

DB: Administrative Issues of Defined Benefit Plans 2012 Syllabus

Course Overview

This course builds on the material learned from RPF-1 and RPF-2. Those courses deal with basic terms and definitions within operation of a private employer's qualified retirement plan. They include fundamentals such as nondiscrimination, coverage, preferential tax-treatment, reporting and disclosure, and vesting, among others.

This course concentrates on basic issues of defined benefit plans. It is primarily meant for the administrator, rather than the plan actuary. It covers a broad range of topics at a basic level. Further coverage of intermediate administrative issues is found in DB-A: Defined Benefit Administration and advanced defined benefit plan topics are found in the CPC courses and A-4.

ERISA law along with IRS, DOL and PBGC regulations provides a framework for the rules that govern qualified plan operations. These rules often apply to both defined benefit and defined contribution plans. The nature of the defined benefit promise is fundamentally different from the defined contribution promise. This difference requires mathematical concepts that allow for the funding of promised benefits. Basic to this is the concept of the present value of an accrued benefit under a plan. Present value calculations require the use of actuarial assumptions such as interest rates and mortality tables.

The plan administrator determines participant accrued benefits. After participants terminate or retire from employment with the employer, a determination is made of their vesting status and the current or deferred benefit payable under the plan. The defined benefit practitioner must consider pay and service history to arrive at participant accrued benefits. These benefits may need to be adjusted for maximum benefit limitations and/or top-heavy and lump-sum minimum thresholds. It may still be possible that benefits payable may be restricted on a plan-wide basis or restricted to the highly paid.

This course introduces various types of defined benefit plans and various types of benefit formulas. This includes hybrid plans which incorporate some features usually specific to defined contribution plans.

Other issues covered in the course at an introductory level include plan termination insurance (PBGC), and qualified domestic relations orders (QDROs), which permit a portion of a participant's benefit to be paid to a former spouse or other beneficiary, and other issues that must be dealt with when benefits become payable.

This course also considers the importance of the defined benefit practitioner's complying with ASPPA's Code of Professional Conduct, which aims to further the ethical behavior of ASPPA members.

It is presumed that a candidate sitting for the DB Course should have knowledge of material covered in ASPPA's Retirement Plan Fundamentals (RPF) exam series.

Required Reading

DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, a division of Wolters Kluwer, Law & Business, 2009. (There is a 2012 paperback Supplement to the Fourth Edition: however, the 2012 exam will generally not rely on material from the Supplement).

Recommended Reading

Bloom, Lauren. *Elegant Ethical Solutions.* Elegant Solutions Consulting: Goodlettsville, TN.

Suggested Reading

Tripodi, Sal L. *The ERISA Outline Book.* Arlington, VA: ASPPA, 2012. Use the most recent edition available, but remember that the 2012 DB examination only covers changes in law and regulations established prior to August 1, 2011. The examination does cover changes implemented in the Pension Protection Act (PPA).

Supplementary Study Materials

Webcourse

ASPPA webcourses cover an extensive variety of topics essential to retirement plan professionals. The webcourses can be utilized for training purposes and to assist candidates preparing for ASPPA examinations. ASPPA Webcourses provide introductory training for new employees and topical training for exam candidates and other professionals seeking education in specific areas.

It is expected that webcourse registrants preparing for an examination will thoroughly study the topics covered in this syllabus and the required reading for the corresponding examination. The webcourse sessions should not be used as a substitute for these materials, and candidates should be aware that some currently available webcourses may have been produced in previous program years. While these webcourses are still relevant, candidates should use them as a supplementary exam preparation tool. Visit www.asppa.org/webcourse for more information.

Practice Examinations

Practice examinations are available for purchase through the ASPPA bookstore at www.asppa.org/practice-exams.

Educational Material Copyright

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Please note that only products noted as distributable can be distributed. Purchasers of these products are allowed to distribute to direct employees of their Company. In addition, authorized Universities offering ASPPA education are eligible to distribute the purchased materials to their students. Purchasers of this product are prohibited from distribution of these materials to any other parties unless agreed upon by ASPPA in writing. Materials may be e-mailed directly to the above-mentioned parties or published on a non-public portion of the Purchaser's website for access/distribution. Materials may not be placed on a site that has general public access. All other use or distribution of these materials is explicitly prohibited unless otherwise approved in writing by ASPPA.

Exam

The corresponding exam will include 65 multiple choice questions for which a candidate will have 2½ hours to complete. Candidates will receive a grade immediately upon completing the exam. Exams are given in a proctored setting at Prometric Testing Centers during two examination windows.

Additional Information

All candidates are encouraged to visit ASPPA's Candidate Corner (www.asppa.org/candidate-corner) for additional information. It is the candidate's responsibility to check the ASPPA Web site for the most current information on examinations and publications. The Candidate Corner includes instructions for locating Prometric test centers to schedule examinations, exam windows and dates, study tips, current information on regulatory limits and other helpful information. You may also contact ASPPA with questions at education@asppa.org.

Exam & Publication Errata and References

As needed, errata to required reading material and/or practice examinations will be posted on the ASPPA website at www.asppa.org/errata. It is the candidate's responsibility to check this page regularly for any updates prior to taking an examination.

Topic 1 - Introduction to Defined Benefit Plans

Overview

Pension plans generally fall into one of two categories: defined contribution plans and defined benefit plans. In defined contribution plans, the plan document specifies the contribution (or the allocation of a contribution) to an individual participant's account. In a defined benefit plan, the participant's retirement benefits are defined in the plan document rather than by the value of a participant's account; employer contributions for defined benefit plans are determined actuarially to provide for the accumulation of unallocated assets sufficient to pay the expected plan benefits as they become due.

Learning Objectives

The successful candidate will be able to:

- 1.01 Identify differences between defined benefit and defined contribution plans.
- 1.02 Identify defined benefit plan provisions, options, and features.
- 1.03 Identify the various types of benefit formulas commonly found in defined benefit plans.
- 1.04 Explain how the funding of defined benefit plans differs from that of defined contribution plans.
- 1.05 Describe the functions of the PBGC.
- 1.06 Identify which plans are covered by the PBGC.
- 1.07 Understand how both parts of the PBGC premium are calculated.

Exam Weighting

This topic will comprise approximately 9 to 11 percent of the exam questions.

Required Reading

Chapter 1: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 1: Questions 1:1-1:34 and 1:65-1:67, Chapter 2: Questions 2:1-2:15, 2:37-2:42 and 2:52-2:53, Chapter 3: Questions 3:1-3:29, Chapter 5: Questions 5:1-5:6, Chapter 6: 6:10, Chapter 9: Questions 9:1-9:6, Chapter 10: 10:26 and Chapter 23: Questions 23:1-23:2).

Topic 2 - Determining Accrued Benefits

Overview

In defined benefit plans, the accrued benefit is the portion of the normal retirement benefit earned by the participant to date. This topic covers how benefits are accrued and the requirements associated with the rate of accrual under a defined benefit plan.

Learning Objectives

The successful candidate will be able to:

- 2.01 Describe and calculate accrued benefits under various formulas.
- 2.02 Determine if a benefit formula meets the minimum accrual standards.
- 2.03 Describe the impact that fully insured IRC §412(e)(3) plans have on accrued benefits.
- 2.04 Describe the impact that mandatory employee contributions have on accrued benefits.
- 2.05 Summarize the process for calculating the portion of the accrued benefit attributable to mandatory employee contributions.
- 2.06 Define when a plan is top-heavy and the effect this has on accrued benefits.
- 2.07 Identify protected benefits and determine which benefits may be eliminated prospectively.
- 2.08 Define how the AFTAP is calculated.

Exam Weighting

This topic will comprise approximately 11 to 13 percent of the exam questions.

Required Reading

Chapter 2: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 2: Questions 2:35-2:36 Chapter 5: Questions 5:7-5:25, Chapter 7: Questions 7:10-7:24, Chapter 9: Questions 9:7-9:17 and 9:24-9:39, Chapter 14: Questions 14:1-14:31 and Chapter 22: 22:6).

Topic 3 - Present Value Calculations and Alternate Forms of Benefits

Overview

Defined benefit plans may assign a single lump-sum value to the accrued benefit using actuarial equivalence assumptions. These assumptions are subject to certain rules and restrictions that are discussed in this topic.

Learning Objectives

The successful candidate will be able to:

- 3.01 Identify the required actuarial assumptions used in the PVAB calculations.
- 3.02 Calculate the PVAB of a given accrued benefit.
- 3.03 Determine the impact the actuarial assumptions have on the PVAB calculation.
- 3.04 Describe the concept of actuarial equivalence and the role it plays in a defined benefit plan.
- 3.05 Describe what is meant by an alternate form of benefit.
- 3.06 Calculate the amount of alternate forms of benefit.
- 3.07 Describe the common distribution options including Social Security leveling.
- 3.08 Identify the pros and cons of a lump-sum form of distribution.
- 3.09 Identify the pros and cons of an annuity form of distribution.
- 3.10 Determine 'relative value' based on a set of reasonable assumptions.

Exam Weighting

This topic will comprise approximately 14 to 16 percent of the exam questions.

Required Reading

Chapter 3: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.*. New York: Aspen Publishers, 2009. (Chapter 1: Questions 1:15 and 1:54; Chapter 9: Questions 9:18-9:23; Chapter 12: Question 12:15; Chapter 16: Questions 16:6-16:15; Chapter 19: Question 111 and Chapter 23: Question 23:16).

Topic 4 – Hybrid and Floor Offset Defined Benefit Pension Plans

Overview

Hybrid plans have features of defined benefit and defined contribution plans. Examples of hybrid plans are cash balance and pension equity plans.

A cash balance plan is a defined benefit plan. However, to a participant, it appears to work much like a defined contribution plan because an account balance is maintained for each participant. The plan provides for a specified accrual (as a percentage of pay) and a specified rate of investment earnings to be credited to the account each year.

A pension equity plan also defines for each participant an account; however, additions to the account are annual percentages of average compensation and increases to the account come in the form of increases in final average compensation. A pension equity plan is also a defined benefit plan.

A floor-offset plan is a hybrid arrangement in which the employer maintains a traditional defined benefit plan and a defined contribution plan. The benefits provided under the defined benefit plan are to be reduced (offset) by the benefit derived from a participant's account in the defined contribution plan. Thus, the stated accrued benefit under the defined benefit plan provides a guaranteed "floor" benefit below which the total benefit from the arrangement cannot fall regardless of investment gains or losses.

Learning Objectives

The successful candidate will be able to:

- 4.01 Identify types of hybrid plans.
- 4.02 Identify features, advantages and disadvantages of cash balance, pension equity, DBK and floor-offset plans.
- 4.03 Calculate a participant's benefit under a cash balance plan.
- 4.04 Calculate a participant's benefit under a pension equity plan.
- 4.05 Calculate a participant's benefit under a floor-offset plan.

Exam Weighting

This topic will comprise approximately 10 to 12 percent of the exam questions.

Required Reading

Chapter 4: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 2: Questions 2:9-2:10, Chapter 4: Questions 4:1-4:4 and 4:14-4:28 and Chapter 13: Questions 13:1-13:6, 13:12-13:17, 13:26-13:29 and 13:38-13:42).

Topic 5 – Post-Normal Retirement Age Accruals

Overview

As required under IRC §411(b)(1), a defined benefit plan may not cease or reduce a participant's benefit accrual as a result of a participant's attaining any age.

Learning Objectives

The successful candidate will be able to:

- 5.01 Identify permissible limits on post-NRA accruals.
- 5.02 Determine retirement benefits payable after NRA using applicable factors.
- 5.03 Describe the impact that distributions and late retirement factors have on the calculation of post -NRAaccruals.

Exam Weighting

This topic will comprise approximately 4 to 6 percent of the exam questions.

Required Reading

Chapter 5: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 9: Questions 9:44-9:55).

Topic 6 – Early Retirement, Disability, Ancillary and Incidental Benefits

Overview

A defined benefit plan may offer retirement benefits to participants at ages earlier than the plan's normal retirement age. For example, a plan may offer either a subsidized or actuarial equivalent early retirement benefit to employees who satisfy certain age or service requirements. The plan may also offer ancillary benefits, such as disability benefits. Frequently, plans offer death benefits. However, these death benefits must satisfy the incidental benefit test. Plans that provide for annuity options must provide for qualified joint and survivor annuities (QJSA) as well as qualified preretirement survivor annuities (QPSA) and QOSA.

Learning Objectives

The successful candidate will be able to:

- 6.01 Calculate early retirement benefits using applicable factors.
- 6.02 Identify the eligibility provisions under which early retirement benefits apply.
- 6.03 Describe what happens when a participant becomes disabled in a plan that provides for a disability benefit.
- 6.04 Discuss how a plan may define disability.
- 6.05 Identify the requirements for QJSA, QOSA and QPSA.
- 6.06 Identify types of ancillary benefits in a defined benefit plan.
- 6.07 Identify other types of ancillary benefits and incidental limitations in a defined benefit plan.

Exam Weighting

This topic will comprise approximately 11 to 13 percent of the exam questions.

Required Reading

Chapter 6: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 15: Questions 15:1-15:23, Chapter 16: Questions 16:36-16:86 and Chapter 28: Questions 28:14-28:16).

Topic 7 – Benefit Limitations under IRC §415

Overview

The Internal Revenue Code (IRC), regulations, and related rulings limit benefits that can be provided in a qualified defined benefit plan.

Learning Objectives

The successful candidate will be able to:

- 7.01 Determine the overall benefit limits and circumstances requiring limit adjustments.
- 7.02 Calculate the maximum IRC §415 limit for a participant, including the dollar and percentage limits below age 62 and above age 65.
- 7.03 Identify the impact of the IRC §401(a)(17) compensation limit on benefit calculations.

Exam Weighting

This topic will comprise approximately 4 to 6 percent of the exam questions.

Required Reading

Chapter 7: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition.* Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 12: Questions 12:1 - 12:25, 12:28-12:29 and 12:39-12:43).

Topic 8 – This topic intentionally left blank

None

Topic 9 – Permitted Disparity

Overview

Permitted disparity is the allowable use of supplementing or offsetting for employer paid Social Security benefits in a pension plan. The permitted disparity rules are covered in IRC §401(l). The permitted disparity rules provide ways to provide plan benefits which

favor the higher-paid employees without creating a need to perform the IRC §401(a) general nondiscrimination test.

Learning Objectives

The successful candidate will be able to:

- 9.01 Describe the concept of permitted disparity.
- 9.02 Determine if a benefit formula complies with the permitted disparity rules.
- 9.03 Calculate retirement benefits based on a permitted disparity formula.

Exam Weighting

This topic will comprise approximately 4 to 6 percent of the exam questions.

Required Reading

Chapter 9: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 10: Questions 10:26-10:46).

Topic 10 – Qualified Domestic Relations Orders (QDROs)

Overview

QDROs are orders pursuant to state domestic relations law and approved (qualified) by the plan administrator that assign a portion of the benefits of a retirement plan to a spouse, former spouse, or dependent of a plan participant. QDROs are an exception to the anti-assignment rules of IRC §401(a)(13). QDROs were established by the Retirement Equity Act of 1984 and the QDRO rules are contained in IRC §414(p). Before this law, there was no clear way for plan administrators to conform to domestic relations orders without risking the qualified status of the retirement plan. The DB Examination will consider the plan administrator's responsibilities in approving and administering QDROs but will not consider the actuarial, legal and negotiation steps required to establish a proposed QDRO.

Learning Objectives

The successful candidate will be able to:

- 10.01 Describe the elements of a QDRO.
- 10.02 Discuss QDRO policy and procedures.
- 10.03 Compare shared payment and separate interest QDROs.
- 10.04 Discuss the actuarial adjustment of assigned benefits.
- 10.05 Describe the impact of early retirement subsidies.
- 10.06 Identify the issues related to the assignment of death benefits.

Exam Weighting

This topic will comprise approximately 5 to 8 percent of the exam questions.

Required Reading

Chapter 10: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 17: Questions 17:1-17:16 and 17:40-17:68 and Chapter 28: Question 28:12).

Topic 11 – Distribution Issues

Overview

When making distributions, a qualified plan is required to provide the participant with notices regarding the ability to opt out of the required QJSA form of annuity, the ability to roll a lump sum distribution into an IRA or another qualified plan, and the taxability of distributions. The ability to designate a retroactive annuity start date earlier than the actual receipt of benefits has eased the impact of the QJSA timing notices on the participant. When optional forms of benefit are available, the plan must provide the participant with disclosures of the relative value of the available options.

Favorable tax treatment is given to the benefits in a qualified retirement plan and plans are required to make minimum distributions to help assure that plan assets will be used primarily to support the participant and possibly a beneficiary during retirement rather than add to the estate of the participant. Because taxes have been deferred on retirement plan benefits, it is important for the administrator to explain the taxation of benefits to the participant and to follow the withholding rules on distributions.

For under-funded plans, PPA has imposed limitations on both benefit accruals and distributions.

Earlier topics in this syllabus also contain material relevant to distributions from defined benefit plans, in particular Topic 2 - Determining Accrued Benefits, Topic 3 - Present Value Calculations and Alternate Forms of Benefit, Topic 5 - Post-Normal Retirement Age Accruals, Topic 6 - Early Retirement, Disability, Ancillary and Incidental Benefits, and Topic 7 - Benefit Limitations under IRC §415.

Learning Objectives

The successful candidate will be able to:

- 11.01 Discuss the concept of a RASD.
- 11.02 Compare RMDs for defined benefit and defined contribution plans.

- 11.03 Describe the required defined benefit plan distribution disclosures and their timeframes.
- 11.04 Perform relative value calculations.
- 11.05 Discuss the taxation of defined benefit distributions including recovery of cost basis.
- 11.06 Describe the withholding rules on defined benefit plan distributions.
- 11.07 Describe the AFTAP ranges relating to restrictions.
- 11.08 Describe the limitations on distributions imposed on an under-funded plan.
- 11.09 Describe the top 25 restricted employee rules.

Exam Weighting

This topic will comprise approximately 9 to 11 percent of the exam questions.

Required Reading

Chapter 11: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 16: Questions 16:1-16:5, 16:24-16:45, 16:50-16:59, 16:87-16:100 and 16:106-16:119, Chapter 19: Questions 19:108 and 19:118 and Chapter 28: Questions 28:1-28:11 and 28:17-28:21).

Topic 12 – Participant Notices

Overview

This topic focuses on participant notifications which are not covered elsewhere. These include: the annual funding notice, failure to meet minimum funding requirements, suspension of benefits, plan amendments that reduce or eliminate future benefit accruals and restricted distributions under PPA.

Learning Objectives

The successful candidate will be able to:

- 12.01 Describe defined benefit participant notification requirements including minimum funding and ERISA §204(h) notice requirements involving benefit reductions.
- 12.02 Describe the contents of the annual funding notice under PPA.
- 12.03 Determine which defined benefit plans are to distribute an SAR instead of an annual funding notice under PPA.
- 12.04 Describe suspension of benefits notices and notices under PPA's benefit restrictions.

Exam Weighting

This topic will comprise approximately 2 to 3 percent of the exam questions.

Required Reading

Chapter 12: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

McGhie, G. Neff. *Defined Benefit Answer Book, 4th ed.* New York: Aspen Publishers, 2009. (Chapter 8: Questions 8:48 - 8:77, Chapter 16: Question 16:41, Chapter 28: Questions 28:35-28:41 and 28:63-28:71 and Chapter 29: Question 29:6).

Topic 13 – ASPPA Code of Professional Conduct

Overview

The ASPPA enforceable code of ethics or professional conduct is one indication that pension plan administrators and plan advisors operate according to recognized standards for a profession. It is important for those studying to become members of ASPPA become familiar with the Code of Professional Conduct and reflect on the guidance it can bring to the everyday work of a pension administrator or professional.

Learning Objectives

The successful candidate will be able to:

- 13.01 Demonstrate awareness of the ASPPA Code of Professional Conduct.
- 13.02 Identify ways the code applies specifically to defined benefit administration.

Exam Weighting

This topic will comprise approximately 2 to 3 percent of the exam questions.

Required Reading

Chapter 13: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 6th Edition*. Arlington, VA: ASPPA, 2012.

Recommended Reading

Bloom, Lauren. *Elegant Ethical Solutions*. Elegant Solutions Consulting: Goodlettsville, TN.