DOWNLOAD PDF UNDERSTANDING CORPORATE PENSION PLANS

Chapter 1 : Wealth Management for Business | Retirement Plan Services | Old National

Pension plans became common around the s and were used as the primary form of business retirement plan until the s. The plans were sensible during that time because most workers spent.

What are the tax incentives? Understanding your guaranteed benefits Reviewing payment options What are defined benefit plans? Defined benefit plans are qualified employer-sponsored retirement plans. Like other qualified plans, they offer tax incentives both to employers and to participating employees. For example, your employer can generally deduct contributions made to the plan. How do defined benefit plans work? A defined benefit plan guarantees you a certain benefit when you retire. How much you receive generally depends on factors such as your salary, age, and years of service with the company. Each year, pension actuaries calculate the future benefits that are projected to be paid from the plan, and ultimately determine what amount, if any, needs to be contributed to the plan to fund that projected benefit payout. Employers are normally the only contributors to the plan. But defined benefit plans can require that employees contribute to the plan. You may have to work for a specific number of years before you have a permanent right to any retirement benefit under a plan. This is generally referred to as "vesting. How are retirement benefits calculated? Retirement benefits under a defined benefit plan are based on a formula. This formula can provide for a set dollar amount for each year you work for the employer, or it can provide for a specified percentage of earnings. Many defined benefit pension plan formulas also reduce pension benefits by a percentage of the amount of Social Security benefits you can expect to receive. How will retirement benefits be paid? Many defined benefit plans allow you to choose how you want your benefits to be paid. Payment options commonly offered include: A single life annuity: You receive a fixed monthly benefit until you die; after you die, no further payments are made to your survivors. A qualified joint and survivor annuity: You receive a fixed monthly benefit until you die; after you die, your surviving spouse will continue to receive benefits in an amount equal to at least 50 percent of your benefit until his or her death. You receive the entire value of your plan in a lump sum; no further payments will be made to you or your survivors. Choosing the right payment option is important, because the option you choose can affect the amount of benefit you ultimately receive. Because so much may hinge on this decision, you may want to discuss your options with a financial and tax advisor. What are some advantages offered by defined benefit plans? Defined benefit plans can be a major source of retirement income. Benefits do not hinge on the performance of underlying investments, so you know ahead of time how much you can expect to receive at retirement. How do defined benefit plans differ from defined contribution plans? As the name implies, a defined benefit plan focuses on the ultimate benefits paid out. In contrast, defined contribution plans focus primarily on current contributions made to the plan. Instead, the amount you receive at retirement will depend on the investments you choose and how those investments perform. Some employers offer hybrid plans. Hybrid plans include defined benefit plans that have many of the characteristics of defined contribution plans. One of the most popular forms of a hybrid plan is the cash balance plan. What are cash balance plans? Cash balance plans are defined benefit plans that in many ways resemble defined contribution plans. Like defined benefit plans, they are obligated to pay you a specified amount at retirement, and are insured by the federal government. But they also offer one of the most familiar features of a defined contribution plan: Retirement funds accumulate in an individual account in this case, a hypothetical account. This allows you to easily track how much retirement benefit you have accrued. And your benefit is portable. If you leave your employer, you can generally opt to receive a lump-sum distribution of your vested account balance. Your pension income, along with Social Security, personal savings, and investment income, can help you realize your dream of living well in retirement. Start by finding out how much you can expect to receive from your defined benefit plan when you retire. Your employer will send you this information every year. But read the fine print. Your monthly benefit could end up to be far less if you retire early or receive a joint and survivor annuity. Here are some other things you can do to make the most of your defined benefit plan: Read the summary plan description. Review your account information, making sure you know what benefits you are entitled to. Do this periodically, checking your Social Security number, date of birth, and the compensation used to calculate your benefits, since these are common sources of error. Notify your plan administrator of any life changes that may affect your benefits e. Watch out for changes. Employers are allowed to change and even terminate pension plans, but you will receive ample notice. The key is, read all notices you receive. Assess the impact of changing jobs on your pension. Accordingly, this discussion does not offer or constitute investment advice and makes no direct or indirect recommendation of any particular product or of the appropriateness of any particular investment-related option. Your needs, goals and circumstances are unique, and they require the individualized attention of your financial professional. Please be advised that this article is not intended as legal or tax advice. Accordingly, any tax information provided in this article is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transactions s or matter s addressed and you should seek advice based on your particular circumstances from an independent advisor.

Chapter 2 : Types of Small Business Retirement Plans - Fidelity

For example, some small-business retirement plans are better for sole proprietors, while others may be more appropriate for businesses with up to employees. "Many small-business owners say they want to set up a (k) plan because that is the plan they are most familiar with," says Ken Hevert, senior vice president, retirement products, at.

Do you have, or expect to have, any "common law employees"? Do you want your employees to be able to contribute their own money too? Which is a higher priorityâ€"maximum contributions or simple administration? So it should come as no surprise that funding your retirement will likely fall on your shoulders. But what type of retirement plan is the right fit for your business? There are several types to choose from and the options can be confusing. For example, some small-business retirement plans are better for sole proprietors, while others may be more appropriate for businesses with up to employees. We will focus only on the first 3, which are generally more suitable for very small businessesâ€"typically, employees or less. Each of these plans has different characteristicsâ€"such as the ability to cover employees, contribution limits, and administrative responsibility, to name a few. To choose the right plan for your business, you need to understand the nuances of these plans and match them to your priorities e. Understanding the differences in the plan types is an important exercise. Why have a small-business retirement plan? Here are 3 very compelling reasons: Your plan not only helps secure your futureâ€"it may be the primary way your employees can help secure theirs. Offering a plan helps make your business competitive when it comes to attracting and keeping good employees. There are potential tax benefits to offering a plan, because plan contributions for the business owner are deductible as a business expense. Consider your options Each of the 3 small-business retirement plans may offer certain tax advantages, including: Contributions are made by the employer only and are tax deductible as a business expense. A SIMPLE IRA is for businesses with or fewer employees and is funded by tax-deductible employer contributions and pretax employee contributions [similar to a k plan]. A Self-Employed k plan is a tax-deferred retirement plan for self-employed individuals that offers the most generous contribution limits of the 3 plans, but is suitable only for businesses with no "common law" employees, meaning any person working for the business who does not have an ownership interest. Choosing the right plan takes careful consideration "If you know what you are trying to accomplish with a retirement plan, it may be relatively straightforward to determine which plan is most appropriate for the business," Hevert says. Is it critical that employees be able to contribute to the plan? Knowing what you want and need ahead of time is a key component, because each plan has its advantages and disadvantages.

Chapter 3 : Microsoft Office Product Key (Updated List)

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The largest government-sponsored retirement plan is the Social Security plan. The most popular example is the Individual Retirement Agreement or IRA, which can come in different types according to their tax treatment. These are contracts established with an insurance company; there are fixed and variable annuities. The two types of employer-sponsored retirement plans are qualified and non-qualified retirement plans. These plans offer several tax benefits: Employer-Sponsored Plans In the rest of this article, we will explore employer-sponsored plans in detail. Qualified Plans There are several types of qualified plans: Defined benefit plans are company retirement plans, such as pension plans, in which a retired employee receives a specific amount based on salary history and years of service, and in which the employer bears the investment risk. The employee, the employer, or both may make contributions. These plans are better for people who have 20 years until retirement or less, since the annual contributions can be larger. Pensions are a type of retirement plan that guarantees a specific amount to be paid out to the employee during retirement. If an employee leaves the job, the pension plan stays with the previous employer. Annuities are defined benefit plans that have fixed monthly payments at the age of retirement. Note that annuities cannot be transferred into an IRA account, so the amount is taxed as regular income the year it is received. There are different options for annuities: The annuity is paid for life and after death, with the spouse receiving half of the amount for the rest of his or her life. The annuity is paid for life and after death, with the spouse receiving two thirds of that amount for the rest of his or her life. The annuity is paid for life and after death, with the spouse receiving the full amount for the rest of his or her life. The annuity is paid for life; if the participant dies in the first 10 years of retirement, the beneficiary collects the same amount until reaching the 10th year of retirement at which point all payments stop. If the participant dies 10 years or more after retirement, the payments stop at the time of the death. The annuity is paid for life, and after death all payments stop. The participant can take the total cash value of the retirement plan. An individual account must be set up for each participant in the plan. The different defined contribution plans are: Employers can decide what amount and whether to contribute to the plan each year. Employees can be eligible to participate in the plan immediately or after one or two years of employment; the vesting schedule is up to six years. A type of profit sharing plan, where contributions are made in the form of company stock. Money purchase pension plan: A retirement plan with fixed-percentage compensations by the employers. Unlike profit sharing plans, these contributions are mandatory every year, regardless of profits. The profit sharing and money purchase plans are often combined by companies that have varied earnings from one year to the next. Through the establishment of proper contribution percentage rates in both plans, the employer can make the maximum contribution in good years and not during more difficult years. Thrift or savings plan: Employee stock ownership plan ESOP: The shares of the company stock have to vest before a participant receives them. Employees are eligible to participate in this plan if they work at least hours in a year. A variation of the profit-sharing and thrift plan. Another variation of the profit sharing and thrift plan for non-profit organizations. Employers set a target benefit for participants; contributions depend on assumptions of the projection to reach that benefit. Contributions and earnings are tax deferred until withdrawal. Cash-balance plans are a type of defined contribution retirement plan where employers make annual contributions for each employee; the contributions earn interest at rates similar to Treasury bonds. These plans are recommended for younger employees because the retirement benefit starts building early. These plans are funded by employers and are more flexible but they do not have the tax benefits qualified plans do. Benefits are paid at the retirement age in the form of annuities, which are taxed as ordinary income tax, or in lump sum payments, which can be transferred into an IRA to defer taxes. An example is the plan. Distributions start at retirement age but participants can also take distributions if they change jobs or if they have an emergency, including death. Participants can choose to take distributions as a lump sum, annual installments or as an annuity. Distributions are subject to ordinary income taxes and the amounts cannot be transferred into an IRA. By InvestorGuide Staff Copyrighted

Chapter 4 : Pension Plan Definition | Investopedia

Our dedicated pension research and insightful thought leadership have made us a leader in the corporate pension space. A deep understanding of our clients' balance sheet risks coupled with extensive experience in the space enables us to provide recommendations tailored to our clients' specific objectives.

Understanding the Pension Plan Business Process A pension plan is a product that enables you to save earnings and accrue capital. Employees can withdraw at retirement or due to disability; beneficiaries can withdrawal due to death of the employee. A promoter is the organization that participates in the constitution of funds based on the terms regulated by law. A contributor is the employee for which the pension plan is created. It is therefore taxable. Depending on the pension plan definition, it can also be contributive. Earnings in kind are goods or services that employees receive as a benefit for free or for a reduced price. When employees contribute to pension plans, companies can administer these employee contributions by deducting the amount from employee payrolls. PeopleSoft Global Payroll for Spain supports the following types of pension plans: Pension Plan Type Individual System A pension plan in which the promoter is an entity and the contributors are persons. In an individual system pension plan the company makes the annual contributions either annually or periodically. These contributions are considered earnings in kind. They are taxable and, when the contributions are not an improvement to retirement benefits, they contribute to social security as any other in kind income. Companies can also make deductions directly for the employee using a payroll deduction. Companies can furthermore pay some money as contributions of an individual pension plan, in which case the contribution is considered the same as any other monetary income taxable and contributive. Collective System A pension plan in which the promoter is an entity, corporation, society, or legal entity and the contributors are their own employees. In this model a company can be the promoter of only one pension plan. In a collective pension plan, the company makes the annual contributions either annually or periodically. They are tax-free and, when the contributions are not an improvement to retirement benefits or are made by the promoter, they are contributive. You define whether a pension plan is based on the individual or collective employees through the Pension Plan Type field on the Pension Plan page. Business process flow pension plans in PeopleSoft Global Payroll for Spain This diagram illustrates the business process flow for pension plans from creating the pension plan, assigning employees, and calculating payroll to generating payslips and reports: The following reports reflect pension plan data: Specifically, these reports account for the payroll elements and corresponding accumulators that pertain to pension plans so that pension plan contributions are reflected in the reports. The product documentation explains each of these reports and their generation in detail.

Chapter 5 : Basics of Corporate Pension Plan Funding | Library | Insights | Manning & Napier

Understanding the Corporate Pension Plan by Investing School on September 14, A corporate pension plan is a formal agreement that is entered into by a company and its employees that will provide retirement funding for the employees of said company.

In a defined-benefit plan , the employer guarantees that the employee receives a definite amount of benefit upon retirement, regardless of the performance of the underlying investment pool. The employer is liable for a specific flow of pension payments to the retiree the dollar amount is determined by a formula, usually based on earnings and years of service , and if the assets in the pension plan are not sufficient to pay the benefits, the company is liable for the remainder of the payment. American employer-sponsored pension plans date from the s, and at their height, in the s, they covered nearly half of all private sector workers. S are covered by a defined-benefit plan today. In a defined-contribution plan , the employer makes specific plan contributions for the worker, usually matching to varying degrees the contributions made by the employees. In common parlance, "pension plan" often means the more traditional defined-benefit plan, with a set payout, funded and controlled entirely by the employer. Some companies offer both types of plans. They even allow employees to roll over k balances into their defined-benefit plans. There is another variation, the pay-as-you-go pension plan. Set up by the employer, these tend to be wholly funded by the employee, who can opt for salary deductions or lump sum contributions which are generally not permitted on k plans. Otherwise, they similarly to k plans, except that they usually offer no company match. Companies that provide retirement plans are referred to as plan sponsors fiduciaries , and ERISA requires each company to provide a specific level of plan information to employees who are eligible. Plan sponsors provide details on investment options and the dollar amount of worker contributions that are matched by the company, if applicable. Employees also need to understand vesting , which refers to the dollar amount of the pension assets that are owned by the worker; vesting is based on the number of years of service and other factors. Vesting Enrollment in a defined-benefit plan is usually automatic within one year of employment, although vesting can either be immediate or spread out over seven years. But if your employer matches those contributions or gives you company stock as part of your benefits package, it may set up a schedule under which a certain percentage is handed over to you each year until you are "fully vested. That gives them their tax-advantaged status. Employers get a tax break on the contributions they make to the plan for their employees. Contributions they make to the plan come "off the top" of their paychecks â€” that is, are taken out of their gross income. That effectively reduces their taxable income , and, in turn, the amount they owe the IRS come April Funds placed in a retirement account then grow at a tax-deferred rate, meaning no tax is due on them as long as they remain in the account. Upon retirement, when you start receiving funds from a qualified pension plan, you may have to pay federal and state income taxes. If you have no investment in the plan because you have not contributed anything or are considered to not have contributed anything, your employer did not withhold contributions from your salary or you have received all of your contributions investments in the contract tax free in previous years, your pension is fully taxable. If you contributed money after tax was paid, your pension or annuity is only partially taxable. Partially taxable qualified pensions are taxed under the Simplified Method. Some companies are keeping their traditional defined-benefit plans, but are freezing their benefits, meaning that after a certain point, workers will no longer accrue greater payments, no matter how long they work for the company or how large their salary grows. When a pension plan provider decides to implement or modify the plan, the covered employees almost always receive a credit for any qualifying work performed prior to the change. The extent to which past work is covered varies from plan to plan. When applied in this way, the plan provider must cover this cost retroactively for each employee in a fair and equal way over the course of his or her remaining service years. Pension Funds When a defined-benefit plan is made up of pooled contributions from employers, unions or other organizations, it is commonly referred to as a pension fund. Run by a financial intermediary and managed by professional fund managers on behalf of a company and its employees, pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations; their actions can dominate the stock markets in which they are invested. Pension funds are typically exempt from capital gains tax. Earnings on their investment portfolios are tax deferred or tax exempt. Advantages and Disadvantages A pension fund provides a fixed, preset benefit for employees upon retirement, helping workers plan their future spending. The employer makes the most contributions and cannot retroactively decrease pension fund benefits. Voluntary employee contributions may be allowed as well. Since benefits do not depend on asset returns, benefits remain stable in a changing economic climate. Businesses can contribute more money to a pension fund and deduct more from their taxes than with a defined-contribution plan. A pension fund helps subsidize early retirement for promoting specific business strategies. However, a pension plan is more complex and costly to establish and maintain than other retirement plans. Employees have no control over investment decisions. In addition, an excise tax applies if the minimum contribution requirement is not satisfied or if excess contributions are made to the plan. No loans or early withdrawals are available from a pension fund. In-service distributions are not allowed to a participant before age Taking early retirement generally results in a smaller monthly payout. Monthly Annuity or Lump Sum? With a defined-benefit plan, you usually have two choices when it comes to distribution: Some plans allow you to do both, i. In any case, there will likely be a deadline by which you have to decide, and your decision will be final. There are several things to consider when choosing between a monthly annuity and a lump sum. Some people decide to take the single life annuity, opting to purchase a whole life or other type of life insurance policy to provide income for the surviving spouse. When the employee dies, the pension payout stops; however, the spouse then receives a large death benefit payout tax-free which can be invested and uses to replace the taxable pension payout that has ceased. This strategy, which goes by the fancy-sounding name pension maximization , may not be a bad idea if the cost of the insurance is less than the difference between the single life and joint and survivor payouts. In many cases, however, the cost far outweighs the benefit. Can your pension fund ever run out of money? Of course, PBGC payments may not be as much as you would have received from your original pension plan. Annuities usually pay out at a fixed rate. They may or may not include inflation protection. If not, the amount you get is set from retirement on. This can reduce the real value of your payments each year, depending on how the cost of living is going. And since it rarely is going down, many retirees prefer to take their money in a lump sum. If you take a lump sum, you avoid the potential if unlikely problem of your pension plan going broke, or losing some or all of your pension if the company files for bankruptcy. If there is money left when you die, you can pass it along as part of your estate. No guaranteed lifetime income, as with an annuity. And, unless you roll the lump sum into an IRA or other tax-sheltered account, the whole amount will be immediately taxed and could push you into a higher tax bracket. If your defined-benefit plan is with a public-sector employer, your lump sum distribution may only be equal to your contributions. Of course, you can always use a lump sum distribution to purchase an immediate annuity on your own, which could provide a monthly income stream, including inflation protection. As an individual purchaser, however, your income stream will probably not be as large as it would with an annuity from your original defined-benefit pension fund. Which Yields More Money? With just a few assumptions, and a small amount of math, you can determine which choice yields the largest cash payout. You know the present value of a lump-sum payment, of course. But in order to figure out which makes better financial sense, you need to estimate the present value of annuity payments. To figure out the discount or future expected interest rate for the annuity payments, think about how you might invest the lump sum payment and then use that interest rate to discount back the annuity payments. On the surface, the choice appears clear: Using the discount rate of 7. Other Deciding Factors There are other basic factors that must almost always be taken into consideration in any pension maximization analysis. One who accepts a lump sum at age 50 is obviously taking more of a risk than one who receives a similar offer at age Younger clients face a higher level of uncertainty than older ones, both financially and in other ways. Your current health and projected longevity: If your family history shows a pattern of predecessors dying of natural causes in their late 60s or early 70s, then a lump-sum payment may be the way to go. Conversely, someone who is projected to live to age 90 will quite often come out ahead by taking the pension. Remember that most lump sum payouts are calculated based on charted life expectancies , so those who live past their projected age are, at least mathematically, likely to beat the lump sum payout. You might also consider whether health insurance benefits are tied to the pension payouts in any way. Your current financial situation: If you are in dire straits financially, then the lump-sum payout may be necessary. Your tax bracket can also be an important consideration; if you are in one of the top marginal tax brackets, then the bill from Uncle Sam on a lump-sum payout can be murderous. And if you are burdened with a large amount of high-interest obligations, it may be wiser to simply take the lump sum to pay off all of your debts rather than continue to pay interest on all of those mortgages , car loans, credit cards , student loans and other consumer liabilities for years to come. A lump-sum payout may also be a good idea for those who intend to continue working at another company and can roll this amount into their new plan, or for those who have delayed their Social Security until a later age and can count on a higher level of guaranteed income from that. If you feel confident your portfolio will be able to generate investment returns that will approximate the total amount that could have been received from the pension, then the lump sum may be the way to go. Current market conditions and interest rates will also obviously play a role, and the portfolio that is used must fall within the parameters of your risk tolerance , time horizon and specific investment objectives. In case of a company plan going bankrupt, along with the protection of the PBGC, state reinsurance funds often step in to indemnify all customers of an insolvent carrier up to perhaps two or three hundred thousand dollars. The cost of life insurance: This type of policy can also carry accelerated benefit riders that can help to cover the costs for critical, terminal or chronic illness or nursing home care. However, if you are medically uninsurable, then the pension may be the safer route. A pension payout option that provides a cost-of-living increase each year is worth far more than one that does not. The purchasing power from pensions without this feature will steadily diminish over time, so those who opt for this path need to be prepared to either lower their standard of living in the future or else supplement their income from other sources. If you want to leave a legacy for children or other heirs , then an annuity is out. The payments from these plans always cease at the death of either the retiree or the spouse, if a spousal benefit option was elected. If the pension payout is clearly the better option, then a portion of that income should be diverted into a life insurance policy, or provide the body of a trust.

Chapter 6 : Understanding defined benefit plans

Defined benefit pension plans are qualified retirement plans that provide fixed and pre-established benefits to plan participants when they retire. The plans are popular with employees, who enjoy.

The plans are popular with employees, who enjoy the security of fixed benefits when they retire, and employers, who can make greater contributions to employees and receive greater deductions than in a defined contribution plan. Defined benefit plans can be complex, so employers should understand the rules mandated by the Internal Revenue Service IRS and the federal tax code. The plan administrators hire an actuary to calculate the future benefits that the plan must pay the employee and the amount that the employer must contribute to provide those benefits. Generally, only the employer contributes to the plan, but some plans may require an employee contribution as well. To receive the benefits from the plan, the employee usually must remain with the company for a certain number of years. This required period of employment is known as the vesting period. Employees who leave a company before the end of the vesting period may receive only a portion of the benefits. Once the employee reaches the retirement age, which is defined in the plan, he or she usually receives a life annuity. Generally, the account holder receives a payment every month until he or she dies. Variations on Benefit Payments Each plan has its own rules on how employees receive benefits. For example, in a straight life annuity , the employee receives fixed monthly benefits beginning at retirement and ending when the employee dies. The survivors receive no further payments. In a qualified joint and survivor annuity, the employee receives fixed monthly payments until he or she dies. Some plans offer a lump-sum payment, where the employee receives the entire value of the plan at the time of retirement and no further payments are made to the employee or survivors. Comparison to Defined Contribution Plan In a defined contribution plan, the employee funds the plan with his or her own money and assumes the risks of investing. The employee knows how much to expect at retirement. A company of any size can establish a plan, but the company must annually file Form with a Schedule B. In addition, companies cannot retroactively decrease benefits. Companies that do not make the minimum contributions to their plans, or that make excess contributions, must pay federal excise taxes. The IRS also notes that defined benefit plans generally may not make in-service distributions to participants before age 62, but the plans may loan money to participants. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 7 : Access Denied | BB&T Bank

A while ago, retirement was pretty simple. You invested most of your career in a company, and they gave you a pension plan in return - and if you were lucky, a gold watch.

September 17, Active Management Introduction In general, a pension plan is a promise from a Plan Sponsor often the employer to participants employees of benefits to be paid during retirement. Additionally, many plans are implemented or maintained for the tax advantages that they offer. Most pension plans in the U. Most plans some can be exempted must also pay premiums to the Pension Benefit Guaranty Corporation PBGC , which guarantees certain benefits will be paid to participants in the event that the plan sponsor is not able to provide such benefits on their own. Note that these single-employer funding regulations generally do not apply to multi-employer plans or to church plans or governmental plans as defined in Section of the Internal Revenue Code. The funding target is the present value of all of the participant benefits that have been earned as of the beginning of the plan year using these mandated assumptions. Liabilities must be calculated using mandated interest rates that are published monthly by the IRS and based on corporate bond yields. Generally, plan sponsors can use the full yield curve or a set of segmented interest rates, but changing from one method to another may require IRS approval. The segmented interest rates use one of three single rates to discount benefits based upon the timing of the expected payment of such benefits: The single rate, when used to calculate the present value of accrued benefits, that would result in the same amount as the funding target using the segmented interest rates or full yield curve, if elected , is referred to as the effective interest rate. Exhibit 1 illustrates the segmented interest rates to be used for Plan Year valuations. Generally the mortality table to be used in the calculation of the funding target is prescribed by the IRS; however, some exceptions do apply. It is important to have this kind of uniform approach to calculating pension liabilities since they are, to an extent, insured by the PBGC. The PBGC needs to be aware of the likelihood that they will need to take over payment of these benefits. Additional mandated assumptions apply for very poorly funded plans, but those additional rules are beyond the scope of this paper. Funding Shortfall When the plan assets are not sufficient to cover all accrued benefits to date funding target , the plan is said to have a funding shortfall. Under PPA, the assets for this purpose are first reduced by both the carryover balance and the prefunding balance known collectively as the credit balances before being compared to the funding target, as shown in Exhibit 2. Credit balances do not represent physical assets, but are intended to represent measures for tracking employer contributions made in excess of the minimum required by law. This is generally comprised of two to three pieces. One is the target normal cost TNC , which includes the present value of the benefits expected to be earned over the following year, which is especially meaningful to a young plan with a high concentration of active participants. This portion of the MRC also includes the expected plan expenses for the year and is reduced by any employee contributions for plans that require participants to contribute to the plan. For frozen plans, since there are no future benefit accruals, the TNC is equal to expected plan expenses less any employee contributions if applicable. The second piece of the minimum required contribution is based on the funded status of a plan. Plans with a funding shortfall are required to contribute, as part of the minimum required contribution, a shortfall amortization charge SAC. This charge generally remains to be a piece of the minimum required contribution for seven consecutive years unless the plan becomes fully funded under PPA regulations. Please see the appendix for a more detailed description of the shortfall amortization charge and how it is developed. The third piece that could potentially be included in the minimum required contribution is the waiver amortization charge, which is the sum of any waiver amortization installments established in any of the previous five years. If a plan ceases to have a funding shortfall, all previous waivers are deemed to be fully amortized. A waiver amortization installment is established in any year in which a waiver of funding deficiency has been granted by the Secretary of the Treasury and is equal to the five year amortization of such waiver. Exhibit 3 demonstrates how the minimum required contribution is calculated for plans that have a funding shortfall and a waiver amortization charge. The remainder of this paper will assume there are no waiver amortization charges. For more information on funding waivers or if you are unsure if a plan has a prior waived funding deficiency, consult the plan actuary. Plans that do not have a funding shortfall do not have a shortfall amortization charge or a waiver amortization charge. Furthermore, if the assets reduced by the credit balances are greater than the funding target, the minimum required contribution is reduced by the excess of the reduced assets over the funding target. Exhibit 4 demonstrates how the minimum required contribution is calculated for plans that do not have a funding shortfall. Contribution Due Dates and Penalties Contributions are generally due eight and a half months after the close of each plan year. For example, for plans with a calendar plan year, the close of the plan year is December 31 and contributions are due no later than September 15 each year. Any contributions made after the valuation date are discounted at the effective interest rate back to the valuation date for purposes of satisfying the minimum required contribution. Plans with a funding shortfall in the prior year are required to satisfy the MRC in four quarterly installments due April 15, July 15, October 15, and January 15 of the following year. These quarterly contribution payments are also discounted at the effective interest rate back to the valuation date for purposes of satisfying the minimum required contribution. The remainder of the MRC not satisfied through quarterly contributions must be paid no later than eight and a half months after the close of the plan year. Any quarterly contribution made after the due date is discounted at the effective interest rate plus five percentage points back to the due date and then further discounted at the effective interest rate from the due date back to the valuation date for purposes of satisfying the minimum required contribution. This further discounting results in a reduction in the amount of MRC satisfied and thus increases the final payment due eight and a half months after the close of the plan year. Pension Plan Funded Status The determination of the funded status of a single-employer qualified pension plan under PPA uses the same definitions of liability funding target and assets actuarial value of assets reduced by the credit balances as used to calculate the minimum required contribution. For example, using the same two scenarios from Exhibit 2, Exhibit 5 displays the corresponding PPA funded status. However, it is important to realize that the funding target liability may not truly be an accurate representation of the present value of all benefits accrued to date on a market value basis. The funding target is a liability measure designed and intended only to ensure that appropriate contributions are being made into the pension trust for a plan. As such, it should not be used as an estimate of the amount of assets needed to fully pay all of the benefits due to participants. This type of liability measure is often referred to as a plan termination liability and should be estimated by the plan actuary. Factors that Affect Funding Calculations Three of the significant factors that typically affect funding calculations are interest rates, demographic characteristics, and investment returns. As mentioned previously, the interest rate for funding purposes is prescribed by the IRS and based on corporate bond yields. Since one dollar received today is worth more than the promise of one dollar to be received in the future, interest plays an important role in any payment to be made in the future, such as pension benefits. The liabilities of a pension plan are often promises of benefits to be paid 10, 20, or more years into the future, and as such, a change in the assumed interest rate can have a significant impact on the overall liability. For example, Exhibit 6 shows that just a 50 basis point decrease in the interest rate a 7. As such, changes in the IRS prescribed interest rates present the most meaningful volatility in funding requirements for many U. Additionally, when calculating pension plan liabilities, many assumptions are made with respect to the changing demographic characteristics of a plan. For example, assumptions must be set surrounding the expected timing of the termination, retirement, and death of plan participants, as well as other various assumptions. When the actual experiences of plan participants deviate from these assumptions, it causes unexpected changes in the liability values. Plans with fewer participants will see a greater impact relative to the overall plan liability since one person in a small plan represents a greater portion of the total liability. The actuarial assumption for the return on assets is intended to be the average long-term return over the remaining life of the plan. Investment returns from year to year are highly unpredictable and often very volatile. As such, it is not uncommon for actual returns in one year to deviate significantly from the long-term actuarial return assumption. Additionally, it is important to realize that funding calculations are based upon the assumption that plan investments will return a certain amount and when returns fall short of that amount even if returns are greater than zero , funding requirements in the following year are increased in order to offset this one year failure to achieve the long-term return assumption. Exhibit 7 provides a simplified illustration of the potential impact varying asset returns could have on the minimum required contribution. This illustration assumes investment returns on the prior year asset value only i. As illustrated in this exhibit, when actual asset returns line 3 deviate from actuarial assumptions line 2 , there could be a significant impact to the minimum contribution requirement line 8. Conclusion It is important for plan sponsors to understand the basics of the funding rules that govern their plans. This helps in the understanding of how minimum required contributions are derived and the various factors that may cause volatility in contribution requirements from year to year. Appendix Shortfall Amortization Charge SAC The shortfall amortization charge is the sum of each shortfall amortization installment SAI established in the current and previous six years. Exhibit 8 illustrates how the SAC is derived. In the first year after PPA became effective generally the plan year , plans with a funding shortfall were required to establish a shortfall amortization installment equal to the seven year amortization of such shortfall using the segmented interest rates. In determining future SAIs, the present value using current segment interest rates of remaining payments from previous shortfall amortization installments shown in line 7 of Exhibit 8 is subtracted from the current year shortfall before determining the seven year amortization of such shortfall. For example, in line 8 of Exhibit 8, note that for the plan year column B , the present value of the six remaining payments due as a result of the funding shortfall line 7 of Exhibit 8 is subtracted from the funding shortfall line 6 of Exhibit 8 before being amortized over seven years to create the SAI. Also note that since each SAI is included in the total shortfall amortization charge, and therefore included in the minimum required contribution, for seven years, the shortfall amortization charge is equal to the sum of all shortfall amortization installments for the current and previous six years. This can be seen in column B, line 9 of Exhibit 8. All charts and tables are for illustrative purposes only.

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Understanding and evaluating plan fees and expenses associated with plan investments, investment options, and services are an important part of a fiduciarys responsibility. This responsibility is ongoing.

Like most retirement plants, there are tax benefits to pension plans. Once you retire from work, your pension will pay you on a regular schedule for the remainder of your life. Due to changes in , pensions are more flexible and straightforward than they have been in the past. There are three primary types of pension funds, and you may be eligible for all three. State Pension Funds Your state pension fund will be determined based on the amount of National Insurance contributions you made during your lifetime. You will be eligible to start receiving the funds at 65 for men, or 60 for women, if you were born before Women born after will be treated the same as men, receiving pension eligibility at This age increases even more in , when people will not receive their pensions until the age of Company Pensions Your employer may offer a pension option as part of your benefit package. Similar to a k option, your employer may offer to match your contributions. This type of pension is called a "money purchase scheme. You will have a pension plan administrator, and this person may be contacted to assist you in better understanding the pension program your employer offers including how much you should pay, how much you will receive and when you will receive the money. Personal Pensions Your personal pension fund may be administered by a bank, insurance company or other joint investment group. These financial administrators will accept your funds, invest them, and keep you updated on their growth. When you reach the age of 50, you will begin receiving payments from a personal pension fund. Depending on the service you use, your pension scheme will be handled in any number of ways while your funds are invested. If your employer does not offer a company pension, you may inquire about any personal pension funds you may have access to through them. For example, even if they do not match or assist you in financial planning, your company may offer the opportunity to sign up with an administrator they recommend for their employees. This means the funds you would have paid in taxes for the amount you are contributing go to the pension fund instead. The IRS offers this incentive to encourage savings. Retired persons can become a burden on the federal and state government if they do not have the funds to continue to care for themselves later in life. As life expectancy increases, the date when you can begin withdrawing increases as well. This ensures you will have enough money left for your retirement.

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