

DB-A: Defined Benefit Administration

Course Overview

This course builds on the material from ASPPA's Administrative Issues of Defined Benefit Plans (DB) exam. That exam deals with basic terms and definitions within operation of a private employer's qualified retirement plan. They include fundamentals such as preferential tax treatment, reporting and disclosure and vesting, among others.

The DB-A Certificate program is designed for entry level to intermediate level defined benefit plan administrators. Many firms that administer defined benefit plans rely heavily on non-actuarial staff to interact with defined benefit plan sponsors and to partner with the plan's actuary to prepare the plan valuation and tax filings. The DB-A certificate will provide the non-actuary with an understanding of the administration of a defined benefit plan, including the basics of determining contributions, the applicable deadlines, how to perform calculations for termination and retirement benefits, and IRC §401(a)(26) minimum coverage. Further coverage of defined benefit plan topics is found in the CPC and A-4 courses.

The DB-A certificate is valuable to administrators interested in expanding their knowledge of defined benefit plans, providing full defined benefit plan administration support to their plan's actuaries, improving their consulting abilities with defined benefit plan clients, developing basic actuarial skills, and becoming a more valuable asset to their employer.

ERISA law along with IRS, DOL and PBGC regulations provides a framework for the rules that govern qualified plan operations, including defined benefit plans. The nature of the defined benefit promise requires mathematical concepts that allow for the funding of promised benefits. Inherent in 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, mortality tables and others.

The plan administrator determines participant accrued benefits for traditional and hybrid plans (cash balance and pension equity) plans. 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 administrator 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 is still possible that benefits payable may be restricted on a plan-wide basis or restricted to the highly paid.

This course develops concepts from the DB Course to allow for comparisons between 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 intermediate level include plan termination insurance (PBGC) and valuation techniques. Some of the chapters are common with the DB Course; however, this course is specifically designed for administrators and candidates transitioning into intermediate defined benefit areas. Material specific to this course include the areas of assets, valuations, funding and accounting. This program does not delve deeply into actuarial calculations (e.g., mechanics of funding calculations) but covers them sufficiently so that a passing candidate could effectively consult with a defined benefit plan client.

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

The candidate will be awarded the Defined Benefit Administration (DB-A) certificate upon successful completion of this open book exam. The exam is provided exclusively through on-line resources.

It is presumed that a candidate sitting for the DB-A examination has knowledge of material covered in ASPPA's DB Course and the Retirement Plan Fundamentals (RPF) course.

Suggested Reading

DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition. Arlington, VA: ASPPA, 2016.

Please note: Chapters 8, 9 and 10 are not tested in the DB-A Course.

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

Tripodi, Sal L. *The ERISA Outline Book.* Arlington, VA: ASPPA. Use the most recent edition available. The examination does cover changes implemented in the Pension Protection Act (PPA).

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Exam

The corresponding online open-book exam will include 75 questions of which 65 are multiple choice and 10 are True/False. Upon completion of the exam, a candidate will receive an immediate score and feedback report. **A score of 64 or more out of 75 is a passing score.** There are two attempts of the examination. If a candidate fails one attempt of the DB-A exam, he/she may register, pay and take the second version within the same year. **Please note that the enrollment period for each attempt is six months. Exams must be submitted six months from first enrollment date.** Upon successful completion of the exam, the Defined Benefit Administration certificate will be immediately issued to the candidate.

Additional Information

All candidates are encouraged to visit ASPPA's Candidate Corner (www.asppa-net.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 study tips, current information on regulatory limits and other helpful information. You may also contact ASPPA with questions at rpa@usaretirement.org.

Topic 1 - Introduction to Defined Benefit Plans

Overview

Pension plans generally fall into one of two categories: defined contribution plans and defined benefit plans. Comparisons between defined benefit and defined contribution plans lead to an understanding of the advantages and disadvantages of choosing a particular plan for a certain plan sponsor. Certain defined benefit plan provisions and features are not available in defined contribution plans and provide additional flexibility for the plan sponsor and the plan participant. In some cases, a defined benefit/defined contribution combination is most suitable.

There are different ways to freeze a defined benefit plan if the plan sponsor has decided that the cost of the defined benefit plan has become too great. Other ways of managing cost include changing certain features of the plan – including early retirement reduction factors. Employer contributions to the plan must meet certain requirements.

Learning Objectives

The successful candidate will be able to:

- 1.01 Describe advantages and disadvantages of various defined benefit plan types.
- 1.02 Describe advantages and disadvantages of defined benefit/defined contribution combo plans.
- 1.03 Explain the interplay between various defined benefit plan provisions, options, and features.
- 1.04 Identify ways a defined benefit plan can be partially or fully frozen.
- 1.05 Differentiate among various types of defined benefit formulas.
- 1.06 Describe minimum, maximum and suggested contribution levels.

Exam Weighting

This topic will comprise approximately 7 to 11 percent of the exam questions.

Suggested Reading

Chapter 1: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

Topic 2 - Accrued and Normal Retirement Benefits

Overview

In defined benefit plans, the accrued benefit is the portion of the normal retirement benefit earned by the participant to the determination date. This topic covers how benefits are accrued in a traditional final average pay plan. Projected benefits are compared to accrued benefits. Top-heavy minimum benefits apply to both traditional and cash balance plans when determining the accrued benefit. These topics (i.e., accrued benefit calculations, interest and pay credits and top-heavy minimum benefits) as they apply to cash balance plans are discussed in chapter 4.

Learning Objectives

The successful candidate will be able to:

- 2.01 Calculate an accrued benefit in a traditional defined benefit plan.
- 2.02 Explain the difference between accrued and projected retirement benefits.
- 2.03 Calculate the top-heavy required minimum benefit for a traditional defined benefit plan.

Exam Weighting

This topic will comprise approximately 2 to 6 percent of the exam questions.

Suggested Reading

Chapter 2: *DB and DB-A Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

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 and other assumptions are subject to certain rules and restrictions that are discussed in this topic.

A choice of forms of benefit payment is offered to the participant upon exit from service with the employer as provided by plan provisions. Special rules are used to convert benefits from one form to another.

Learning Objectives

The successful candidate will be able to:

- 3.01 Describe the actuarial assumptions used in determining present value.

- 3.02 Describe the prescribed actuarial assumptions used in funding and lump-sum calculations.
- 3.03 Calculate the present value of accrued benefits (PVAB) and present value of vested benefits (PVVB) using actuarial equivalence.
- 3.04 Calculate an optional form of benefit.
- 3.05 Determine 'relative value' based on a set of reasonable assumptions.
- 3.06 Calculate the benefit payable to a retiree with a COLA.
- 3.07 Explain different optional forms of benefit payment.
- 3.08 Determine the lump-sum payable using plan provisions and IRS minimum requirements without regard to IRC §415.

Exam Weighting

This topic will comprise approximately 8 to 12 percent of the exam questions.

Suggested Reading

Chapter 3: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*.
Arlington, VA: ASPPA, 2016.

Topic 4 – Hybrid and Floor Offset Defined Benefit Pension Plans

Overview

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. In conversations with plan sponsors it is helpful to compare and contrast traditional final average pay plans with cash balance plans. Various interest and pay credit methods are available. In some instances, a conversion from traditional to cash balance plan has been completed.

Learning Objectives

The successful candidate will be able to:

- 4.01 Identify the basic concepts that apply to cash balance plans, including benefit formulas and forms of benefit payment.
- 4.02 Compare cash balance plans to final average pay defined benefit plans and defined contribution plans.
- 4.03 List types of allowable interest credits.
- 4.04 Describe the types of commonly used pay credits.
- 4.05 Calculate a participant's benefit under various cash balance formulae.
- 4.06 Calculate the cash balance hypothetical account balance.
- 4.07 Determine accrued benefits in a cash balance plan.
- 4.08 Calculate the top-heavy required minimum contribution for a cash balance plan.
- 4.09 Compare employer risks of a cash balance plan to those with a defined contribution plan.
- 4.10 State how a defined benefit plan is converted to a cash balance plan.

Exam Weighting

This topic will comprise approximately 11 to 15 percent of the exam questions.

Suggested Reading

Chapter 4: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*.
Arlington, VA: ASPPA, 2016.

Topic 5 – Benefits After Normal Retirement Age

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. Participant notice requirements should be kept in mind.

Learning Objectives

The successful candidate will be able to:

- 5.01 Calculate the retirement benefits payable at a deferred retirement age.
- 5.02 Identify the notifications that are provided to participants in order for them to elect to defer retirement payments.

Exam Weighting

This topic will comprise approximately 1 to 5 percent of the exam questions.

Suggested Reading

Chapter 5: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*.
Arlington, VA: ASPPA, 2016.

Topic 6 – Early Retirement, Death, and Disability

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. Early retirement benefits can be useful tools for both participant and plan sponsor's financial management.

The plan may also offer ancillary benefits, such as disability benefits. Frequently, plans offer death benefits. 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 Explain subsidized early retirement.
- 6.02 Explain why early retirement benefits are used in defined benefit plans.
- 6.03 Explain the rules regarding disability benefits and calculate a disability benefit.
- 6.04 Identify the documentation needed to determine a participant's disability status under the terms of the plan.

- 6.05 Given a plan's QJSA, determine the QOSA percent.
- 6.06 Determine the death benefit for a 100 times projected monthly pension insured plan.
- 6.07 Determine if an insurance policy satisfies the incidental minimum death benefit rules.

Exam Weighting

This topic will comprise approximately 8 to 12 percent of the exam questions.

Suggested Reading

Chapter 6: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*.
Arlington, VA: ASPPA, 2016.

Topic 7 – Benefit Limitations under IRC §415

Overview

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

Learning Objectives

The successful candidate will be able to:

- 7.01 Calculate the IRC §415 limit before age 62, after age 62 and after age 65.
- 7.02 Determine the notifications that must be given to a participant who is post-normal retirement age (NRA) and at the IRC §415 compensation limit.
- 7.03 Calculate the lump-sum amount subject to IRC §415.
- 7.04 Explain the impact of the IRC §415 limit for participants who are post-NRA.

Exam Weighting

This topic will comprise approximately 4 to 8 percent of the exam questions.

Suggested Reading

Chapter 7: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*.
Arlington, VA: ASPPA, 2016.

Topic 8 – Participant Notices and PBGC Premiums

Overview

This topic focuses on participant notifications and PBGC premiums which are not covered elsewhere. These include comparing: the annual funding notice, the summary annual report (for those plans that are not covered by the PBGC), failure to meet minimum funding requirements, suspension of benefits, plan amendments that reduce or eliminate future benefit accruals, restricted distributions under PPA, and annual participant benefit statements. PBGC premiums are an additional cost over a defined contribution plan that can be managed by keeping the plan well-funded and by choosing the most appropriate funding method.

Learning Objectives

The successful candidate will be able to:

- 8.01 Differentiate the contents and purpose of a notice under PPA's benefit restrictions as compared to those under ERISA §204(h) benefit reductions.
- 8.02 List situations which would require a notice under the minimum funding rules.
- 8.03 Differentiate the contents and purpose of a summary annual report (SAR) from a PPA annual funding notice.
- 8.04 List the steps to follow in the distribution of a suspension of benefits notice.
- 8.05 List the required PBGC notices.
- 8.06 Identify three methods used to determine the variable-rate premium.
- 8.07 Explain how the variable-rate premium is determined.
- 8.08 Determine when the PBGC premium filing is due and explain the filing options.

Exam Weighting

This topic will comprise approximately 9 to 13 percent of the exam questions.

Suggested Reading

Chapter 11: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

Note: Chapters 8, 9 and 10 are not tested in the DB-A Course.

Thus, the topic number in the syllabus does not correspond with the Study Guide chapter for topics 8, 9, 10, 11 and 12.

The chapter associated with each topic is listed under "Suggested Reading".

Topic 9 – Plan Assets

Overview

Assets are held in a separate account to pay benefits earned under the plan to participants. Plan sponsors have wide latitude to select investment types based on their risk/return preferences. Asset reconciliation is introduced and its components defined. Market and smoothed value of assets is described along with a manner used to determine rate of return.

Learning Objectives

The successful candidate will be able to:

- 9.01 State the types of investments which may be held in the plan.
- 9.02 State the types of investments which may not be held in the plan.
- 9.03 Define an asset reconciliation from one year to the next.
- 9.04 Describe the elements which comprise an asset reconciliation.

- 9.05 Explain how market value is determined, including contribution receivables.
- 9.06 State a method used to determine smoothed actuarial value of assets.
- 9.07 State how rate of return is determined.

Exam Weighting

This topic will comprise approximately 7 to 11 percent of the exam questions.

Suggested Reading

Chapter 12: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

Topic 10 – Valuations

Overview

Once a year, the plan administrator or TPA must perform a valuation of assets and liabilities. Building blocks of the valuation include asset values, data, assumptions, methods and plan provisions. Data reconciliation is introduced and its components defined.

Learning Objectives

The successful candidate will be able to:

- 10.01 Identify information needed to perform an actuarial valuation.
- 10.02 Describe the standard census data format.
- 10.03 Describe data reconciliation.
- 10.04 Describe active, terminated vested, and retiree data groups.
- 10.05 List the major plan provisions used in a valuation.
- 10.06 List the common actuarial assumptions used in a valuation and the differences in assumptions for minimum required contributions and maximum allowable contributions.
- 10.07 Identify two funding methods for assets and liabilities.

Exam Weighting

This topic will comprise approximately 7 to 11 percent of the exam questions.

Suggested Reading

Chapter 13: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

Topic 11 – Funding and Accounting Reports

Overview

Once a year the actuary or actuarial firm prepare reports for purposes of documenting IRS funding information and may also need to prepare ASC (formerly FASB) financial statement information. Generally, the information is similar; however, each has its own set of rules. Certain IRS funding calculations are developed.

Learning Objectives

The successful candidate will be able to:

- 11.01 Identify common funding and accounting reports.
- 11.02 Identify the elements found in a funding report.
- 11.03 Identify the elements found in an ASC expense report.
- 11.04 Identify the elements found in an ASC plan accounting report.
- 11.05 Describe the information needed to complete a Schedule SB.
- 11.06 Explain how the shortfall is amortized to determine the minimum required contribution.
- 11.07 Determine the minimum required contribution.
- 11.08 Determine the maximum tax-deductible contribution.
- 11.09 Define AFTAP including uses of AFTAP for benefit accruals and payout restrictions.
- 11.10 Determine AFTAP.

Exam Weighting

This topic will comprise approximately 11 to 15 percent of the exam questions.

Suggested Reading

Chapter 14: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

Topic 12 – 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 that 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:

- 12.01 Demonstrate understanding of the ASPPA Code of Professional Conduct.
- 12.02 Identify ways the ASPPA Code of Professional Conduct applies specifically to defined benefit plan administration.

Exam Weighting

This topic will comprise approximately 1 to 5 percent of the exam questions.

Suggested Reading

Chapter 15: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 8th Edition*. Arlington, VA: ASPPA, 2016.

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