

ASPEN PUBLISHERS

Defined Benefit Answer Book

Fourth Edition

G. Neff McGhie III



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Law & Business

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Defined Benefit Answer Book

Fourth Edition

by G. Neff McGhie III

Defined Benefit Answer Book provides expert guidance on the complex rules governing defined benefit pension plans. In this comprehensive resource, the author guides the subscriber, step by step, through the maze of factors that must be considered when designing and administering these plans.

Highlights of the Fourth Edition

The Fourth Edition brings you up to date on the latest developments including:

- Complete discussion of the comprehensive changes made to defined benefit plans by the Pension Protection Act of 2006 (PPA).
- Analysis of the effects of the newly proposed Code Section 415 regulations on defined benefit plans if the regulations are finalized as originally proposed.
- Updated information regarding the requirements of the relative value regulations of Code Section 417.
- Updated information regarding amendments eliminating optional forms of benefits.
- Practical information about the uses of each type of funding method used for defined benefit plans.
- Additional information regarding multiemployer plans.
- Recent PBGC guidance and changes.

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Preface

Defined Benefit Answer Book, Fourth Edition, is designed for professionals who need quick and authoritative answers to questions on the complex administration of defined benefit plans. It is thoroughly updated to cover all of the latest legislative developments affecting defined benefit plans, including the changes implemented by the Pension Protection Act of 2006 (PPA), the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Job Creation and Worker Assistance Act of 2002 (JCWAA), and the Pension Funding Equity Act of 2004. There are numerous examples of how those bills affect defined benefit plans and discussion and analysis of current laws and regulations, including how the PPA affects the future of defined benefit plan operations. Among the crucial questions answered are the following:

- Does a company's financial stability affect plan design?
- Can plans be designed to provide enhanced benefits to key employees?
- Are there ways of establishing hours of service without counting actual hours?
- Can a defined benefit plan be designed so that there is no discrimination testing each year?
- Can a defined benefit plan be designed to primarily benefit the key employees?
- Are there any advantages to having a defined contribution plan and a defined benefit plan together, and how are they administered?
- What must an employer do to satisfy minimum funding requirements?
- What distribution election forms must be provided to a participant?
- How can a QDRO be prepared for a defined benefit plan?
- How are maximum benefit limitations determined under a plan?
- How are benefits calculated and converted to alternate forms of payment?
- What administrative issues must be considered for a plan that is covered by the Pension Benefit Guaranty Corporation?
- How are cash balance plans similar and different from traditional defined benefit plans?

- How are deductible contributions determined for a defined benefit plan?
- How is a defined benefit similar and different from a defined contribution plan?
- What different administrative tasks are required for a defined benefit plan and for a defined contribution plan?
- How does a 412(i) plan operate?
- Can a 412(i) plan be more beneficial for sponsors than a regular defined benefit plan?

Some of the most useful features of *Defined Benefit Answer Book* are outlined below.

Question-and-answer format. The question-and-answer format effectively conveys the complex and essential subject matter of defined benefit plans, while providing quickly accessible, straightforward answers to common concerns.

Numbering system. The questions are numbered consecutively within each chapter.

List of questions. The detailed List of Questions that follows the Contents helps the reader locate areas of immediate interest. The list is similar to a detailed table of contents, providing both the question number and the page on which the question appears. A series of subheadings helps to group and organize the questions by topic within each chapter.

Appendixes. Valuable resource material has been provided in the appendixes that follow the last chapter. These documents include covered compensation tables, the annuity purchase rates for the applicable mortality tables, and rates of turnovers.

Reference tables. Reference tables keyed to question numbers are provided for Internal Revenue Code and regulations sections, revenue rulings, revenue procedures, IRS announcements and notices, court cases, PBGC regulations, ERISA regulations, and PPA sections.

Index. To further assist the reader in finding specific information, a detailed subject index gives comprehensive locator information for all major topics covered. All references are to question numbers.

In short, *Defined Benefit Answer Book* is designed to help readers make defined benefit plans a valuable component of their benefits and tax planning strategies.

About the Author

G. Neff McGhie, III, EA, MSPA is a graduate of California State University, Fresno with a B.A. in Mathematics. He is an Enrolled Actuary, a Member of the College of Pension Actuaries (COPA) and a Member of the American Society of Pension Professionals and Actuaries (ASPPA), where he serves on the Government Affairs Committee. He has been a contributing author to various publications, including the *Journal of Pension Benefits*, and is a frequent speaker on pension issues to groups of other pension professionals locally and in national conferences.

Mr. McGhie is the owner of Sierra Pension Services, Inc. in Reno, Nevada. Sierra Pension Services, Inc. is an actuarial consulting and pension administration company specializing in creative plan design work for business owners and provides actuarial consulting to other pension administration firms. He and his wife, Carie, are the proud parents of three boys, Davone, Keegan, and Brenden. Neff's varied experiences range from having been an Eagle Scout in the Boy Scouts of America, to nearly qualifying for the Olympic Trials in the steeplechase in track and field, to serving as a Spanish-speaking missionary for the Church of Jesus Christ of Latter-day Saints in Idaho. Mr. McGhie has volunteered as a soccer coach for his sons' teams and helps his wife in her quilt shop. His hobbies include sewing machine repair (he is an authorized Bernina sewing machine technician), computer programming (he knows HTML, Perl, JavaScript, php, and VisualBasic), and Web site design (he has two sites currently up and running: www.goingbatty.com and www.mcghiefamily.com).

Acknowledgments

In the past editions, I have acknowledged the help and direction given to me by a friend, Mr. Michael R. Deans, MSPA, of Fresno, California. He gave me my start in this business when I was a clueless college student. As a math major about to graduate, I didn't know what I wanted to do when I finished school. A friend on my cross-country team, Laura, who was also a math major, mentioned becoming an actuary. I took the first SOA exam, but didn't really know where to go from there. My wife encouraged me to find out if there were any local actuaries and ask to do an internship. I called one place, where someone suggested I call Mike.

As I look back on it, I still don't know why Mike said yes. My first day he sat me down with a copy of Aspen Publishers' *The Pension Answer Book* and told me to start reading. I didn't know anything about retirement plans, and he was going to pay me to learn. So I read for a couple of hours, asked a couple of questions, and he sent me on my way for the day. I ended up working with him for a few great months before he lined up a job for me with a firm in Reno, Nevada. He had a friend in Reno, Roy E. Arthurs, CPA, CLU, who was looking for an actuary. That's where it all began. I look back and place the blame for all of this on Mike, and after you read this book, you can blame him for it as well.

And I blame it on that old copy of *The Pension Answer Book*, too. Although *The Pension Answer Book* was a great start for learning about retirement plans, I've felt that something more was needed to teach people about defined benefit plans.

As always, I would like to recognize the efforts of the original authors of *Defined Benefit Answer Book*, Michael E. Callahan, Paul W. Denu, and Kathryn H. Smith, without whom these subsequent editions would not be possible.

If you have any suggestions about this book, I encourage you to contact me at sierrapension@mindspring.com. I'm always looking for ways to improve this material and help more people to understand and, ultimately, revitalize defined benefit plans. I hope that when you read this book you will be able to gain a better understanding of defined benefit plans, and be able to increase your business and help your clients achieve their goals. I dedicate this edition

to my wife and boys, who sacrifice and help me find the time to update this book each year.

G. Neff McGhie, III
February 2007

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