MAP-21 Phone Forum

September 27, 2012

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MAP-21 Changes Pension Law

- President signed on July 6
- Changes effect of “segment rates” for IRC section 430(h)(2)(C)
- Creates “collar,” upper and lower limits to segment rates
- Effective for PYs beginning in 2012, but subject to elections for 2012
- Limits application for specified purposes

MAP-21 Key Provisions

- § 430(h)(2) provides two options for interest rates:
  - Set of three segment rates described in clauses (i), (ii), and (iii) of § 430(h)(2)(C), or
  - A full yield curve described in § 430(h)(2)(D)(ii)
- MAP-21 adds § 430(h)(2)(C)(iv), which establishes a corridor for the segment interest rates
- The full yield curve is not adjusted for a corridor (*more later*)

Segment Rate Corridor

- Each segment rate described in § 430(h)(2)(C) is adjusted so that it falls within a specified range
- Range based on an average of the corresponding segment rates for the 25-year period ending on September 30 of the calendar year preceding the calendar year in which PY begins

Segment Rate Corridor

If the plan year begins in	Minimum percentage	Maximum percentage
2012	90%	110%
2013	85%	115%
2014	80%	120%
2015	75%	125%
2016+	70%	130%

MAP-21: 25-year Average

- IRS to publish 25-year average segments rates
- Allows “equivalent rates” if yield curve segment rates not available
- **Notice 2012-55**: For PYs beginning in 2012, IRS issued 25-year segment rates based on “equivalent rates” for pre-Oct-2003 period

Determination to use equivalent rates

- We could not determine full yield-curve results before September
- Decided to use equivalent rate method based on spreads between yield curve segments, Treasuries and corporate bond indices

Construction of the Rates

- Identified relationships with existing yield curve segments, corporate and Treasury rates, from Oct. 2003 forward, to estimate values for segment rates, given existing pre-2003 data on corporate and Treasury rates

Using Post-2003 Data, For Each Segment

Used 3 spreads:

- Spot segment rate vs. Treasury spot rate average.
- Citigroup A vs. 7-year CMTs
- Citigroup AA-AAA vs. 7-year CMTs

Treasury Spot Rate Averages

For each segment,

"Treasury spot rates" are averages over corresponding portions of maturity spectrum:

- 1st 1 – 5 years
- 2nd 6 – 20 years
- 3rd 21 – 60 years

Construction of Equivalent Rates

Then analyzed the spreads with least squares regression to find 3 coefficients reflecting relationships

Coefficients were applied to pre-Oct-2003 <u>corporate index</u> data to estimate spreads for: pre-2003 segment rates vs. Treasury spot rate averages

Construction of the 25-year Average

- Generated equivalent rate monthly “spot” segments for each month from Oct. 1984 to Sep. 2003
- Determined 24-month average segment rates for each month from Oct. 1986 to Sep. 2005
- Used existing 24-month average segment rates for Oct. 2005 forward

Plan Years Beginning in 2012

25-year Average Segment Rates

First Segment	Second Segment	Third Segment
6.15	7.61	8.35

Permissible Values Within 90 - 110% Corridor

First Segment	Second Segment	Third Segment
5.54	6.85	7.52

Future PY 25-year Average Rates?

- No decision yet, whether to use “equivalent rate” method or standard yield curve method.
- Considerations depend on the feasibility of actually doing the standard method for pre-Oct-2003

Notice 2012-61

- Issued September 11, 2012
- Provides guidance on the special rules relating to pension funding stabilization for single-employer defined benefit plans made by MAP-21

Where do MAP-21 Rates Apply?

- Calculation of minimum required contribution (MRC) under § 430:
  - Target normal cost and funding target
  - Calculation of the present value of remaining shortfall and waiver amortization installments for purposes of determining any shortfall amortization base for plan year
  - Determination of shortfall and waiver amortization installments, and
  - Limitation on the assumed rate of return for purposes of determining the average value of assets under § 430(g)(3)(B)

Where do MAP-21 Rates Apply?

- Applying the benefit restrictions under § 436:
  - Adjusted funding target
  - Adjusted plan assets
  - Resulting adjusted funding target attainment percentage (AFTAP)
- MRC for plans subject to sections 104 or 105 of PPA ’06
  - Determined reflecting MAP-21 adjustments to 3rd segment rate (§ 430(h)(2)(C)(iv))

Where do MAP-21 Rates NOT Apply?

- Maximum deductible amount under § 404(o)
- Minimum present value (including lump sums) under § 417(e)(3)
- Amount of excess assets that can be transferred to retiree health accounts under § 420
- Calculation of FTAP to determine if information must be reported to PBGC under § 4010 of ERISA

Determination of At-Risk Status

- The determination if a plan is in at-risk status is made separately for purposes for which MAP-21 segment rates do and do <u>not</u> apply
  - Determination based on interest rates used to calculate the funding target for that specific purpose for the preceding plan year
- Possible result:
  - Plan may be in at-risk status for calculations under 404(o), but
  - Plan may NOT be in at-risk status for determining the MRC

Annuity Substitution Rule

- Annuity substitution rule under § 1.430(d)-1(f)(4)(iii)
  - Requires lump sums which are based on § 417(e) minimum present value requirements to generally be valued as the present value of the underlying annuity
  - Underlying annuities are valued using § 430 rates

Annuity Substitution Rule

- Although the application of the MAP-21 corridors increases the difference between the § 417(e) interest rates and § 430 segment rates in the short term, the annuity substitution rule for valuing lump sums is <u>unchanged</u>

How MAP-21 Affects Assets

- Adjusting contributions receivable discounted using prior year's effective interest rate
  - If MAP-21 first applies for 2012, then affects assets for 2013^{+}
- Determination of average value of assets (AVA)
  - May be affected MAP-21 due to cap on expected return by the 3rd segment rate
  - Can affect AVA, even if the funding target is calculated using the full yield curve

How MAP-21 Affects Assets

- Option for § 404(o) asset value
  - If 3rd segment rate (after application of MAP-21 collar) > unadjusted 3rd segment rate, plan may elect to use § 430 asset value for § 404(o) calculations
- No similar rule for asset value for § 420 purposes or PBGC 4010 filing

Hybrid Plans

- Hybrid plan regulations regarding market rate of return are not yet final
- The IRS has not yet decided which rate should apply if currently use segment rates as rate of return:
  - Segment rates ignoring MAP-21, or
  - MAP-21 segment rates (rates after reflecting MAP-21 corridor)

Hybrid Plans

- Final regulations will not be effective for plan years beginning before January 1, 2014
- If final regulations provide that the MAP-21 rates exceed a market rate of return, plan will have to change back to rates ignoring MAP-21

Section 436 Issues

- Presumption rules not changed
- If AFTAP has not yet been certified, just certify with MAP-21 rates (unless elected to delay MAP-21 for § 436 until 2013)
- If AFTAP already certified before MAP-21, new certification may be applied:
  - Retroactively to the date of the original certification, or
  - Prospectively, to the earlier of October 1, 2012, or the date of the re-certification

Section 436 Issues

- Initial certifications made after 9/30/2012:
  - Are presumed to be done with knowledge of MAP-21 and Notice 2012-61, and
  - Material change and irrevocability rules apply

Section 436 Issues

- Retroactive Application / Recertification
  - Correct distributions back to first certification
  - May reverse credit balance elections that were made by 9/30/2012 if it does not cause an unpaid MRC
  - § 436 contributions that are no longer needed due to application of MAP-21 are applied to MRC

    -> Excess may be added to the prefunding balance

Section 436 Issues

- Prospective Application / Recertification
  - Only change operations going forward, beginning with the earlier of date of re-certification or 10/1/2012
  - For certifications made before 9/30/2012 and re-certified before 12/31/2012, deemed immaterial
    - 9/30/2012 date applies regardless of plan year

Section 436 Issues

- Prospective Application / Recertification
  - If UCEB or plan amendments were not initially allowed, but AFTAP increases later in the plan year so that they are, they must be retroactively allowed
  - May NOT reverse credit balance elections previously made
  - May NOT apply § 436 contributions already made to cover the MRC

Elections

- Election to delay effective date to 2013 not required until filing due date (with extensions) of 2012 Form 5500
- But, may need to make decisions earlier if
  - Decision would affect operation under § 436, or
  - Need to recertify by 12/31/2012 to use “deemed immaterial” rule
- Elections to reverse funding balance elections must be made by the end of the plan year

Transition Issues

- May retroactively change quarterly contributions.
- May re-designate contributions originally designated for 2011 plan year made in the 2012 plan year to be applied to the 2012 plan year
  - Election not required until filing due date (with extensions) of 2012 Form 5500
  - NOTE: This is an exception to the general position of the IRS

Transition Issues

- May reverse elections to reduce credit balances for funding if this does not:
  - Cause a problem under § 436 (including the period before recertification of MAP-21 AFTAP, if MAP-21 AFTAP is only applied prospectively for § 436)
  - Result in an unpaid MRC
- May not change elections already made to USE credit balances

Election to Change from Full Yield Curve to Segment Rates

- Plans using the full yield curve do not receive ‘funding relief’ under MAP-21
- Such plans, however, may change from the full yield curve to segment rates (and thus, obtain relief under MAP-21) without requiring approval
  - Election must be made for the “first year” MAP-21 applies in order to be eligible for ‘automatic approval’

Election to Change from Full Yield Curve to Segment Rates

- Election must be made in writing to the EA and plan administrator by July 5, 2013, regardless of whether 2012 or 2013 is the "first year" MAP-21 applies
- If election to change to segment rates is made and MAP-21 first applies for § 430 in 2012, but does not apply until 2013 for § 436, then for 2012:
  - Segment rates are used for § 430
  - The full yield curve is used for § 436

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Premium Increases

- Increased premium rates
  - Higher rates (flat and variable)
  - VRP now subject to indexing
  - New cap on variable-rate premium (VRP), also subject to indexing
- Guidance on how to determine variable-rate premium after MAP (Technical Update 12-1)
- What's next

Single-Employer Plan Premium Rates

Before reflecting indexing rules

Red indicates amount is subject to indexing rules.

Year	Before MAP-21		After MAP-21	
	Flat	Variable	Flat	Variable
2012	$35	$9 per $1,000 UVB	$35	$9 per $1,000 UVB
2013	$35	$9 per $1,000 UVB	$42	$9 per $1,000 UVB capped at $400 x P-count
2014	$35	$9 per $1,000 UVB	$49	$13 per $1,000 UVB capped at $400 x P-count
2015 & later	$35	$9 per $1,000 UVB	$49	$18 per $1,000 UVB capped at $400 x P-count

In all likelihood, 2013 VRP rate will remain at $9.

Multis – For 2013, $9 flat rate increases to $12. Indexing resumes in 2014.

Single-Employer Plan Premium Rates

Assuming NAWs increase 3% per year

Year	Flat-Rate Premium	Variable-Rate Premium	
	Rate per participant	Rate per $1,000 UVB	Per participant cap
2012	$35	$9	N/A
2013	$42	$9	$400
2014	$49	$14	$412
2015	$50	$19	$424
2016	$52	$20	$437
2017	$54	$20	$450
2018	$55	$21	$464
2019	$57	$21	$478
2020	$59	$22	$492
2021	$60	$23	$507

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Determining Unfunded Vested Benefits (for VRP calculation)

- MAP-21 didn't change anything
- Premium Funding Target
  - Don't use stabilized rates for premium funding target regardless of method (standard or alternative)
  - Use same retirement/form of payment assumptions you're using for minimum funding purposes, even if plan would have been at-risk if not for stabilization rules
- Market Value of Assets
  - Use same value of assets you would have used before MAP-21
  - Contributions receivable discounted using actual effective interest rate
  - Generally same value that gets reported on Schedule SB (line 2a)
- See Technical Update 12-1 for more information

My PAA, "form" and instructions

- Technical Update 12-1 overrides 2012 instructions
- Examples of outdated instructions
  - Help text/instructions say that APFT is vested portion of funding target used to determine minimum required contribution ----That's no longer the case
  - Table in "How to determine UVBs section" says that plans using APFT should use same discount rate used to determine minimum required contribution --- That's no longer the case.
- Revised 2013 premium booklet submitted to OMB
  - Reginfo.gov (information collection review)
  - Comment period ends October 11, 2012
- My PAA will be revised in time for 2013 filings

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4010 filings - background

- ERISA 4010 provides that certain employers must provide additional information to PBGC
- Filing done on controlled group basis, not plan basis
- First 2012 filings due April 15, 2013
- Three reporting triggers
  - Large missed contribution (over $1 million)
  - Large outstanding funding waiver
  - FTAP for any plan in CG < 80%
- 80% FTAP reporting waiver
  - If aggregate underfunding for all plans ≤ $15 million, reporting is waived
  - Waiver applicable only to 80% FTAP gateway test

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MAP-21 changed 80% FTAP gateway test

- For 4010 purposes, FTAP determined w/o regard to stabilization rules
  - Q&A NA-3 of IRS Notice 2012-61 provides guidance on how to do this calculation
    - Separate asset value must be calculated w/o regard to stabilization rules
    - Assets for this purpose may differ from assets used to determine MRC.
- Reporting waived if reporting wouldn't have been required if asset value used to determine MRC was used instead of Q&A NA-3 amount.
- Roundabout way of saying: for 80% gateway test, use:
  - Funding target determined w/o regard to stabilization rules, and
  - Either actuarial asset value:
    - What you're using for MRC, or
    - Amount per Q&A NA-3

FTAP reminder

As always for FTAP calculations:

•For funding target - disregard at-risk assumptions and load even if the plan is at-risk

•For assets - subtract COB & PFB

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MAP-21 didn't change aggregate $15 million waiver

- PBGC's 4010 regulation:
  - Uses term "4010 funding shortfall" to describe underfunding for this purpose
  - Defines 4010 funding shortfall as the excess of:
    - Funding target used to determine MRC over
    - Actuarial value of assets used to determine MRC
- No additional calculations needed to determine if aggregate $15 million waiver applies, even if stabilized rates are used for MRC purposes
  - Use the amounts you've already calculated for MRC purposes
  - Same amounts that will be reported on Schedule SB

MAP-21 didn't change rules re: which plans need to report actuarial information

- Reporting divided into three sections
  - Identifying information (plans and CG members)
  - Financial information (about CG members)
  - Actuarial information (about plans sponsored by CG members)
- Certain small plans exempt from reporting actuarial information
  - 4010 funding shortfall comes into play for this determination
  - MAP-21 didn't change determination of 4010 funding shortfall for this purpose either
    - Use amounts you're using to determine MRC

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MAP-21 had minor impact on actuarial information to be reported

- Certain ERISA 4010(d) data is determined w/o regard to stabilization rules:
  - FTAP
  - Funding target as if plan was at-risk for at least five years

For these calculations, refer to guidance in “NA” section of IRS Notice 2012

- All other actuarial data to be reported relates to amounts used to determine MRC and/or benefit restrictions.
  - AFTAP
  - Amounts reported in valuation reported that gets attached to e-4010 submission
- For more information on how MAP-21 affects 4010, see PBGC Technical Update 12-2

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