

DB: Basics of Defined Benefit Plans

Course Overview

This course builds on the material learned from the Retirement Plan Academy Retirement Plan Fundamentals course. That course deals with basic terms and definitions within operation of a private employer's qualified retirement plan. They include fundamentals such as coverage, preferential tax treatment, reporting, 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 for the highly paid employees.

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) 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 the Retirement Plan Fundamentals (RPF) course.

Suggested Reading

DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition. Arlington, VA: ASPPA, 2019. **Please note: Chapters 12, 13 and 14 represent content that is not present on the DB examination.**

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

The ERISA Outline Book. Arlington, VA: ASPPA, 2019.

Supplementary Study Materials

Practice examinations are available for purchase at <https://www.asppa.org/professional-development/product-quick-links>.

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Exam

The corresponding exam will include 60 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 .

Additional Information

All candidates are encouraged to read RPA's Examinations Policy (<https://www.asppa.org/sites/asppa.org/files/PDFs/Education/NewEducation/Policies/ASPPA%20Exam%20Policy.pdf>) for additional information. It is the candidate's responsibility to check the ASPPA Website for the most current information on examinations and publications. The policy includes instructions for locating Prometric test centers to schedule examinations, study tips, current information on regulatory

limits and other helpful information. You may also contact rpa@usaretirement.org with questions.

Topic 1 - Introduction to Defined Benefit Plans

Learning Objectives

The successful candidate will be able to:

- 1.01 Describe the differences between defined benefit and defined contribution plans.
- 1.02 Describe defined benefit plan provisions, options, and features.
- 1.03 Describe 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.

Exam Weighting

This topic will comprise approximately 2 to 4 percent of the exam questions.

Suggested Reading

Chapter 1: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

Topic 2 - Accrued and Normal Retirement Benefits

Learning Objectives

The successful candidate will be able to:

- 2.01 Describe and calculate accrued benefits under various formulas.
- 2.02 Describe the minimum accrual standards and determine if a benefit formula satisfies those standards.
- 2.03 Describe the impact that fully insured IRC §412(e)(3) plans have on accrued benefits.
- 2.04 Describe how mandatory contributions impact 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 Describe protected benefits and determine which benefits may be eliminated prospectively.

Exam Weighting

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

Suggested Reading

Chapter 2: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

Topic 3 - Present Value Calculations and Alternate Forms of Benefits

Learning Objectives

The successful candidate will be able to:

- 3.01 Describe the required actuarial assumptions used in the present value of accrued benefit (PVAB) calculations.
- 3.02 Calculate the PVAB of a given accrued benefit.
- 3.03 Explain how actuarial assumptions impact 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 Compare the relative advantages and disadvantages of a lump-sum form of distribution.
- 3.09 Compare the relative advantages and disadvantages of an annuity form of distribution.

Exam Weighting

This topic will comprise approximately 14 to 18 percent of the exam questions.

Suggested Reading

Chapter 3: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

Topic 4 – Hybrid and Floor Offset Defined Benefit Pension Plans

Learning Objectives

The successful candidate will be able to:

- 4.01 Describe types of hybrid plans.
- 4.02 Identify and compare features of cash balance, pension equity, DBK and floor-offset plans.
- 4.03 Discuss the advantages and disadvantages of cash balance, pension equity, DBK and floor-offset plans.
- 4.04 Calculate both a participant's benefit under a cash balance plan and optional forms of payment.

Exam Weighting

This topic will comprise approximately 6 to 10 percent of the exam questions.

Suggested Reading

Chapter 4: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

Topic 5 – Benefits after Normal Retirement Age (NRA)

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. This topic covers the rules that govern benefits after a participant reaches NRA.

Learning Objectives

The successful candidate will be able to:

- 5.01 Explain 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-NRA accruals.

Exam Weighting

This topic will comprise approximately 3 to 7 percent of the exam questions.

Suggested Reading

Chapter 5: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

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 NRA. The plan may also offer ancillary benefits, such as disability benefits. Frequently, defined benefit plans offer death benefits. Plans that provide for annuity options must provide for qualified joint and survivor annuities (QJSA) as well as qualified pre-retirement survivor annuities (QPSA) and QOSA. This topic covers the rules regarding early retirement, death and ancillary benefits.

Learning Objectives

The successful candidate will be able to:

- 6.01 Calculate early retirement benefits using applicable factors.
- 6.02 Describe the eligibility provisions under which early retirement benefits apply.
- 6.03 Describe a disability benefit and how it is defined in a plan.
- 6.04 Explain the requirements for QJSA, QOSA and QPSA and how each might be waived.
- 6.05 Describe types of ancillary benefits and incidental limitations in a defined benefit plan.

Exam Weighting

This topic will comprise approximately 6 to 10 percent of the exam questions.

Suggested Reading

Chapter 6: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

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 normal retirement age (62) and above age 65.
- 7.03 Determine 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.

Suggested Reading

Chapter 7: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

Topic 8 – 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:

- 8.01 Explain how a benefit formula complies with permitted disparity.
- 8.02 Determine whether a benefit formula complies with the permitted disparity rules.
- 8.03 Calculate retirement benefits based on a permitted disparity formula.

Exam Weighting

This topic will comprise approximately 3 to 7 percent of the exam questions.

Suggested Reading

Chapter 8: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*. Arlington, VA: ASPPA, 2019.

Topic 9 – Qualified Domestic Relations Orders (QDROs)

Overview

QDROs assign a portion of the benefits of a retirement plan to a spouse, former spouse or dependent of a plan participant. They are an exception to the anti-assignment rules of IRC §401(a)(13). QDRO rules are contained in IRC §414(p). QDROs are orders pursuant to state domestic relations law and approved (qualified) by the plan administrator. 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:

- 9.01 Describe the elements of a QDRO.
- 9.02 Discuss QDRO policy and procedures.
- 9.03 Compare shared payment and separate interest QDROs.
- 9.04 Discuss the actuarial adjustment of assigned benefits.
- 9.05 Describe the impact of early retirement subsidies.
- 9.06 Discuss the issues related to the assignment of death benefits.

Exam Weighting

This topic will comprise approximately 6 to 10 percent of the exam questions.

Suggested Reading

Chapter 9: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

Topic 10 – Distribution Issues

Overview

Because taxes have been deferred on retirement plan benefits, it is important for the administrator to explain the taxation of benefits to the participant (including how mandatory contributions might impact taxation and rollover) and to follow the withholding rules on distributions. In addition, when optional forms of benefit are available, the plan must provide the participant with disclosures of the relative value of the available options. For under-funded plans, PPA may impose limitations on both benefit accruals and distributions.

This topic explores the various rules regarding defined benefit plan distributions. Earlier topics in this syllabus also contain material relevant to defined benefit plan distributions, 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:

- 10.01 Explain the concept of a retroactive annuity starting date (RASD) and when it applies.
- 10.02 Compare required minimum distributions (RMDs) for defined benefit and defined contribution plans.
- 10.03 Describe the required defined benefit plan distribution disclosures and their timeframes, including suspension of benefit notices.
- 10.04 Describe and perform relative value calculations.
- 10.05 Discuss the taxation of defined benefit distributions including recovery of cost basis.
- 10.06 Describe the withholding rules on defined benefit plan distributions.
- 10.07 Define AFTAP and explain how it is calculated.
- 10.08 Describe the AFTAP ranges relating to restrictions.
- 10.09 Describe the limitations on distributions imposed on under-funded plans.
- 10.10 Describe the top 25 restricted employee rules.
- 10.11 Determine relative value based on a set of reasonable assumptions.

Exam Weighting

This topic will comprise approximately 14 to 18 percent of the exam questions.

Suggested Reading

Chapter 10: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

Topic 11 – Participant and PBGC Notices

Overview

This topic focuses on participant notifications that are not covered elsewhere. These include: the annual funding notice, the SAR for those plans 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.

Note: Changes were made to the PBGC premium payment process after August 1, 2015 and will not be tested in the examination.

Learning Objectives

The successful candidate will be able to:

- 11.01 Describe defined benefit participant notification requirements including minimum funding notices and ERISA §204(h) notice requirements involving benefit reductions.
- 11.02 Describe the contents of the annual funding notice.
- 11.03 Determine which defined benefit plans are to distribute an SAR instead of an annual funding notice.
- 11.04 Describe suspension of benefits notices and restrictions.
- 11.05 Describe the functions of the Pension Benefit Guaranty Corporation (PBGC).
- 11.06 Describe which plans are covered by the PBGC.

11.07 Describe how both parts of the PBGC premium are calculated.

Exam Weighting

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

Suggested Reading

Chapter 11: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

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 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:

12.01 Demonstrate awareness of the ASPPA Code of Professional Conduct.

12.02 Identify the action required of an ASPPA member in areas relating to the ASPPA Code of Professional Conduct.

Exam Weighting

This topic will comprise approximately 3 to 5 percent of the exam questions.

Suggested Reading

Chapter 15: *DB Study Guide: Administrative Issues of Defined Benefit Plans, 9th Edition*.
Arlington, VA: ASPPA, 2019.

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