- (1) The plan has an accumulated funding deficiency for the current plan year, not taking into account any amortization extension, or (2) the plan is projected to have an accumulated funding deficiency for any of the three succeeding plan years (four succeeding plan years if the funded percentage of the plan is 65 percent or less), not taking into account any amortization extensions;
- (1) The plan's normal cost for the current plan year, plus interest for the current plan year on the amount of unfunded benefit liabilities under the plan as of the last day of the preceding year, exceeds the present value of the reasonably anticipated employer contributions for the current plan year, (2) the present value of nonforfeitable benefits of inactive participants is greater than the present value of nonforfeitable benefits of active participants, and (3) the plan has an accumulated funding deficiency for the current plan year, or is projected to have an accumulated funding deficiency for any of the four succeeding plan years, not taking into account amortization extensions; or
- The sum of (1) the market value of plan assets, plus (2) the present value of the reasonably anticipated employer contributions for the current plan year and each of the four succeeding plan years (assuming that the terms of the collective bargaining agreements continue in effect) is less than the present value of all benefits projected to be payable under the plan during the current plan year and each of the four succeeding plan years (plus administrative expenses).⁹³

Funding improvement plan

In the case of a multiemployer plan in endangered status, a funding improvement plan must be adopted within 240 days following the deadline for certifying a plan's status.⁹⁴ A funding improvement plan is a plan that consists of the actions, including options or a range of options, to be proposed to the bargaining parties, formulated to provide, based on reasonably anticipated experience and reasonable actuarial assumptions, for the attainment by the plan of certain requirements (referred to as the "applicable benchmarks"). The plan sponsor must update the funding improvement plan annually to reflect the circumstances of the multiemployer plan.

The funding improvement plan must provide that, by end of the funding improvement period, the plan will have a certain required increase in the funded percentage and the plan will not have an accumulated funding deficiency for the last plan year in the funding improvement period, taking into account amortization extensions. In the case of a plan that is not in seriously

⁹³ If a plan is not in critical status under one of these standards, but is projected to be in critical status in any of the succeeding five plan years, the plan sponsor may elect to treat the plan as in critical status.

⁹⁴ This requirement applies for the initial determination year (that is, the first plan year that the plan is in endangered status). If a plan sponsor fails to adopt a funding improvement plan by the end of the 240-day period after the required certification date, an ERISA penalty of up to \$1,100 a day applies.

endangered status, under the applicable benchmarks, the plan's funded percentage must increase such that the funded percentage as of the close of the funding improvement period equals or exceeds a percentage equal to the sum of (1) the funded percentage at the beginning of the first plan year for which the plan is in endangered status, plus (2) 33 percent of the difference between 100 percent and the percentage in (1). Thus, the difference between 100 percent and the plan's funded percentage at the beginning of the first plan year for which the plan is in endangered status must be reduced by at least one-third by the end of the funding improvement period.

The funding improvement period is generally the 10-year period beginning on the first day of the first plan year beginning after the earlier of (1) the second anniversary of the date of adoption of the funding improvement plan, or (2) the expiration of collective bargaining agreements that were in effect on the due date for the actuarial certification of endangered status for the initial determination year and covering, as of such date, at least 75 percent of the plan's active participants. The period ends if the plan is no longer in endangered status or if the plan enters critical status.

In the case of a plan in seriously endangered status that is funded at 70 percent or less, under the applicable benchmarks, the difference between 100 percent and the plan's funded percentage at the beginning of the first plan year for which the plan is in endangered status must be reduced by at least one-fifth by the end of the funding improvement period. In the case of such a plan, a 15-year funding improvement period is used.

In the case of a seriously endangered plan that is more than 70-percent funded as of the beginning of the initial determination year, the same benchmarks apply for plan years beginning on or before the date on which the last collective bargaining agreements in effect on the date for actuarial certification for the initial determination year and covering at least 75 percent of active employees in the multiemployer plan have expired if the plan actuary certifies within 30 days after certification of endangered status that the plan is not projected to attain the funding percentage increase otherwise required by the provision. Thus, for such plans, the difference between 100 percent and the plan's funded percentage at the beginning of the period must be reduced by at least one-fifth during the 15-year funding improvement period. For subsequent years for such plans, if the plan actuary certifies that the plan is not able to attain the increase generally required under the provision, the same benchmarks continue to apply.

If, for the first plan year following the close of the funding improvement period, the plan's actuary certifies that the plan is in endangered status, the year is treated as an initial determination year. Thus, a new funding improvement plan must be adopted within 240 days of the required certification date. In that case, the multiemployer plan may not be amended in a manner inconsistent with the funding improvement plan in effect for the preceding plan year until a new funding improvement plan is adopted.

In the case of a multiemployer plan in endangered status, but not seriously endangered status, a civil penalty of \$1,100 a day may apply if the plan fails to meet the applicable benchmarks by the end of the funding improvement period. If a multiemployer plan in seriously endangered status fails to meet the applicable benchmarks by the end of the funding improvement period, for excise tax purposes (unless the excise tax is waived), the plan is treated

as having a funding deficiency equal to (1) the amount of the contributions necessary to meet the applicable benchmarks (2) the plan's actual funding deficiency, if any.

Rehabilitation plan

If a plan is in critical status for a plan year, the plan sponsor must adopt a rehabilitation plan within 240 days following the required date for the actuarial certification of critical status.⁹⁵ A rehabilitation plan is a plan that consists of actions, including options or a range of options to be proposed to the bargaining parties, formulated, based on reasonable anticipated experience and reasonable actuarial assumptions, to enable the plan to cease to be in critical status by the end of the rehabilitation period and may include reductions in plan expenditures (including plan mergers and consolidations), reductions in future benefits accruals or increases in contributions, if agreed to by the bargaining parties, or any combination of such actions. A rehabilitation plan must provide annual standards (referred to as scheduled progress) for meeting the requirements of the rehabilitation plan. The plan must also include the schedules required to be provided to the bargaining parties, as discussed below. The plan sponsor must update the rehabilitation plan annually to reflect the circumstances of the multiemployer plan.

If the plan sponsor determines that, based on reasonable actuarial assumptions and upon exhaustion of all reasonable measures, the plan cannot reasonably be expected to emerge from critical status by the end of the rehabilitation period, the plan must include reasonable measures to emerge from critical status at a later time or to forestall possible insolvency. In such case, the plan must set forth alternatives considered, explain why the plan is not reasonable expected to emerge from critical status by the end of the rehabilitation period, and specify when, if ever, the plan is expected to emerge from critical status in accordance with the rehabilitation plan.

The rehabilitation period is generally the 10-year period beginning on the first day of the first plan year following the earlier of (1) the second anniversary of the date of adoption of the rehabilitation plan or (2) the expiration of collective bargaining agreements that were in effect on the due date for the actuarial certification of critical status for the initial critical year and covering at least 75 percent of the active participants in the plan. The rehabilitation period ends if the plan emerges from critical status.

If a multiemployer plan fails to make scheduled progress under the rehabilitation plan for three consecutive years or fails to meet the requirements applicable to plans in critical status by the end of the rehabilitation period, for excise tax purposes (unless the excise tax is waived), the plan is treated as having a funding deficiency equal to (1) the amount of the contributions necessary to leave critical status or make scheduled progress or (2) the plan's actual funding deficiency, if any.

⁹⁵ The requirement applies with respect to the initial critical year. If a plan sponsor fails to adopt a rehabilitation plan within 240 days after the date required for certification, an ERISA penalty of \$1,100 a day applies. In addition, upon the failure to timely adopt a rehabilitation plan, an excise tax is imposed on the plan sponsor equal to the greater of (1) the present law excise tax or (2) \$1,100 per day.

Excise tax on employers failing to make required contributions

If a funding improvement or rehabilitation plan requires an employer to make contributions to the multiemployer plan and the employer fails to make the contributions within the time required under the plan, an excise tax (unless waived) applies to the employer in the amount of required contributions the employer failed to make.

Information to be provided to bargaining parties

Within 30 days of the adoption of a funding improvement or rehabilitation plan, the plan sponsor must provide to the bargaining parties schedules showing revised benefit structures, revised contribution structures, or both, which, if adopted, may reasonably be expected to enable the multiemployer plan to meet the applicable requirements under the funding improvement or rehabilitation plan.⁹⁶ Certain schedules of contributions and benefits are required to be provided to the bargaining parties and, in each case, a particular schedule must be designated as the default schedule under the funding improvement or rehabilitation plan.⁹⁷ The plan sponsor may provide the bargaining parties with additional information as it deems appropriate.

If a collective bargaining agreement providing for plan contributions that was in effect at the time the plan entered endangered or critical status expires, and after receiving one or more schedules from the plan sponsor, the bargaining parties fail to adopt a contribution schedule consistent with the funding improvement or rehabilitation plan, the plan sponsor must implement the default schedule 180 days after the date on which the collective bargaining agreement expires. If a subsequent collective bargaining agreement expires and the bargaining parties fail to adopt a contribution schedule consistent with the updated funding improvement or rehabilitation plan, the plan sponsor must implement the schedule applicable under the expired collective bargaining agreement (whether adopted by the parties or implemented by the plan sponsor), as updated and in effect on the date the collective bargaining agreement expires, 180 days after the date on which the collective bargaining agreement expires.

Additional rules for multiemployer plans in critical status

In the case of a multiemployer plan in critical status, if a rehabilitation plan is adopted and complied with, employers are not liable for contributions otherwise required under the general funding rules. In addition, the excise tax for failure to meet the funding requirements, that is, in the case of an accumulated funding deficiency, does not apply.

Certain plan contributions (“surcharges”), in addition to the contributions required under a collective bargaining agreement, apply to employers otherwise obligated to make a contribution in the first plan year for which the plan is in critical status. For that year, the

⁹⁶ The plan sponsor must annually update any schedule of contribution rates under a funding improvement or rehabilitation plan to reflect the experience of the multiemployer plan.

⁹⁷ A default schedule under a rehabilitation plan that includes reductions in future benefit accruals must not reduce the rate of benefit accruals below a specified minimum level.

surcharge is five percent of the contribution otherwise required to be made under the applicable collective bargaining agreement. The surcharge is 10 percent of contributions otherwise required in the case of succeeding plan years in which the plan is in critical status. The surcharge applies 30 days after the employer is notified by the plan sponsor that the plan is in critical status and the surcharge is in effect. The surcharges are due and payable on the same schedule as the contributions on which the surcharges are based. Failure to make the surcharge payment is treated as a delinquent contribution under a collective bargaining agreement. The surcharge is not required with respect to employees covered by a collective bargaining agreement (or other agreement pursuant to which the employer contributes), beginning on the effective date of a collective bargaining agreement (or other agreement) that includes terms consistent with a schedule provided by the plan sponsor. Surcharges may not be the basis for any benefit accrual under the plan, and surcharges are generally disregarded in determining an employer's withdrawal liability.

4. Withdrawal liability

An employer that withdraws from a multiemployer plan in a complete or partial withdrawal is generally liable to the plan in the amount determined to be the employer's withdrawal liability.⁹⁸ In general, a "complete withdrawal" means the employer has permanently ceased operations under the plan or has permanently ceased to have an obligation to contribute. A "partial withdrawal" generally occurs if, on the last day of a plan year, there is a 70-percent contribution decline for such plan year or there is a partial cessation of the employer's contribution obligation.

When an employer withdraws from a multiemployer plan, the plan sponsor is required to determine the amount of the employer's withdrawal liability, notify the employer of the amount of the withdrawal liability, and collect the amount of the withdrawal liability from the employer. In order to determine an employer's withdrawal liability, a portion of the plan's unfunded vested benefits is first allocated to the employer, generally in proportion to the employer's share of plan contributions for a previous period.⁹⁹ The amount of unfunded vested benefits allocable to the employer is then subject to various reductions and adjustments. An employer's withdrawal liability is generally payable, with interest, in level annual installments. However, the amount of the annual installments is limited, based on the amount of the employer's previous contributions to the plan, and the period over which installments are paid is limited to 20 years. An employer's withdrawal is the amount determined after application of these limits. In addition, the plan sponsor and the employer may agree to settle an employer's withdrawal liability obligation for a different amount.

As discussed in Part I.C.1, if a multiemployer plan is in critical status, payments in excess of a single life annuity (plus any social security supplement, if applicable) may not be made and reductions in adjustable benefits are permitted. If a plan is in critical and declining status, benefit

⁹⁸ ERISA secs. 4201-4225.

⁹⁹ Under 29 C.F.R. sec. 4211.2, for this purpose, unfunded vested benefits is the amount by which the value of vested benefits under the plan exceeds the value of plan assets.

suspensions are permitted, including with respect to participants and beneficiaries in pay status. The elimination of any prohibited forms of distribution and reductions in adjustable benefits are disregarded in determining a plan's unfunded vested benefits for purposes of determining an employer's withdrawal liability. In addition, suspensions of benefits made under a multiemployer plan in critical and declining status are disregarded in determining the plan's unfunded vested benefits for purposes of determining an employer's withdrawal liability unless the withdrawal occurs more than 10 years after the effective date of the benefit suspension.

E. Multiemployer Plan Program of the PBGC

1. In general

The minimum funding requirements permit defined benefit plan benefits to be funded over a period of time. Thus, plan assets as of any time may not be sufficient to provide all benefits earned by employees under the plan. In order to protect plan participants and beneficiaries from losing retirement benefits in such circumstances, the PBGC, a corporation within DOL, was created under ERISA to provide an insurance program for benefits under most defined benefit plans maintained by private employers.¹⁰⁰

ERISA provides that the PBGC is administered by a director, who is appointed by the President of the United States by and with the advice and consent of the Senate. The director must act in accordance with policies established by the board of directors of the PBGC. The composition of the board of directors is specified under ERISA as the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Commerce. The Secretary of Labor is the chairman of the board of directors.

The PBGC is financed through the payment of premiums by covered defined benefit plans, assets from terminated single-employer defined benefit plans trusted by the PBGC, and investment income on PBGC assets. The PBGC insures pension benefits under separate programs, one for single-employer defined benefit plans and the other for multiemployer defined benefit plans.¹⁰¹ Assets held by the PBGC are divided among several funds, with specified purposes for each fund, and amounts in a particular fund are prohibited from being used for other purposes.¹⁰²

Under ERISA, the PBGC board of directors selects a Participant and Plan Sponsor Advocate, who generally acts as a liaison between the PBGC, defined benefit plan sponsors, and participants in defined benefit plans trusted by the PBGC.¹⁰³

¹⁰⁰ ERISA secs. 4001-4071. Governmental and church plans are generally not covered by the PBGC insurance programs.

¹⁰¹ For a description of the PBGC single-employer plan program, see Joint Committee on Taxation, *Present Law and Background Relating to Qualified Defined Benefit Plans* (JCX-99-14), September 15, 2014, Part I.E.2. Multiple-employer defined benefit plans are covered by the PBGC insurance program for single-employer plans. PBGC insurance coverage does not apply to nonqualified deferred compensation plans or to certain private qualified defined benefit plans maintained exclusively for substantial owners of the employer sponsoring the plan or maintained by a professional service employer that at no time has more than 25 active participants.

¹⁰² ERISA sec. 4005.

¹⁰³ ERISA sec. 4004.

2. Multiemployer Plan Program

Premiums

In the case of a multiemployer plan, flat-rate premiums apply at a rate of \$27 per participant for 2016 with indexing thereafter.

Guarantee

In the case of multiemployer plans, the PBGC insures plan insolvency, rather than plan termination. Accordingly, a multiemployer plan need not be terminated to qualify for PBGC financial assistance, but must be found to be insolvent. A plan is insolvent when its available resources are not sufficient to pay the plan benefits for the plan year in question, or when the sponsor of a plan in critical status reasonably determines, taking into account the plan's recent and anticipated financial experience, that the plan's available resources will not be sufficient to pay benefits that come due in the next plan year. If it appears that available resources will not support the payment of benefits at the guaranteed level, the PBGC will provide the additional resources needed as a loan, referred to as financial assistance. The PBGC may provide loans to the plan for multiple years. If the plan recovers from insolvency, it must begin repaying loans on reasonable terms in accordance with regulations.

The PBGC benefit guarantee level for multiemployer plans is the sum of 100 percent of the first \$11 of vested monthly benefits and 75 percent of the next \$33 of vested monthly benefits, multiplied by the participant's number of years of service. Thus, the guarantee level for a particular participant depends on the participant's years of service. For example, if a participant has 20 years of service under a multiemployer plan, the maximum monthly benefit for that participant that is covered by the guarantee is \$35.75 per month $[(100\% \times \$11) + (75\% \times \$33)] \times 20 = \$715$, or a yearly benefit of \$8,580 $(\$715 \times 12)$.

3. Multiemployer plan mergers and partitions

In general

In addition to providing financial assistance to an insolvent multiemployer plan, the PBGC has authority with respect to mergers and assets transfers between multiemployer plans and partitions of multiemployer plans.¹⁰⁴

¹⁰⁴ The PBGC rules relating to mergers and transfers and partitions were amended by sections 121 and 122 of MPRA.

Plan mergers and transfers¹⁰⁵

A plan sponsor generally may not cause a multiemployer plan to merge with one or more other multiemployer plans, or engage in a transfer of assets and liabilities to or from another multiemployer plan, unless the following requirements are met:

- the plan sponsor notifies the PBGC of the merger or transfer at least 120 days before the effective date of the merger or transfer,
- no participant's or beneficiary's accrued benefit will be lower immediately after the effective date of the merger or transfer than immediately before the effective date,
- the benefits of participants and beneficiaries are not reasonably expected to be subject to suspension as a result of plan insolvency, and
- an actuarial valuation of the assets and liabilities of each of the affected plans has been performed in accordance with PBGC regulations.

In connection with a possible merger of multiemployer plans, when requested by the plan sponsors of the relevant plans, the PBGC may take actions as it deems appropriate to promote and facilitate the merger of the plans. Before taking action, the PBGC must determine, after consultation with the Participant and Plan Sponsor Advocate that the merger is in the interests of the participants and beneficiaries of at least one of the plans and is not reasonably expected to be adverse to the overall interests of the participants and beneficiaries of any of the plans. Actions taken by the PBGC may include training, technical assistance, mediation, communication with stakeholders, and support with related requests to other government agencies.

In order to facilitate a merger that the PBGC determines is necessary to enable one or more of the plans involved to avoid or postpone insolvency, the PBGC may provide financial assistance to the merged plan if (1) one or more of the multiemployer plans participating in the merger is in critical and declining status, (2) the PBGC reasonably expects that the financial assistance will reduce the PBGC's expected long-term loss with respect to the plans involved and is necessary for the merged plan to become or remain solvent, (3) the PBGC certifies that its ability to meet existing financial assistance obligations to other plans will not be impaired by providing the financial assistance, and (4) the financial assistance is paid exclusively from the PBGC fund for basic benefits guaranteed for multiemployer plans.

Not later than 14 days after the provision of financial assistance, the PBGC must provide notice thereof to the Committees of the House of Representatives ("House Committees") on Education and the Workforce and on Ways and Means and the Committees of the Senate ("Senate Committees") on Finance and on Health, Education, Labor, and Pensions.

¹⁰⁵ ERISA sec. 4231; 29 C.F.R. secs. 4231.1-4231.10.

Partitions of eligible multiemployer plans¹⁰⁶

On application by the plan sponsor of an eligible multiemployer plan for a partition of the plan, the PBGC may order a partition of the plan. Not later than 30 days after submitting an application to the PBGC for partition of a plan, the plan sponsor must notify the participants and beneficiaries of the application, in the form and manner prescribed by PBGC regulations.

For purposes of the provision, a multiemployer plan is an eligible multiemployer plan if--

- the plan is in critical and declining status,
- the PBGC determines, after consultation with the Participant and Plan Sponsor Advocate, that the plan sponsor has taken (or is taking concurrently with an application for partition) all reasonable measures to avoid insolvency, including maximum benefit suspensions permitted in the case of a critical and declining plan, if applicable,
- the PBGC reasonably expects that a partition of the plan will reduce the PBGC's expected long-term loss with respect to the plan and is necessary for the plan to remain solvent,
- the PBGC certifies to Congress that the PBGC's ability to meet existing financial assistance obligations to other plans (including any liabilities associated with multiemployer plans that are insolvent or that are projected to become insolvent within 10 years) will not be impaired by the partition, and
- the cost to the PBGC arising from the proposed partition is paid exclusively from the PBGC fund for basic benefits guaranteed for multiemployer plans.

The PBGC must make a determination regarding a partition application not later than 270 days after the application is filed (or, if later, the date the application is completed) in accordance with PBGC regulations. Not later than 14 days after a partition order, the PBGC must provide notice thereof to the House Committees on Education and the Workforce and on Ways and Means and the Senate Committees on Finance and on Health, Education, Labor, and Pensions, as well as to any affected participants or beneficiaries.

The plan sponsor and the plan administrator of the eligible multiemployer plan (the "original" plan) before the partition are the plan sponsor and plan administrator of the plan created by the partition order (the "new" plan). For purposes of determining benefits eligible for guarantee by the PBGC, the new plan is a successor plan with respect to the original plan.

The PBGC's partition order is to provide for a transfer to the new plan the minimum amount of the original plan's liabilities necessary for the original plan to remain solvent. The provision does not provide for the transfer to the new plan of any assets of the original plan.

¹⁰⁶ ERISA sec. 4233; 29 C.F.R. secs. 4233.1-4233.17.

The liabilities transferred to the new plan are liabilities attributable to benefits of specific participants and beneficiaries (or a specific group or groups of participants and beneficiaries) as requested by the plan sponsor of the original plan and approved by the PBGC, up to the PBGC guarantee level applicable to each participant or beneficiary. Thus, benefits for such participants and beneficiaries up to the guarantee level will be paid by the new plan. For each month after the effective date of the partition that such a participant or beneficiary is in pay status, the original plan will pay a monthly benefit to the participant or beneficiary in the amount by which (1) the monthly benefit that would be paid to the participant or beneficiary under the terms of the original plan if the partition had not occurred (taking into account any benefit suspensions and any plan amendments after the effective date of the partition) exceeds (2) the amount of the participant's or beneficiary's benefit up to the PBGC guarantee level.

During the 10-year period following the effective date of the partition, the original plan must pay the PBGC premiums due for each year with respect to participants whose benefits were transferred to the new plan. The original plan must pay an additional amount to the PBGC if it provides a benefit improvement (as defined under the rules for plans in critical and declining status) that takes effect after the effective date of the partition. Specifically, for each year during the 10-year period following the effective date of the partition, the original plan must pay the PBGC an annual amount equal to the lesser of (1) the total value of the increase in benefit payments for the year that is attributable to the benefit improvement, or (2) the total benefit payments from the new plan for the year. This payment must be made to the PBGC at the time of, and in addition to, any other PBGC premium due from the original plan.

If an employer withdraws from the original plan within ten years after the date of the partition order, the employer's withdrawal liability will be determined by reference to both the original plan and the new plan. If the withdrawal occurs more than ten years after the date of the partition order, withdrawal liability will be determined only by reference to the original plan and not with respect to the new plan.

F. Pension and Retiree Health Benefits for Employees in the Coal Industry

1. UMWA 1974 Pension Plan

The UMWA 1974 Pension Plan (the Pension Plan) is a multiemployer defined benefit plan established by the National Bituminous Coal Wage Agreement of 1974 between the United Mine Workers of America (“UMWA”) and the Bituminous Coal Operators Association (“BCOA”), effective December 6, 1974.¹⁰⁷ The Pension Plan provides retirement, disability, and survivors’ benefits to employees in the coal industry and their beneficiaries in accordance with plan terms. The Pension Plan was certified to be in critical and declining status for the plan year beginning July 1, 2015.¹⁰⁸

2. UMWA retiree health benefits

In general

Three multiemployer plans provide retiree health benefits for employees in the coal industry (and their beneficiaries): the United Mine Workers of America Combined Benefit Fund (“Combined Fund”), the UMWA 1992 Benefit Plan (“1992 Benefit Plan”), and the UMWA 1993 Benefit Plan (“1993 Benefit Plan”). In addition, retiree health benefits are provided to some retirees through plans maintained by their particular employers (“individual employer plans”).

The Combined Fund and the 1992 Benefit Plan were established under the Coal Industry Retiree Health Act of 1992 (the “Coal Act”).¹⁰⁹ The Combined Fund provides health benefits with respect to retirees (and related beneficiaries) who, on July 20, 1992, were receiving health benefits under previous UMWA plans.¹¹⁰ The 1992 Benefit Plan provides benefits with respect to participants (and related beneficiaries) who were eligible for health benefits under previous UMWA plans based on age and service earned as of February 1, 1993, or to whom coverage was required to be provided by an individual employer plan but who does not receive coverage,¹¹¹ provided that the participant retired from the coal industry by September 30, 1994.

¹⁰⁷ Another plan, the UMWA 1950 Pension Plan, generally covering employees who retired before 1976, was merged into the Pension Plan on June 30, 2007. Section 9701(a)(3) refers to the Pension Plan as the “1974 UMWA Pension Plan” and describes participation in the Pension Plan as being substantially limited to individuals who retired in 1976 and thereafter.

¹⁰⁸ A copy of the notice of the Pension Plan’s critical and declining status is available at <http://www.dol.gov/ebsa/pdf/c-notice120215007.pdf>.

¹⁰⁹ Pub. L. No. 102-486, which enacted Chapter 99 of the Code (secs. 9701-9722). Section 9702 provides for the establishment of the Combined Fund, and section 9712 provides for the establishment of the 1992 Plan. Chapter 99 also contains provisions relating to benefits under the plans and funding of the plans.

¹¹⁰ The previous plans were the UMWA 1950 Benefit Plan and the UMWA 1974 Benefit Plan.

¹¹¹ Section 9711 requires coverage under individual employer plans to be provided to participants (and related beneficiaries) receiving benefits as of February 1, 1993, or with respect to whom the age and service requirements for eligibility were met as of that date and who retired by September 30, 1994.

The 1993 Benefit Plan was established under the National Bituminous Coal Wage Agreement of 1993. Generally, the 1993 Benefit Plan provides health benefits to certain retired and disabled participants mine workers who are not eligible for benefits under the Combined Fund or the 1992 Benefit Plan and would have been eligible for benefits under the previous UMWA plans, but for enactment of the Coal Act. The UMWA 1993 Benefit Plan also provides benefits to certain retirees under the Pension Plan whose last employer contributed to the 1993 Benefit Plan and whose retiree health benefits would end because, *inter alia*, the employer is no longer in engaged in mining operations, is financially unable to provide the benefits, and has no related entity that is financially able to provide the benefits.

Retiree health plan funding

The Combined Fund and the 1992 Benefit Plan are funded in part by premiums required under the Code to be paid by coal mining operators under the Code.¹¹² The 1993 Benefit Plan is funded in part by contributions by employers that are bargaining agreement signatories and by participant and beneficiary premiums. The three plans are funded also in part by transfers under the Surface Mining Control and Reclamation Act of 1977 (“SMCRA”).¹¹³

Under the SMCRA, coal mining operators are required to pay certain fees to the Secretary of the Interior, which are deposited in the Abandoned Mine Lands Reclamation Fund (commonly referred to as the “AML Fund”). In addition to uses relating to mining reclamation, the Secretary of the Treasury is authorized to transfer certain amounts from the AML Fund to the Combined Fund, the 1992 Benefit Plan, and the 1993 Benefit Plan (which is referred to in SMCRA as the “Multiemployer Health Benefit Plan”) if needed to provide the benefits due under the plans.

In the case of transfers from the AML Fund to the 1993 Benefit Plan, the benefits due under the plan are determined by taking into account only those retirees (and related beneficiaries) who were actually enrolled in the plan as of December 31, 2006, and who are eligible for benefits on the first day of the calendar year for which the transfer is made. Thus, benefits for retirees (and related beneficiaries) who become eligible for benefits under the 1993 Benefit Plan after December 31, 2006, are not taken into account in determining the amount that can be transferred to the 1993 Benefit Plan. For example, if retirees (and related beneficiaries) become eligible for the 1993 Benefit Plan because of the loss of retiree health benefits under an individual employer plan through the employer’s bankruptcy proceeding, benefits for those retirees and beneficiaries are not taken into account in determining the amount that can be transferred from the AML Fund to the 1993 Benefit Plan.

¹¹² Secs. 9704 and 9712(d). Failure to pay the required premiums under section 9704 may result in the imposition of a penalty under section 9707. In addition, under section 9721, a civil action may be brought by a plan fiduciary, employer, or plan participant or beneficiary with respect to an obligation to pay the required premiums, in the same manner as a claim arising from an employer’s obligation to pay withdrawal liability under ERISA section 4301.

¹¹³ Section 402 of Pub. L. No. 95-87; 30 U.S.C. sec. 1232.

II. DATA RELATING TO RETIREMENT PLANS

A. General Data on Retirement Plan Participation

According to the National Compensation Survey (NCS),¹¹⁴ in 2015, 66 percent of U.S. workers employed in the private sector had access to a qualified retirement plan and 49 percent of workers employed in the private sector participated in a qualified retirement plan. This translates to a take-up rate of 74 percent, meaning 74 percent of those with access participated. Take-up rates were stable at between 74 and 76 percent over the five year period, 2011 to 2015. These take-up rates indicate that while a large percentage of employees participate in an employer plan if available to them, some employees do not.

Table 1.—Retirement benefits: Access, Participation and Take-Up Rates in the Private Sector (percentage of all workers)

Year	Access	Employee Participation ¹	Take-Up Rate ²
2011	64	49	76
2012	65	48	75
2013	64	49	76
2014	65	48	75
2015	66	49	74

Source: Bureau of Labor Statistics, National Compensation Survey Data, 2011-2014.

Notes: All workers = 100 percent. Rates are rounded to the nearest percent. As a result, take-up rates may not be exactly equal to the employee participation rate divided by the access rate a presented in this table.

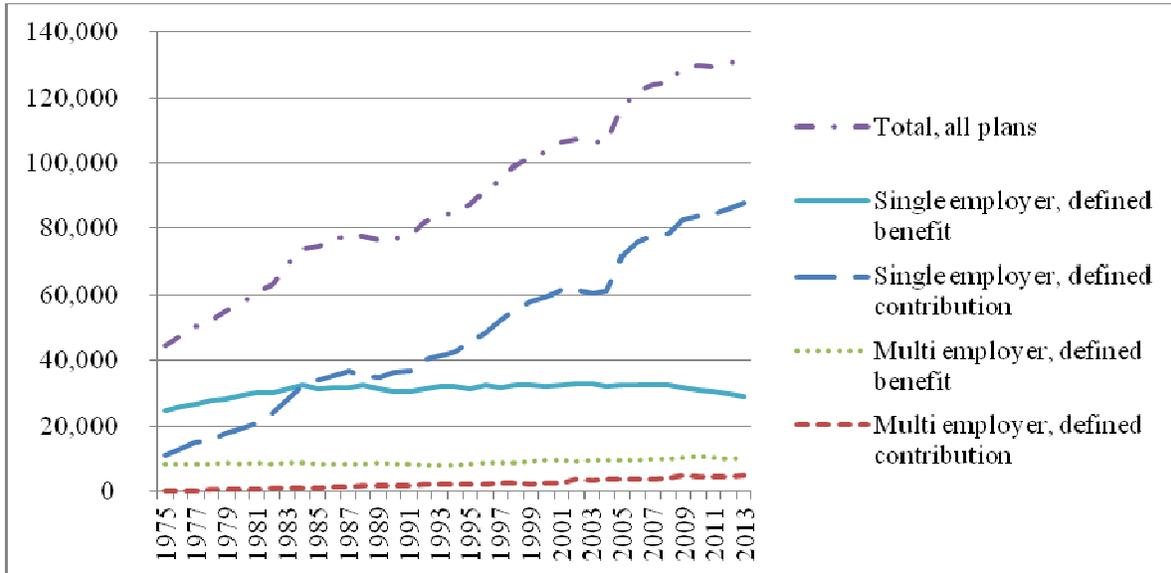
¹ The employee participation rate is the percentage of employees (out of all private sector employees) who chose to participate in the plan.

² The take-up rate is the percentage of employees (out of all private sector employees with access) who chose to participate in the plan.

Figure 1 below shows that the number of participants in private-sector single-employer defined contribution plans has consistently increased since at least 1975 and up to 2013, while the number of participants in private-sector single-employer defined benefit plans has held steady over this same period. Both defined contribution and defined benefit plan participation rates have remained steady for those in multiemployer plans. Almost all of the total rise in plan participation over this period can be attributed to the increase in private-sector single-employer defined contribution plan participation.

¹¹⁴ The National Compensation Survey (NCS) is an annual survey conducted by the U.S. Department of Labor, Bureau of Labor Statistics (BLS). Each release contains data on civilian, private industry, and State and local government workers in the United States. Excluded are federal government workers, the military, agricultural workers, private household workers, and the self-employed.

**Figure 1.—Number of Private-Sector Plan Participants by Type of Plan 1975-2013
(thousands)**

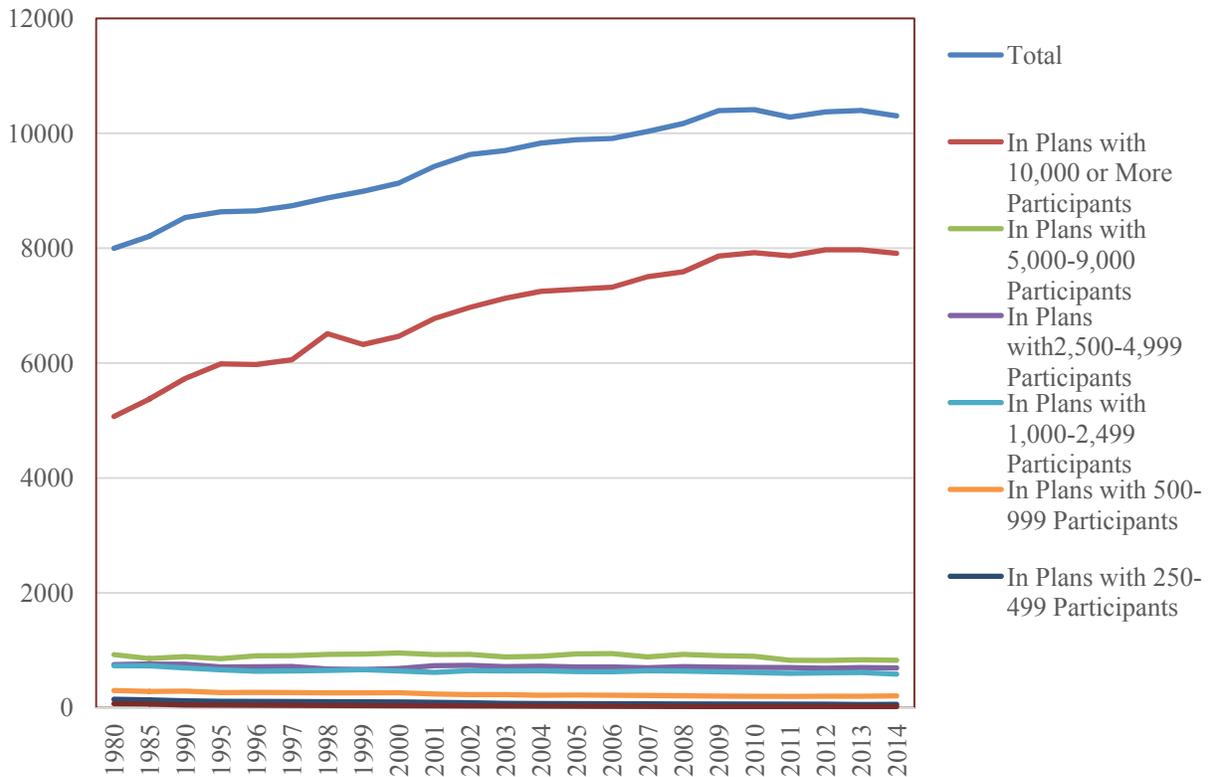


Source: Form 5500 filings with the U.S. Department of Labor.

Note: The term “Participants” refers to active, retired, and separated vested participants not yet in pay status. The number of participants also includes double counting of workers in more than one plan. For Form 5500 Short Form filers, this number may also include deceased participants whose beneficiaries are receiving or are entitled to receive benefits. Excludes plans covering only one participant.

Figure 2 shows that in 2014, there were an estimated 10.3 million participants in PBGC-insured multiemployer plans. Of these, 7.9 million were in large plans with 10,000 or more participants. The total numbers of PBGC-insured multiemployer plan participants has slowly increased over the period since 1980 with a slight tapering in 2010.

**Figure 2.—PBGC-Insured Plan Participants (thousands),
Multiemployer Program, 1980-2014**



Source: PBGC Insurance Data Book, 2013.

Table 2 shows the percentage of households in 2010 with an IRA balance, defined contribution account balance, or a defined benefit pension. These data show that a greater percentage of older households have defined benefit pensions relative to defined contribution accounts and a greater percentage of younger households have defined contribution accounts relative to defined benefit pensions. This is consistent with an overall decline in defined benefit plan coverage over the past few decades, and a concurrent increase in defined contribution plan coverage.¹¹⁵

¹¹⁵ See for example, Barbara A. Butrica, Karen Elizabeth Smith, and Eric Toder *et al.*, *The Disappearing Defined Benefit Pension and its Potential Impact on the Retirement Incomes of Boomers*, Center for Retirement Research, January 2, 2009.

Table 2.—Percentage of Households in 2010 with an IRA Balance, DC Account Balance, or a Defined Benefit Pension, By Age Category

Single Household				Married Household			
Age	IRA	DC	DB	Age	IRA	DC	DB
<35	10.3	24.0	7.8	<35	17.1	39.6	16.6
35 – 44	13.9	30.4	14.2	35 – 44	25.8	49.5	22.6
45 – 54	19.9	29.5	21.4	45 – 54	33.5	52.7	32.8
55 – 64	30.3	21.1	32.0	55 – 64	48.8	43.3	46.0
65 – 74	25.6	3.0	42.0	65 – 74	50.1	16.4	49.9
75+	22.0	0.8	52.9	75+	43.5	3.5	62.4

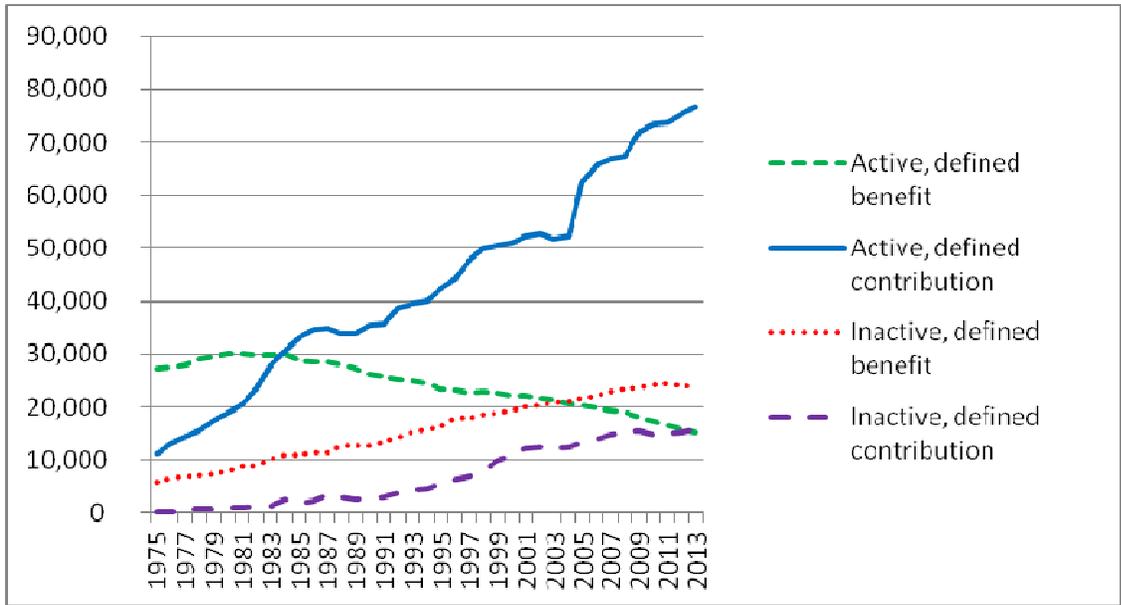
Source: Congressional Research Survey, *U.S. Household Savings for Retirement in 2010*. Analysis of the 2010 Survey of Consumer Finances.

Note: Percentages represent percentages of households that had the type of plan at the time of the survey. Households may have had more than one type of plan.

Figure 3 below shows trends from 1975 to 2013 in the number of participants by active and inactive status. Active participants are current employees who participate in an employer’s retirement plan. Inactive participants are former employees who still have an accrued benefit or account balance under an employer’s retirement plan, including retirees receiving benefits. The numbers of inactive participants in defined benefit and defined contribution plans both increased over this period, though there are larger numbers of inactive participants in defined benefit plans than defined contribution plans throughout. Between 1975 and 2013, the number of active participants in defined benefit plans decreased and the number of active participants in defined contribution plans increased. The percent of active participants in defined benefit plans relative to active participants in defined contribution plans declined relatively sharply over this period.

The data in Figure 3 also show that a decreasing proportion of defined benefit participants are active participants (and an increasing proportion of defined benefit participants are inactive). Consistent with overall patterns, an increasing proportion of defined contribution participants are active participants (and a decreasing proportion of defined contribution participants are inactive).

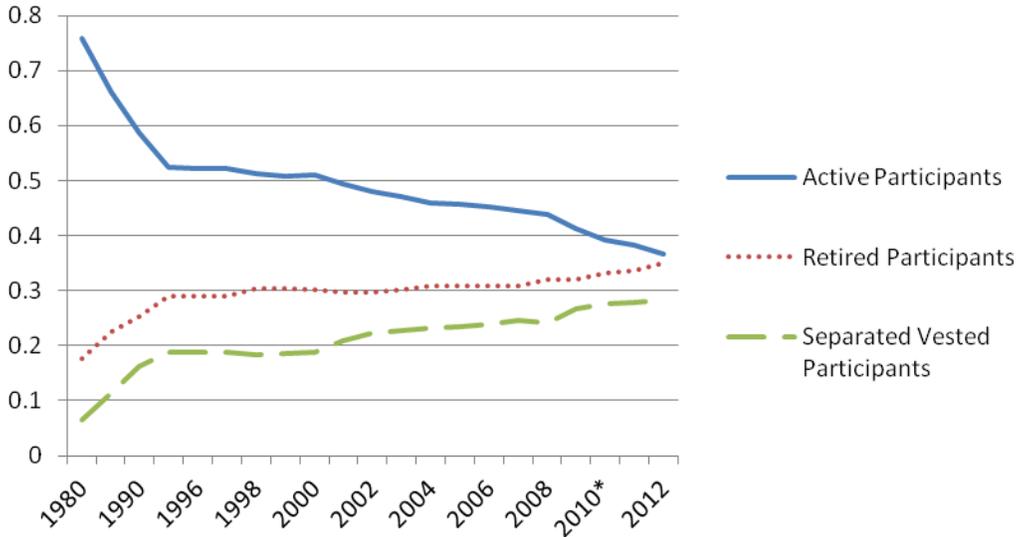
Figure 3.—Number of Private-Sector Participants by Active or Inactive Status and Type of Plan 1975-2013 (thousands)



Source: Form 5500 filings with the U.S. Department of Labor.

Figure 4 shows a changing pattern in the composition of participants in the PBGC’s multiemployer program. Since 1980, there has been a sharp decline in the percentage of total insured plan participants who are active, relative to those who are retired or separated and vested. Approximately 36.6 percent of all insured participants are active participants; 35.1 percent are retired; and 28.3 percent are separated and vested.

Figure 4.—Share of PBGC-Insured Plan Participants by Participant Status, Multiemployer Program, 1980-2012

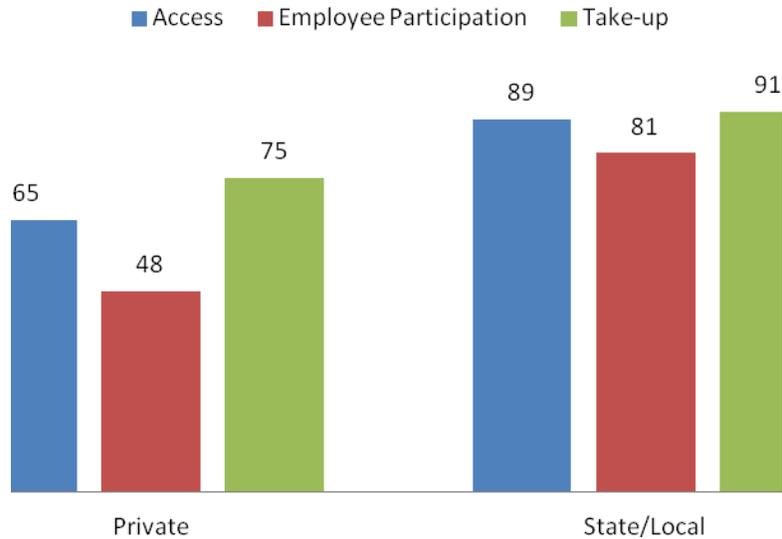


Source: PBGC Insurance Data Book, 2013.

* 2010 figures are estimates from PBGC internal calculations.

Rates of access and participation in qualified retirement plans vary by a number of worker and industry characteristics. Figure 5 shows that access rates are lower in the private sector than they are in the State and local government sector. In addition, rates of employee participation are lower in the private sector than in the government sector. As a result, the take-up rate in the private sector is 75 percent compared to a 91 percent take-up rate in the State and local government sector.

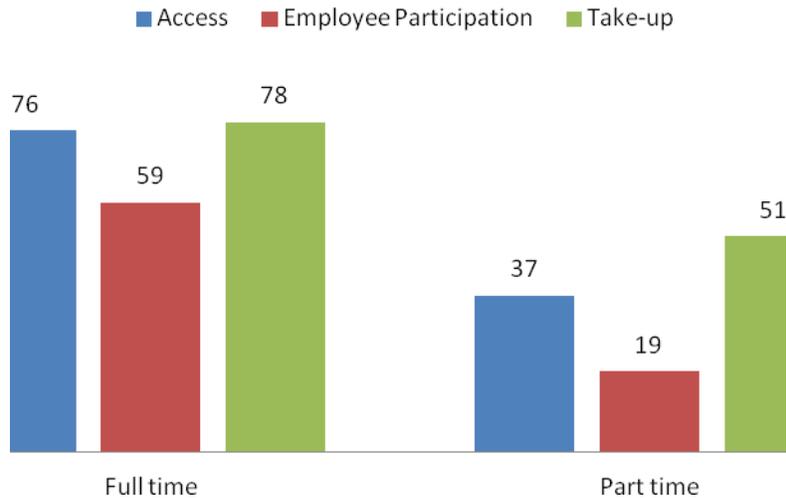
**Figure 5.—Access, Participation, and Take-up Rates by Sector in 2015
(percentage)**



Source: Bureau of Labor Statistics, National Compensation Survey Data, 2015.
Note: All workers=100 percent.

The data in Figure 6 show that access, employee participation, and take-up rates are significantly higher for full time workers than for part time ones. Overall take-up rates are only 51 percent for part time workers, compared to a 78 percent take-up rate for full time workers.

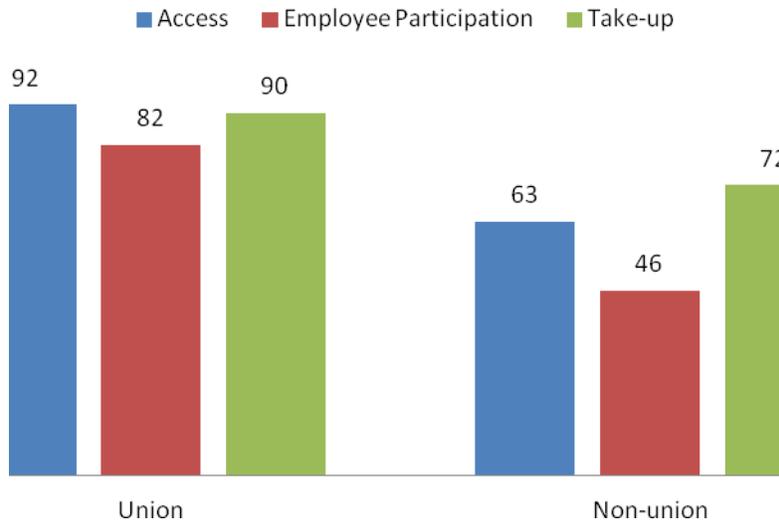
**Figure 6.— Access, Participation, and Take-up Rates in the
Private Sector by Full-time Status in 2015
(percentage)**



Source: Bureau of Labor Statistics, National Compensation Survey Data, 2015.
Note: All workers=100 percent.

There is also a disparity in take-up rates between union and non-union workers. As shown in Figure 7, access, participation, and take-up rates are significantly higher for union workers than they are for non-union workers.

Figure 7.– Access, Participation, and Take-up Rates in the Private Sector by Union Status in 2015 (percentage)

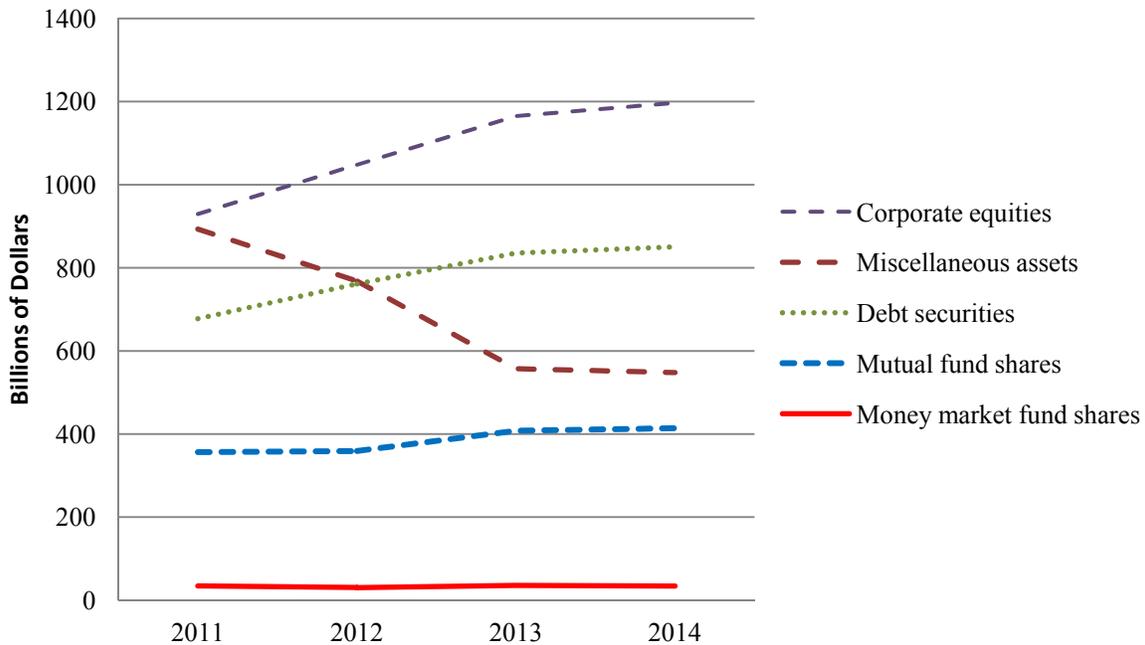


Source: Bureau of Labor Statistics, National Compensation Survey Data, 2015.
Note: All workers=100 percent.

B. Data on Retirement Plan Assets

Data from the Board of Governors of the Federal Reserve, Flow of Funds Accounts show some of the types of assets held in qualified retirement plans. Figure 8 below shows a large share of assets in private defined benefit plans is held in corporate equities, with smaller holdings of debt securities (including open market paper, treasury securities, agency- and GSE-backed securities, and corporate and foreign bonds) and mutual fund shares. In 2014, the total value of assets held in private defined benefit plans was \$3,099.3 billion. Of these total assets, 38.6 percent were in corporate equities. The data show that the value of holdings of corporate equities has increased at a moderate to rapid rate since 2011.

Figure 8.—Composition of Selected Assets Held in Private Defined Benefit Plans (billions of dollars)

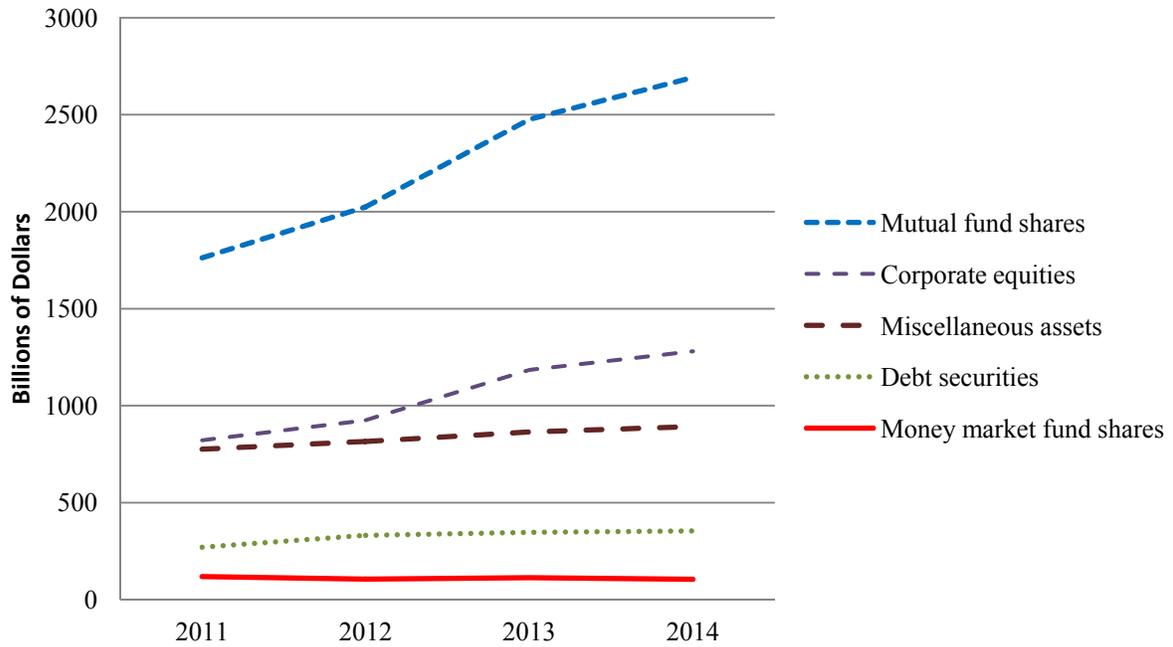


Source: Board of Governors, Federal Reserve, Flow of Funds Accounts, 2015.

Note: Miscellaneous assets include unallocated insurance contracts; contributions receivable; claims of pension fund on sponsor; and others. Debt securities include open market paper, treasury securities, agency and GSE-backed securities, and corporate and foreign bonds.

In contrast to private defined benefit plans, Figure 9 below shows the largest share of assets in private defined contribution plans is held in mutual fund shares. In 2014, the total value of assets held in defined contribution plans was \$5,343.0 billion. In 2014, 50.3 percent of this total value was held in mutual funds. Corporate equities also represent a significant share of holdings. In 2014, corporate equities constituted 24 percent of total holdings. There are smaller holdings of other miscellaneous assets and debt securities in private defined contribution plans, as well as nominal holdings of money market fund shares.

**Figure 9.—Composition of Selected Assets Held in Private Defined Contribution Plans
(billions of dollars)**

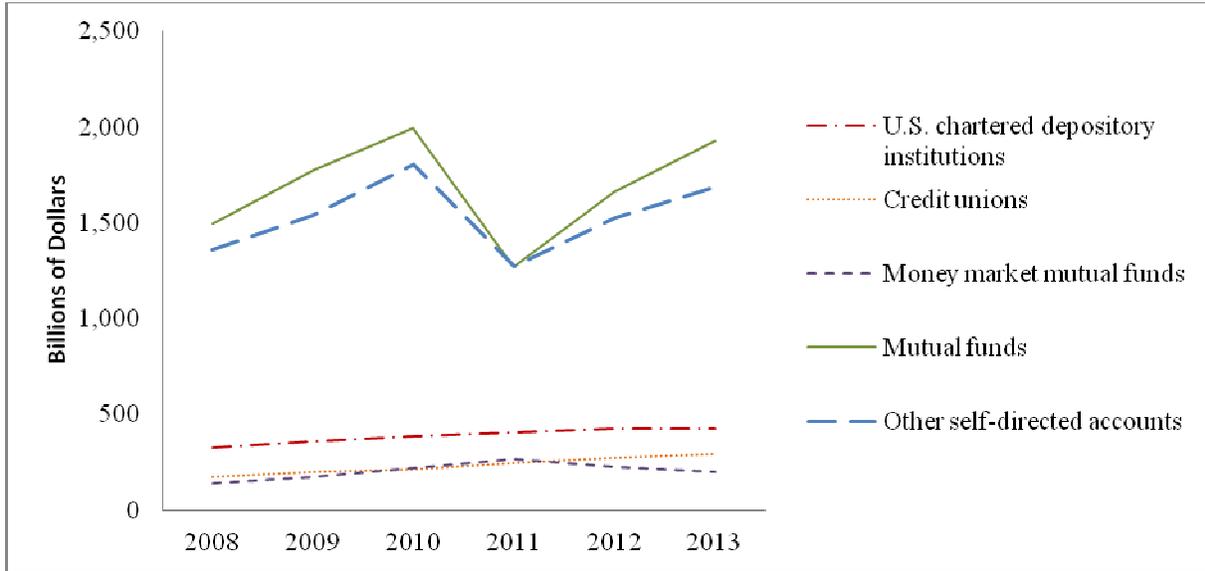


Source: Board of Governors, Federal Reserve, Flow of Funds, 2015.

Note: Miscellaneous assets include unallocated insurance contracts; contributions receivable; claims of pension fund on sponsor; and others. Debt securities include open market paper, treasury securities, agency and GSE-backed securities, and corporate and foreign bonds.

According to the data in Figure 10 below, the largest share of assets held in IRAs are in mutual funds and other self-directed accounts. The market value of IRA assets held in money market mutual funds and commercial banking are also significant though much smaller than the market value of IRA assets held in mutual funds and other self-directed accounts.

**Figure 10.—Assets Held in IRAs by Financial Institution
(billions of dollars)**

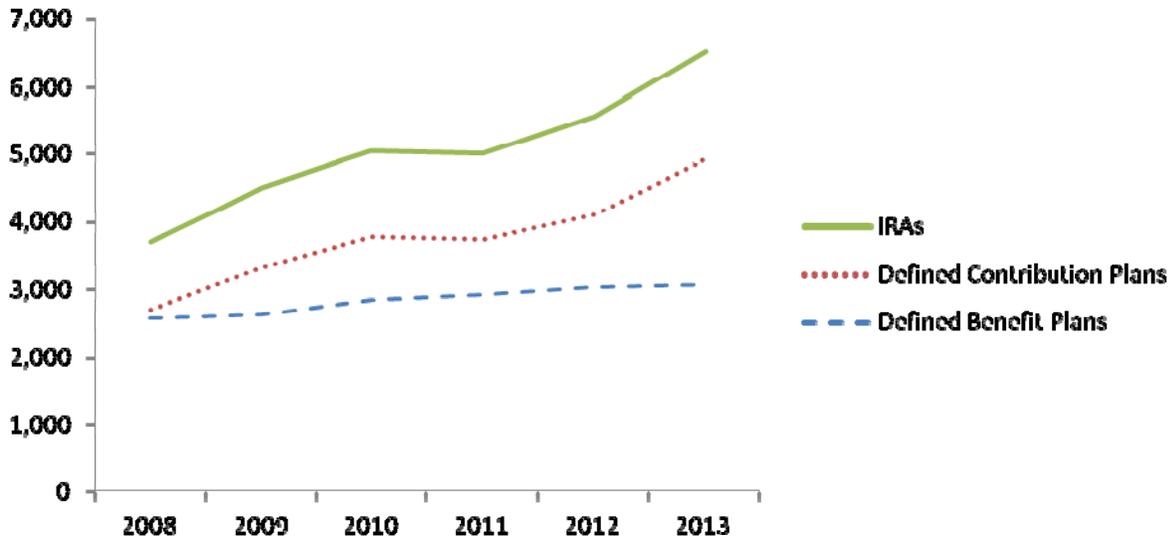


Source: Board of Governors, Federal Reserve, Flow of Funds, 2014.

Figure 11 below shows the market value of assets held in private defined contribution plans is consistently higher than those held in private defined benefit plans since at least 2008. Market value in IRAs and defined contribution plans exhibited modest to rapid growth since 2008. Assets held in defined benefit plans also grew, though this growth was more modest than in the defined contribution plans. As of December 31, 2013,¹¹⁶ total assets held in private defined benefit plans was \$3,068.5 billion; in private defined contribution plans was \$4,905.1 billion; and in IRAs was \$6,521.0 billion.

¹¹⁶ This is the most recent year for which data on financial assets held in IRAs is available.

**Figure 11.—Market Value of Holdings in Private Qualified Retirement Plans, By Type of Plan, and IRAs
(billions of dollars)**



Source: Board of Governors, Federal Reserve, Flow of Funds, 2014.

C. Data on Funded Status of Multiemployer Plans and Status of PBGC Programs

Below is information about the funded status of multiemployer defined benefit plans insured by the PBGC. Information about PBGC-insured multiemployer plans and their funded status is taken from PBGC Pension Insurance Data Tables 2013.¹¹⁷

Table 3 presents data on the total number of single employer plans that are covered by the PBGC and the total number of insured participants in these plans. All multiemployer plans are insured by the PBGC.

Table 3.—Number of PBGC-Insured Multiemployer Plans and Participants as of 2014

Number of Plans	Number of Participants
1,425	10,303,000

Source: PBGC premium filings.

Note: Figures are estimates from PBGC internal calculations.

Tables 4, 5, and 6 contain information on the estimated levels of aggregate underfunding and overfunding in multiemployer plans as well as total assets and liabilities for all multiemployer plans; all multiemployer plans that are underfunded; and all multiemployer plans that are overfunded, respectively.

Table 4 shows a sharp increase in aggregate liabilities between 2011 and 2012, along with a drop in the aggregate funding ratio, an increase in aggregate underfunding of underfunded plans, and a decrease in aggregate overfunding in overfunded plans.

¹¹⁷ Available at <http://www.pbgc.gov/Documents/pension-insurance-data-tables-2013.pdf>. Notes in the relevant PBGC source tables describe the interest and mortality assumptions used in determining vested liabilities.

Table 4.—Estimated Aggregate Funding of Multiemployer Plans, 2009-2012

Year	Assets (millions)	Liabilities (millions)	Aggregate Funding Ratio	Aggregate Underfunding in Underfunded Plans (millions)	Aggregate Overfunding in Overfunded Plans (millions)
2009	326,940	672,513	49%	345,788	215
2010	366,333	756,999	48%	391,027	360
2011	398,263	798,963	50%	401,080	380
2012	392,245	964,299	41%	572,228	174

Source: Form 5500 filings.

Table 5.—Estimated Aggregate Funding for 2012 of Underfunded Multiemployer Plans

Assets (millions)	Liabilities (millions)	Aggregate Funding Ratio	Aggregate Underfunding in Underfunded Plans (millions)
\$391,729	\$963,957	41%	\$572,228

Source: Form 5500 filings.

Table 6.—Estimated Aggregate Funding for 2012 of Overfunded Multiemployer Plans

Assets (millions)	Liabilities (millions)	Aggregate Funding Ratio	Aggregate Underfunding in Underfunded Plans (millions)
516	342	151%	174

Source: Form 5500 filings

Note: Table M-13 of PBGC Pension Insurance Data Tables 2013 shows 8 multiemployer plans were overfunded for 2012 (0.59 percent of all plans for 2012), covering 0.06 percent of all participants and having 0.04 percent of total plan liabilities.

Table 7 displays data on the distribution of underfunded amounts across employers. The table shows that in 2012, the ten plans with the highest levels of underfunding together account for 26.8 percent of aggregate levels of underfunding. The next 40 plans with highest underfunding account for another 26.8 percent of aggregate levels of underfunding. In 2012, 1,396 multiemployer plans were underfunded. Of these, the 50 plans with the highest levels of underfunding accounted for 53.6 percent of total underfunding for all multiemployer plans.

Table 7.—Estimated Concentration of Underfunding in Multiemployer Plans, 2012

Plans	Underfunding Amount	Percentage of Total Underfunding
All plans	572,228	100%
10 plans with highest underfunding	153,240	26.80%
Next 40 plans with highest underfunding	153,269	26.80%
All other plans	265,719	46.40%

Source: Form 5500 filings.

Table 8 presents data on the financial condition of the PBGC's multiemployer program. As of September 30, 2014, total liabilities exceeded total assets by approximately \$8.3 billion.

Table 8.—PBGC Financial Condition as of September 30, 2015, Multiemployer Plan Program¹

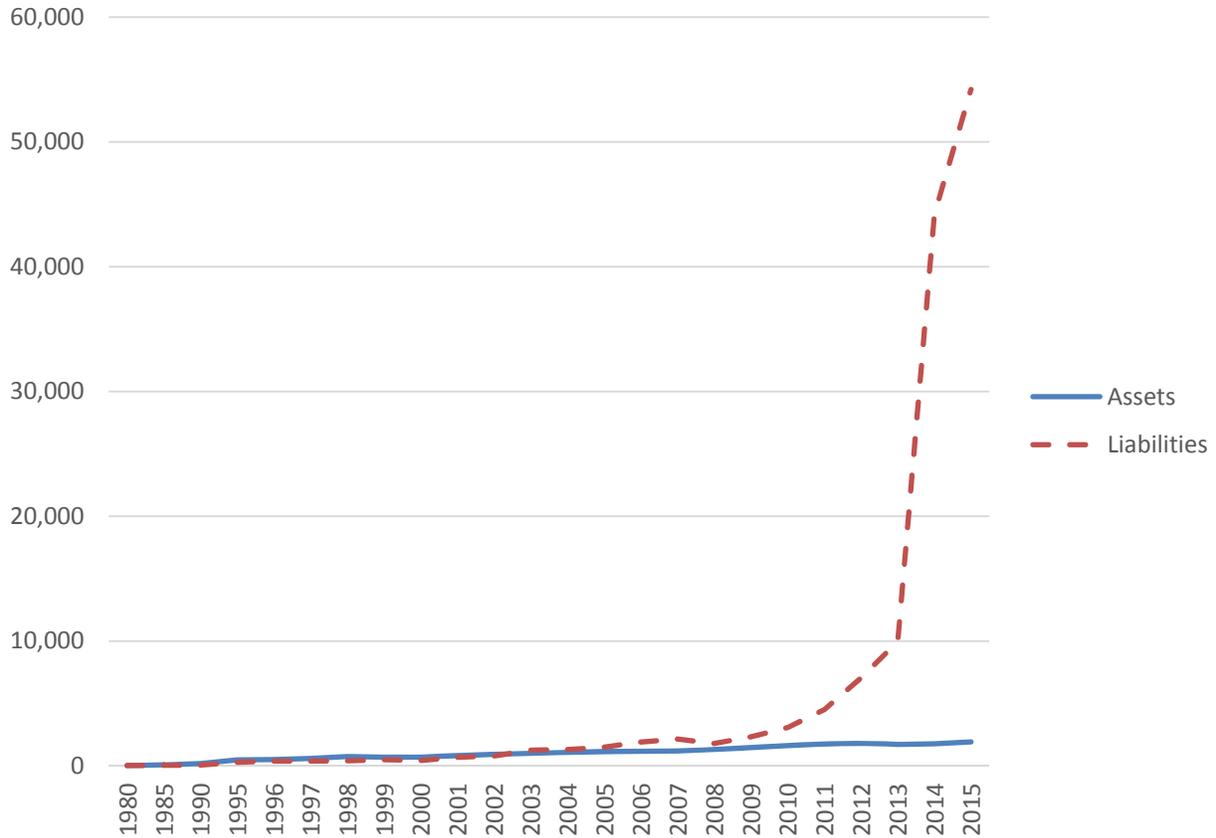
Item	Amount (millions)
Total Assets	\$1,924
Total Liabilities	\$54,208 ²
Net position	(\$52,284)

¹ PBGC Annual Report, 2015.

² Total liabilities under the multiemployer program include the present value of nonrecoverable future financial assistance to be provided to multiemployer plans by PBGC.

Figure 12 shows the \$52.3 trillion net liability as of 2015 is the result of a sharp increase in aggregate liabilities since 2010. Prior to 2010, assets and liabilities were more closely aligned.

Figure 12.—Net Financial Position of PBGC’s Multiemployer Program, 1980-2015 (millions of dollars)



Source: PBGC Insurance Data Book, 2013; PBGC Annual Report, 2015.

III. SELECTED PROPOSALS RELATING TO MULTIEMPLOYER PLANS

A. Bills Relating to Multiemployer Plans

1. S. 1631, “Keep Our Pension Promises Act” (Sen. Sanders)¹¹⁸

Benefit suspensions under MPRA

The bill repeals the MPRA provisions relating to benefit suspensions under plans in critical and declining status and provides that the Code and ERISA are to be applied as if those provisions had never been enacted.

Multiemployer plan partitions

The bill amends the rules under ERISA relating to partitions of eligible multiemployer plans, effective for plan years beginning after the date of enactment of the bill. Under the bill, a plan sponsor must notify participants and beneficiaries of a partition application at least 14 days before submission to the PBGC (rather than within 30 days after).

A plan is an eligible multiemployer plan if—

- the plan is in critical status and is projected to become insolvent during the current plan year or any of the 14 succeeding plan years (19 succeeding plan years if the plan has a ratio of inactive participants to active participants of more than two to one and the plan’s funded percentage is less than 80 percent);
- after consultation with the Participant and Plan Sponsor Advocate, the PBGC determines that the plan sponsor has taken (or is taking concurrently with the application) all reasonable measures (as defined under the rules for plans in critical status) to improve plan funding, such as reductions in future benefit accruals and contributions increases) and has made (or is making) benefit adjustments as permitted for plans in critical status to reduce the risk of insolvency;
- 20 percent or more of the amount by which plan liabilities exceed the value of plan assets is attributable to the service of participants whose employers withdrew from the plan before the date of enactment of the bill and failed to pay (or are delinquent with respect to paying) the full amount of their withdrawal liability;
- the PBGC reasonably expects that a partition of the plan will reduce the PBGC’s expected long-term loss with respect to the plan and a partition of the plan is necessary for the plan to remain or become solvent; and

¹¹⁸ Introduced June 18, 2015; co-sponsored by Sens. Baldwin, Brown, Franken, Peters, Reed, Stabenow and Whitehouse. Besides the provisions relating to multiemployer plans, the bill contains provisions relating to like-kind exchange treatment under section 1031 and valuations of certain property for estate tax purposes under section 2031.

- the PBGC certifies to Congress that, after partition, the PBGC will continue to have the ability to meet existing financial assistance obligations to other plans (including any liabilities associated with multiemployer plans that are insolvent or that are projected to become insolvent within 10 years).

Only one partition order is to be issued with respect to each eligible multiemployer plan.¹¹⁹

Under the bill, an “eligible” participant or beneficiary is a participant who is an employee of an employer that withdrew from the plan before the date of enactment and failed to pay (or is delinquent in paying) its full withdrawal liability or a beneficiary of an employee of such an employer. A partition will consist of a transfer to the plan created by the partition order (the “new” plan) of benefits to which eligible participants and beneficiaries were entitled under the plan that was partitioned (the “original” plan) up to the amount that would be guaranteed by the PBGC if the plan were insolvent as of the date of the partition order. The new plan is a successor plan to the original plan for purposes of determining benefits eligible for guarantee by the PBGC. At the discretion of the plan sponsor, the new plan may remain a part of the original plan or be maintained as a separate plan.

The partition order must provide for the annual transfer by the PBGC to the new plan of the amount of the yearly benefits that would be guaranteed if the plan were insolvent as of the date of the partition order and must require that the initial transfer by the PBGC be sufficient to satisfy the guaranteed benefits in the first plan year of the plan. Where practicable, the initial transfer by the PBGC is to be completed at least 60 days before the plan year immediately following the partition start date and subsequent transfers are to be completed at least 60 days before the first day of each succeeding plan year.

The plan sponsor and administrator of the original plan are to be the plan sponsor and administrator of the new plan and must adopt reasonable procedures to reduce administrative expenses and to coordinate benefit payments and communications with the participants and beneficiaries in the new plan. In the case of an eligible participant or beneficiary, benefit payments in the amount of the participant’s or beneficiary’s guaranteed benefits are to be paid to the participant or beneficiary and may be paid separately by the new plan or paid in a single, monthly payment by the original plan.

In addition to benefits up to the guarantee amount, each eligible participant or beneficiary will receive an additional monthly benefit, which may be combined with a benefit paid by the original plan. The additional benefit is in an amount that the PBGC, in consultation with the Participant and Plan Sponsor Advocate, determines to be fair to the plan, the participant or beneficiary, the employers, and the PBGC and is at least equal to the lesser of the participant’s or

¹¹⁹ As under present law, (1) the PBGC must make a determination regarding a partition application not later than 270 days after the application is filed (or, if later, the date the application is completed) in accordance with PBGC regulations, and (2) not later than 14 days after a partition order, the PBGC must provide notice thereof to the House Committees on Education and the Workforce and on Ways and Means and the Senate Committees on Finance and on Health, Education, Labor, and Pensions, as well as to any affected participants or beneficiaries.

beneficiary's vested benefit under the original plan or 80 percent of the maximum PBGC-guaranteed benefit commencing at age 65 under the single-employer program.¹²⁰

If an employer withdraws from the original plan, withdrawal liability will be computed with respect to both the original plan and the new plan.

The bill directs the PBGC to establish a legacy fund for the purposes of funding the PBGC's administrative and benefit costs arising from partitions.¹²¹ Any of the PBGC's administrative and benefit costs arising from a partition ordered in excess of amounts available in the legacy fund are to be paid from the fund for basic benefits guaranteed for multiemployer plans.

Withdrawal liability in bankruptcy

The bill amends the Federal bankruptcy law to give first priority among expenses and claims to an employer's withdrawal liability.¹²²

2. S. 2147, the "Pension Accountability Act" (Sen. Portman)¹²³

With respect to benefit suspensions for a plan in critical and declining status, the bill amends the standard for ratification of benefit suspensions by plan participants and beneficiaries. Under the bill, a benefit suspension will not go into effect if a majority of participants and beneficiaries who actually vote reject the suspension. The bill also repeals the rules that override a rejection in the case of a systemically important plan. The bill would apply to any vote on the suspension of benefits that occurs after the date of enactment of the bill.

3. S. 1714, the "Miners Protection Act of 2015" (Sen. Manchin)¹²⁴

Transfers to the UMWA 1993 Benefit Plan

The bill revises the group whose retiree health benefits are taken into account in determining the amount of transfers by the Secretary of the Treasury under SMCRA to the 1993

¹²⁰ The 2016 maximum monthly PBGC guarantee for a 65-year-old retiree under a single-employer plan is \$5,011.36 or about \$60,136 a year.

¹²¹ The bill directs the Secretary of the Treasury from time to time to transfer to the legacy fund from the Treasury general fund amounts equal to the increase in Treasury revenues by reason of the bill provisions relating to like-kind exchanges and property valuations for estate tax purposes. The bill also allows the PBGC to transfer amounts from other PBGC funds to the legacy fund as it determines appropriate, notwithstanding the present-law prohibition on using amounts in any PBGC fund for purposes other than the purposes of the particular fund.

¹²² 11 U.S.C. sec. 507(a).

¹²³ Introduced October 7, 2015; co-sponsored by Sens. Burr and Fischer.

¹²⁴ Introduced July 7, 2015; co-sponsored by Sens. Brown, Burr, Capito, Casey, Cotton, Durbin, Kaine, Kirk, Portman, Risch, Roberts, Rounds, Tester and Warner.

Benefit Plan. As revised, the group includes (1) those retirees (and related beneficiaries) actually enrolled in the Plan as of the date of enactment of the bill, and who are eligible for benefits on the first day of the calendar year for which the transfer is made, and (2) retirees (and related beneficiaries) whose health benefits would be denied or reduced as a result of a bankruptcy proceeding commenced in 2012. The bill further provides that individuals described in (2) are to be treated as eligible to receive health benefits under the 1993 Benefit Plan.

The bill contains additional rules with respect to a voluntary employees' beneficiary association (VEBA)¹²⁵ established as a result of a bankruptcy proceeding described in (2). The administrator of the VEBA is directed to transfer to the 1993 Benefit Plan any amounts received as a result of the bankruptcy proceeding, reduced by the amount of the VEBA's administrative costs. Further, the amount that would otherwise be transferred by the Secretary to the 1993 Benefit Plan under SMCRA, as amended by the bill, is reduced by any amount transferred to the 1993 Benefit Plan by the VEBA.

Transfers to the UMWA 1974 Pension Plan

If amounts available for transfer from the AML Fund exceed the amounts required to be transferred for other purposes (including to the UMWA retiree health plans), the bill directs the Secretary of the Treasury to transfer the excess to the Pension Plan to pay plan benefits.¹²⁶ Transfers are to end as of the first fiscal year beginning after the first plan year for which the Pension Plan's funded percentage (as defined under the Code funding rules) is at least 100 percent.

During any fiscal year in which the Pension Plan receives a transfer, no plan amendment may be adopted that increases plan liabilities by reason of a benefit increase, a change in the accrual of benefits, or a change in the rate at which benefits vest under the plan unless the amendment is required as a condition for qualified retirement plan status under the Code. In addition, a transfer is not to be made for a fiscal year unless the persons obligated to contribute to the Pension Plan on the date of the transfer are obligated to make contributions at rates that are not less than those in effect on the date 30 days before the date of enactment of the bill. Any amounts transferred to the Pension Plan are disregarded in determining the unfunded vested benefits of the Pension Plan and the allocation of unfunded vested benefits to an employer for withdrawal liability purposes.

¹²⁵ A VEBA is an organization exempt from tax under section 501(c)(9).

¹²⁶ The bill describes the Pension Plan as the 1974 UMWA Pension Plan under section 9701(a)(3), but without regard to the limitation on participation to individuals who retired in 1976 and thereafter (thereby reflecting the merger of the UMWA 1950 Pension Plan into the Pension Plan).

The bill applies additional reporting requirements to the Pension Plan. Not later than the 90th day of each plan year beginning after the date of enactment, the Pension Plan trustees must file with the PBGC a report (including appropriate documentation and actuarial certifications from the plan actuary, as required by the Secretary of Labor) that provides--

- whether the Pension Plan is in endangered or critical status;
- the Pension Plan's funded percentage as of the first day of the plan year and the underlying actuarial value of assets and liabilities taken into account in determining the funded percentage;
- the market value of plan assets as of the last day of the preceding plan year;
- the total of all plan contributions made during the preceding plan year;
- the total benefits paid during the preceding plan year;
- cash flow projections for the plan year and either the six or 10 succeeding plan years, at the election of the trustees, and the assumptions relied on in making the projections;
- funding standard account projections for the plan year and the nine succeeding plan years, and the assumptions relied on in making the projections;
- the total investment gains or losses during the preceding plan year;
- any significant reduction in the number of active participants during the preceding plan year preceding and the reason for the reduction;
- a list of employers that withdrew from the Pension Plan in the preceding plan year and the resulting reduction in contributions;
- a list of employers that paid withdrawal liability to the Pension Plan during the preceding plan year and, for each employer, a total assessment of the withdrawal liability paid, the annual payment amount, and the number of years remaining in the payment schedule with respect to the withdrawal liability;
- any material changes to benefits, accrual rates, or contribution rates during the preceding plan year;
- any scheduled benefit increase or decrease in the preceding plan year having a material effect on plan liabilities;
- details of any funding improvement plan or rehabilitation plan and updates;
- the number of participants and beneficiaries during the preceding plan year who are active participants, the number of participants and beneficiaries in pay status, and the number of terminated vested participants and beneficiaries;
- the information contained in the Pension Plan's most recent annual funding notice;
- the information contained in the Pension Plan's most recent Form 5500; and
- copies of the plan document and amendments, other retirement benefit or ancillary benefit plans relating to the Plan and contribution obligations under those plans, a

breakdown of the Pension Plan's administrative expenses, participant census data and distribution of benefits, the most recent actuarial valuation report as of the plan year, copies of collective bargaining agreements, and financial reports, and such other information as the Secretary of Labor or the Secretary of the Treasury may require by request to the PBGC.

This report must be submitted electronically, and the PBGC is directed to share the information in the report with the Secretary of the Treasury and the Secretary of Labor. If the required report is not filed as of the required date, an excise tax applies to the Pension Plan in the amount of \$100 for each subsequent day until the report is actually filed. The tax will not apply if the PBGC determines that reasonable diligence has been exercised by the trustees of the Pension Plan in attempting to timely file the report.

B. New Plan Designs

1. Introduction

New plan designs for multiemployer plans have been suggested under which benefits are still provided in the form of life annuities but the amount of a participant's annuity is allowed to change in response to changes in the value of plan assets, and the relationship between plan assets and liabilities. Two such plan designs have been suggested also as a means of potentially limiting employers' risks of underfunding and withdrawal liability under a multiemployer plans.¹²⁷ One of these plan designs, called a variable annuity plan, is intended to comply with the present-law requirements under the Code and ERISA, and, thus, no changes to present law have been proposed to accommodate this plan design. The other plan design, called a composite plan, would require amendments to the Code and ERISA in order to be allowed.

2. Variable annuity plans

Under the variable annuity defined benefit plan design, an employee's accrued benefit is not an annuity equal to a fixed dollar amount (such as a flat dollar amount or a percentage of the employee's compensation for the year) payable per year at normal retirement age. Instead, the benefit accrued for each year of service may initially be calculated as a dollar amount of annual annuity, but then the amount is adjusted to reflect annual changes in the rate of investment return earned on assets held in the plan trust.¹²⁸ The adjustment is based on the relationship of the rate of return on the plan's assets to a rate specified in the plan formula (commonly referred to as the "hurdle" rate). The hurdle rate is an assumed rate of investment return, such as five percent.¹²⁹ In its purest form, a variable annuity plan would reflect all changes in plan investment experience above and below the hurdle rate, both before and after payments commence. However, generally, limits are placed on the degree of variation, such as by including a minimum benefit and providing that adjustments cease when annuity payments commence.¹³⁰

¹²⁷ See a discussion of these plans in National Coordinating Committee for Multiemployer Plans ("NCCMP"), "Solutions Not Bailouts; A Comprehensive Plan from Business and Labor to Safeguard Multiemployer Retirement Security, Protect Taxpayers and Spur Economic Growth," ("Solutions Not Bailouts") February 2013, available at <http://www.nccmp.org/forEmails/SolutionsNotBailouts.pdf>. This discussion refers to variable annuity plans and target benefit plans. The latter are now referred to as composite plans.

¹²⁸ In accordance with the definitely determinable requirement discussed in Present Law, even though the amount of annual accrual changes from year to year, the benefit is intended to be definitely determinable as long as the amount only varies in accordance with a formula specified in the plan, one element of which is the annual rate of return on plan assets, so that the formula does not allow for employer (or plan sponsor) discretion in the adjustments.

¹²⁹ The vesting requirements, including the anti-back loading rules, minimum lump-sum benefit rules, and rules precluding decreases in the rate of accrual due to increases in age apply to the variable benefit. Under Treas. Reg. sec. 1.411(a)(13)-1(d)(4)(ii)(C), in order for the special accrual rules for hybrid plans not to apply to the accrued benefit, the hurdle rate must be at least five percent.

¹³⁰ Richard C. Shea, Robert S. Newman, William H. Wollston, and Kathryn C. Johnson, Re-Imagining the Pension Plan: Sharing Risk to Achieve Efficient, Sustainable Retirement Security, *N.Y.U. Review of Employee*

One method of varying the annual accrual is for the formula to provide for a share value in the calculation. The share value reflects all changes in the rate of investment return on plan assets since the individual became a participant, or possibly since the formula and its relationship to plan funding (including plan contributions to a multiemployer plan under the collective bargaining agreement) were established. For example, a share value, such as \$10, is established when the formula and contributions are established under the collective bargaining agreement. Then the share value is adjusted annually in response to variations in the rate of return of plan assets.

The dollar amount of an employee's accrual earned for each year under the plan formula is divided by the share value as of that year and expressed as a number of shares, which are credited to the employee. Each year, an employee's accrued benefit is based on the total number of shares accumulated for all years of service. The dollar amount of the accrued benefit (subject to future adjustment) at any point in time is equal to the number of shares multiplied by the share value as of that year. The plan may provide that the benefit provided under the plan formula before conversion to shares is a minimum benefit. Thus, the employee is assured a benefit not less than the benefit produced under the plan formula before adjustments so that the plan's investment experience only increases benefits and does not reduce them. To offset the potential cost of the minimum benefit, this plan design also may provide a maximum rate of return on plan assets that is taken into account in the adjustments to the share value.¹³¹

There are no special minimum funding rules for variable annuity plans, under either the rules for single-employer plans or the rules for multiemployer plans. These plans are subject to PBGC insurance requirements and, for multiemployer plans, employers participating in these plans are potentially subject to withdrawal liabilities. However, the variable element of the formula is taken into account in determining plan liability. The concept underlying this plan design is that plan underfunding (and, in the case of a multiemployer plan, withdrawal liability) can be minimized because plan contributions, the formula for annual accruals before adjustment, and the hurdle rate are determined based on an actuarial calculation of what annual accruals a fixed annual contribution can fund, using the hurdle rate as the assumed future rate of return on plan assets.¹³² If the hurdle rate reflects a conservative assumption as to the plan's rate of return on plan assets and the investment experience is better than expected, the annual annuity amount for an employee's accrued benefit is adjusted upward to pass those investment experience gains on to the employees. If investment experience is worse than assumed (lower than the hurdle rate), the annuity is adjusted down, passing the experience losses on to employees. As a result,

Benefits and Executive Compensation (2012), available at https://www.cov.com/~media/files/corporate/publications/2012/01/re-imagining_the_pension_plan.ashx.

¹³¹ This use of a combination of share value and minimum benefit in a variable annuity plan formula is described and illustrated in David S. Blitzstein, Gene M. Kalwarski, Mark C. Olleman, and Jonathan Waite, "The Future of Define Benefit Plans," 57th Annual Employee Benefits Conference, International Foundation of Employee Benefit Plans, available at https://www.cheiron.us/articles/303_Kalwarski%20Olleman%20Waite_10052011v3.pdf. The plan described also includes a maximum rate of return that is taken into account.

¹³² This is consistent with the design of a multiemployer plan in that the amount of each employer's required contributions for a year are determined as part of the collective bargaining process.

the expectation is that experience losses, which determine the extent to which additional contributions are needed to fund previously accrued benefits, are generally limited to mortality and demographic experience that is different than assumed.¹³³ However, when the plan formula limits the extent to which the amount of an employee's annuity can be adjusted downward (such as by including a minimum benefit), the risk that investment experience losses will result in a need for additional contributions to fund previously accrued benefits (and in potential withdrawal liability) increases. The use of a maximum rate of return in determining benefits, as mentioned above, can offset this risk in that investment returns greater than the maximum rate can create a cushion against future returns at lower rates.

3. Composite plans

A composite plan is a hybrid plan design that does not satisfy the present law rules for defined benefit plans or defined contributions plans.¹³⁴ Under a composite plan, benefits are generally expressed and provided in the form of annuities, allowing pooled mortality as under present-law multiemployer defined benefit plans. Plan assets are available to provide all benefits payable from the plan; individual participant accounts are not maintained. Some have suggested that the plan benefit formula under a composite plan may be the same as under existing multiemployer plans.

Composite plans are not subject to present-law minimum funding requirements, and benefits provided under composite plans are not insured by PBGC. An employer participating in a composite plan is responsible only for making its contributions required under any collective bargaining agreements and does not have withdrawal liability. In order to provide benefits without imposing withdrawal liability on participating employers or providing PBGC insurance, the benefits are designed to be at a level that are sufficiently funded by the contributions required under the collective bargaining agreements and investment earnings. Further, the composite plan trustees have the ability to reduce benefits that would otherwise be protected under the anti-cutback rules, based on an annual actuarial certification of the plan's projected funded percentage 15 years in the future.

¹³³ Donald E. Fuerst, Asset Driven Liabilities, The Variable Annuity Plan, American Academy of Actuaries, available at <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=0ahUKEwiOn-Tn5JXLahXMHD4KHaygDkkQFggmMAI&url=https%3A%2F%2Fwww.soa.org%2FFiles%2FPd%2F2014%2Fanual-mtg%2F2014-orlando-annual-mtg-136-33a.pdf&usg=AFQjCNEpij5Z5j76CAnt68K6JljQDGRq2g>.

¹³⁴ This description of the elements of the composite plan design is based on a combination of sources, including Josh Shapiro, "Composite Plans: a New Approach to Modernizing Multiemployer Retirement Benefits," July 2015, available at http://www.finishingcontractors.org/uploads/media_items/mep-composite-plan-1_original.pdf; NCCMP, Solutions Not Bailouts; Randy DeFrehn, "Multiemployer Plan Reform," American Academy of Actuaries, 2014, available at <http://actuary.org/files/Annual%20Meeting%20Slides%20-%20Multiemployer%20Plan%20Panel.pdf>; Statements of Stephen Sandherr on behalf of the Associated General Contractors of America, and Randy G. DeFrehn, on behalf of the NCCMP, to the Subcommittee on Health, Employment, Labor, and Pensions of the House Education and the Workforce Committee for a Hearing on "Examining Reforms to Modernize the Multiemployer Pension System on April 29, 2015. These statements are available at http://edworkforce.house.gov/uploadedfiles/sandherr_testimony.pdf and http://edworkforce.house.gov/uploadedfiles/defrehn_testimony.pdf.

To determine the plan's projected funded percentage, plan liabilities (including expected future benefit accruals and payments) and plan assets (including expected future contributions under the relevant collective bargaining agreements and asset returns) are each actuarially projected forward 15 years. A projected funded percentage is the projected plan assets as a percentage of projected plan liabilities. If the projected funded percentage of the composite plan is less than 120 percent, the plan sponsor is required to take remedial action within 210 days to improve the plan's projected funding level. Remedial actions include negotiating for higher employer contributions under the collective bargaining agreement and reducing future accruals, actions allowed under present law. If this is insufficient, the plan sponsor can reduce benefits that are otherwise protected under the anti-cutback rules including early retirement benefits and possibly normal retirement benefits. If the plan's projected funded percentage is higher than 120 percent, the plan sponsor may be allowed to increase benefits, provided that the increases do not reduce the plan's projected funded percentage to below 120 percent.

The composite plan proposal contemplates a transition from an existing defined benefit plan design, under which accruals cease, with new accruals under a composite plan design. Employer contributions would be segregated into amounts needed to fund benefits under the defined benefit plan (sometimes referred to as "legacy" liabilities), perhaps over an extended period, such as 30 years, and amounts for composite plan benefits. As it is not a defined benefit plan, service earned after adoption of a composite plan would not be subject to PBGC guaranty, nor would employers be subject to withdrawal liability. Both of these features would remain in place, however, for remaining obligations under the legacy plan.