Appendix A:
Steering Committee and Working Group Members
Steering Committee

Steering Committee members participated as individuals and not as representatives of their organizations.

CHAIR
Martha L. Hutzelman
Senior Counsel
Kruchko & Fries

Steering Committee Members

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Former Assistant Secretary of the Pension Welfare Benefits Administration
Department of Labor;
Board Member, Financial Engines

David Certner
Director of Federal Affairs
AARP

Lynn Dudley
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Virginia P. Reno
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Carol Sears
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* Titles reflect the individuals’ affiliations at the time of the Third Stage deliberations
Working Group I

All Working Group members participated as individuals and not as representatives of their organizations.

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Norman Stein
Douglas Arant Professor of Law
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Government Relations and Advocacy
AARP

Charles Cole
Retired Mobil Oil Human Resources Executive and
Former Chair and Member of the PBGC Advisory Committee

Patricia Dilley
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University of Florida College of Law
The mission of Working Group III was to create new approaches to increase pension coverage among small businesses where the coverage rates are lowest.

Working Group Members

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Cathy Heron
Ian Lanoff
Pamela Perun

Members
Christopher Bone
Michael Fanning
Bridget Flynn
Leslie Kramerich
Claire McCusker
Colleen Medill
Robert E. Nagle
Sue Palmer
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Laurie Shultz
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Working Group III

All Working Group members participated as individuals and not as representatives of their organizations.

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Principal  
Vanguard Center for Retirement Research

Christian E. Weller  
Senior Economist  
Center for American Progress
Appendix B:
Q&A from Government Agency and Congressional Committee Staff
Q&A from Government Agency and Congressional Committee Staff

The Working Group Co-Chairs, accompanied by other Conversation on Coverage Working Group and Steering Committee members, gave off-the-record briefings to congressional committee and government agency staff to solicit their input on substantive and technical matters, as well as practical suggestions that could be relayed to Working Group members about the final recommendations.

The committee staff briefing took place in December 2006, and included staff members from the House Committee on Ways and Means, the then-House Committee on Education and the Workforce (now the House Committee on Education and Labor), the Joint Committee on Taxation, the Senate Committee on Finance and the Senate Health, Education, Labor and Pensions Committee. The governmental staff briefing took place in January 2007 and included staff from the Internal Revenue Service, the Treasury Department, the Pension Benefit Guaranty Corporation and the Department of Labor. The following members of the Conversation on Coverage participated in the briefings: Director Karen Friedman and Steering Committee Chair Martha Hutzelman; the Co-Chairs of Working Group I, Norman Stein and Melissa Kahn, Working Group I member Brian Graff; the Co-Chairs of Working Group II, John Kimpel and Michael Calabrese, Working Group II member Mark Iwry; and Co-Chairs of Working Group III, Maria Freese, Ian Lanoff and Cathy Heron.

Below are some of the questions, answers, comments, and suggestions that emerged from those meetings. Since these briefings were off the record and comments were not for attribution, neither the questioners nor the respondents are identified.

Working Group I

KEY QUESTIONS AND COMMENTS ON GAP AND POPP

Question: Is GAP a defined benefit plan or a defined contribution plan?

Answer: There was a debate within the Working Group about whether to call the GAP a defined benefit plan or a defined contribution plan – since it has features of both. The Group decided to take the primary regulatory structure for the money purchase plan and make adjustments to it. One Working Group member at the briefing suggested that it would be called a GAP or be placed in whatever category the regulatory agencies decided to place it.

The important distinction is that while the cash balance plan was an effort to make a defined contribution plan out of a defined benefit plan, the Group wanted to make the GAP account a modified defined benefit plan within the confines of a defined contribution plan (thereby avoiding the controversial issues surrounding cash balance plans at the time of the Group’s deliberations).
Question: Are GAP accounts notional or real?

Answer: This issue is philosophical and academic in nature. What is important to employees is not whether the accounts are notional or real, but whether the employer puts in the money to ensure that they deliver on the guaranteed benefit employees expect, based on the plan formula. However, Working Group I members had long discussions about whether the GAP plan account is an actual or notional account. At one briefing, a Working Group member said the GAP account is an actual account, overlaying the money purchase account, which is credited with the return guaranteed in the plan. Another Working Group member believes that GAP is really a hypothetical account using the money purchase regulatory structure. But, where there is an account, unlike the situation with a defined contribution plan or a money purchase plan, the account in GAP could be underfunded (or potentially overfunded) at any given moment.

INVESTMENTS IN GAP AND POPP

Question: Are the investments in GAP matched up with the guaranteed rate of return or can employers invest in equities?

Answer: The investments in a GAP plan would not have to be placed in bonds that are matched to the fixed rate of return or a variable rate index. If employers invested in risky investments and lost, they would be responsible for making up any shortfall. The anticipation is that there would be investment instruments available in the marketplace designed to reduce that risk.

Question: How do you ensure that there are investment vehicles to provide the returns indicated in POPP, taking into account the contribution tables used in the description of the plan? Are there going to be situations where the contributions indicated would not keep the plan 100 percent funded? What is the back up?

Answer: The contribution tables chart in question was based on a five percent rate of return for contributions to the plan (see Appendix D). One Working Group member said that it might be better to use a four percent rate of return, noting that the Working Group had been told that in some states insurance commissioners would not allow insurance companies to guarantee a five percent rate of return. Another Working Group member said the assumption for POPP is that there would be an investment product, a GIC (Guaranteed Investment Contract) or other investment vehicle. It would not necessarily be insured. Just like under GAP, if there was a shortfall due to poor investment performance, the plan sponsor would have to bring the plan up to full funding fairly quickly. In some ways the POPP is telling employers if they do not want volatility in their pension obligation, they will have to make larger contributions and invest conservatively.

Question: If GAP or POPP are using simplified and conservative actuarial assumptions, will either plan require a higher annual contribution than a cash balance plan? If so, will small businesses respond favorably to this?

Answer: Members of the Working Group I noted that many business owners want the deduction employers get for making the higher contributions. Also, the employers may be concerned that the plan may run
into trouble further down the road from being underfunded. The design of each plan is meant to strike the right balance between potentially higher contribution levels and predictable contributions with reduced volatility. The rules for the GAP were developed by Working Group I in advance of the Pension Protection Act of 2006. Since the new law has tightened up the funding rules, the disparity between the two sets of rules is not as great as when the Working Group drafted the GAP proposal. Also, the GAP recognizes “experience adjustments,” meaning that employers may have to contribute more upfront, but may be able to reduce contributions if the plan’s investments do well.

**Question:** Do GAP and POPP lend themselves to a model document?

**Answer:** Absolutely. In terms of design features, there are only a few choices on a practical basis that employers would have to make with GAP. POPP also lends itself to a prototype document. The Working Group members also believe that there is a reasonable chance that GAP and POPP would be attractive to insurance companies to market as ready-to-go plans.

**POPP CONTRIBUTION RATES**

**Question:** Does everyone in POPP get the same minimum contribution rate? Does it apply to bonuses? Can benefits increase with years of service?

**Answer:** Under POPP, there is a uniform contribution for all employees. However, there could be a disparity if an employer gives past service credits, in which case there would be double contributions in years when past service is granted. The same principle applies to GAP when past service is granted. If you were given three years of credit for prior service, you would give double contributions in those years. The rules would require that everyone with prior service for those years receive the same double credit.

**CHOICE OF LIMITS**

**Question:** Do employers get to choose which limits to use – the defined benefit limits or the defined contribution limits? Once they have chosen, can employers change their minds? Wouldn’t key employees who are older choose defined benefit limits, while younger employees would choose defined contribution limits?

**Answer:** Employers must select only one set of limits as part of the plan design. This decision would be based on everyone in the plan. Once the employer makes that decision, it is irrevocable.
Working Group II

KEY QUESTIONS AND COMMENTS ON THE RETIREMENT INVESTMENT ACCOUNT

EMPLOYER’S RESPONSIBILITIES

**Question:** What are the employer’s administrative responsibilities?

**Answer:** The employer’s obligation is limited to making payroll deduction available to employees, and making sure the contributions go to the Clearinghouse. For the employer, it is no different than the obligation to transmit income and taxes to the government. One Working Group II member said it was best not to think of the employer as offering “anything.” He said it was just adding an additional box under the W-4 form.

BENEFIT OF CLEARINGHOUSE

**Question:** How important is the Clearinghouse as opposed to having the employer choose a single provider for many accounts?

**Answer:** The Group came to the Clearinghouse idea in order to relieve the employer of several responsibilities, including the selection of a service provider, which would involve fiduciary liability. This allows everything to be done automatically for workers, and would be particularly advantageous for low-income workers, some of whom do not have bank accounts.

**Question:** Was there any consideration given by the Working Group to requiring these payments be paid out as a stream of income or as an annuity?

**Answer:** The Group discussed the fact that if you have an infrastructure that is as broad and as standardized as the RIA, and if you have accounts with a national platform, there is an opportunity to encourage annuitization on a broad scale. While the Group reached general agreement on annuitization as a goal, it did not have time to try to figure out how this would be done through a federally-sponsored clearinghouse.

POTENTIAL COMPETITION WITH EXISTING PLANS

**Question:** It seems that having the limit set at a level between the IRA and SIMPLE limits could act as an incentive for some employers who are sponsoring a 401(k) plan to decide to get rid of it. By terminating the 401(k) plan and replacing it with an RIA, the employer could save on the administrative costs of the 401(k), get rid of the match, and use the savings to reward the people the company cares most about giving them an extra $15,000 or $20,000 in cash or nonqualified benefits outside the RIA. Has the Group looked at or modeled the economic incentives that might influence employers who have 401(k) plans?
Answer: The Group did discuss the incentives that might be created by having a contribution limit higher than an IRA. While the majority supported these higher limits, there was a strong minority view in favor of keeping the limits no greater than the IRA limits. The majority of the Group believed that if they increased the contribution limit a few thousand dollars above the IRA, it would not cause employers to abandon their qualified plans. A Working Group member noted that there is no employer contribution with the RIA, which makes it less likely the employer could take care of the preferred workers in any particular way. There was a comment that only those who had a defined benefit plan but not a 401(k) plan could contribute to the RIA.

Question: Won’t the tax credits proposed by the Group cost a lot?

Answer: The Group developed ideas for the expanded tax credit but has not yet developed the cost estimates. The Group was focused on what kinds of tax structures would make sense to encourage savings among the targeted population. But the RIA can be launched first without the credits.

Question: Can an individual both have an RIA and an IRA?

Answer: The Group looked at the RIA as an efficient way to save. Some Working Group members thought that if employees had an RIA they should not be able to contribute to an IRA. There were others who thought, just like a 401(k) plan, they should. There were many who thought that the limits should at least be integrated with the IRA.

Working Group III

KEY QUESTIONS AND COMMENTS ON THE MODEL T

PLAN LOANS

Question: The Model T does not allow hardship withdrawals but it does allow for loans. What happens if an employee does not repay the loan?

Answer: If the loan is not repaid, it would be deemed a distribution. It was noted the same problem already exists in plans that offer loans. It was further noted that under the Model T, it would be up to the financial institution to decide whether or not to offer loans.

FIDUCIARY ISSUES

Comment from Government Staff: If fiduciary rules are an impediment to plans being set up by small employers, there is a way to structure a product from a service-provider perspective. There might be some pre-defined investment options that would not create the kinds of conflicts of interest that the Working Group
faced with trying to transfer the fiduciary duties from employers to financial institutions. The Group might explore the potential for this and other approaches.

FEASIBILITY OF A DEMONSTRATION PROJECT

Question from the Working Group to Government Officials: Is there a way to establish a demonstration project in a particular community and work with the relevant agencies to make it happen? If a demonstration project is granted, is it possible to ensure that it is not just as a temporary measure, but one that could continue for the companies and employees involved?

Answer: One government official said that part of the challenge would be to find an institution to define a particular product they would be willing to market to a test group. He said that the government could discuss options with the Working Group about the potential levels of public involvement that might minimize liability for employers. He said it be worth exploring how some safe harbor might be constructed.

Question from the Working Group to Government Officials: Members of the Working Group noted they had also considered hiring certified independent fiduciaries, but could not figure out to do it. Is there a certification process or some sort for these experts?

Answer: A government official stated that the agencies look at whether independent fiduciaries have the expertise needed but there is not a certification process.

Question from the Working Group to Government Official: What could be done in the context of a demonstration project to transfer fiduciary liability from the employer to a third party? Is there something that could be set up as a structure within existing practices?

Answer: A government official said that there might be frameworks that could be explored. If there are prohibited transaction issues, the framework would require an independent fiduciary. In addition, there could be an exploration of pre-defined investments with someone certifying that the investments are prudent and appropriate. (This was discussed within the Working Group, but some members were concerned that the government has never intervened in determining whether an investment is “prudent.”)

GENERAL QUESTIONS ON THE CONVERSATION ON COVERAGE

Question: Would the combination of all four proposals from the Working Groups together achieve universal coverage?

Answer: The goal of the Conversation on Coverage was to develop common ground solutions to increase coverage; the goal was never to achieve universal coverage. The goal of each Working Group was different: Working Group I’s goal was to expand guaranteed benefits; Working Group II’s goal was to get more individuals to save; and Working Group III’s goal was to expand coverage among small businesses.
The Groups also worked to ensure that their proposals were consistent with continuing the voluntary employer-based system.

**Question:** Do all the proposals work together?

**Answer:** While there may be certain elements of proposals that are similar, the Working Groups all worked independently of one another. (In fact, the first time the Working Groups got to hear each other’s proposals was in July 2004, when the interim recommendations were released.) The proposals were never intended to work as separate parts that fit together. In the end, there could be four separate proposals or a proposal that merged some of the best features of the proposals. The key is to recognize that these are common ground approaches. Decisions on various building blocks in the proposals were reached because they appealed to either employers, employees or financial institutions. And many provisions were compromises reached after long discussions.
Appendix C:
Contribution Calculations for the Guaranteed Account Plan
Contribution Calculations for the Guaranteed Account Plan

CASE STUDY SHOWING FUNDING METHOD OVER A SEVEN-YEAR PERIOD

Synopsis of funding calculation:

(1) Calculate total of hypothetical contributions for the plan year

(2) Calculate the value of the assets as of the valuation date, before any current contribution is added

(3) Calculate the sum of the Guaranteed Account Balances (GABs) as of the valuation date (excluding (1))

(4) Subtract (3) from (2). If this is a positive number, there has been an earnings gain. If this is a negative number, there has been an earnings shortfall.

(5) If (4) is a net loss, calculate the amount that the earnings shortfall would be worth in five years (including the current year) under the plan’s guaranteed rate of return (assume current year guarantee if the rate can fluctuate).

(6) Calculate the amount that would be required to be contributed as of the valuation date to amortize the amount in (5) over the five-year period.

(7) Calculate the aggregate GABs as of the valuation date, including the amount in (1).

(8) Subtract the amount in (2) from the amount in (7). This is the unfunded portion of the GABs. If (2) is larger than (7), the GABs are fully funded, and this amount is zero.

(9) Minimum funding: The lesser of: (a) the amount in (1) plus the amount in (6), or (b) the amount in (8).

(10) Maximum funding calculation (maximum deduction):
    (a) Calculate 1.5 times the amount in (7)
    (b) Subtract the amount in (2) from the amount in (10)(a). If this is a positive number, this is the most the employer can contribute on a deductible basis. If this is zero or a negative number, the maximum deduction is zero (i.e., the full funding limit).

(11) Limitations on funding assumptions: pre-retirement discounts for turnover and mortality not permitted, no salary scale assumptions.

(12) Plan is a money purchase plan for IRC §412 purposes, but is subject to the special minimum funding requirements stated above. Therefore, there would be no quarterly contribution requirement under IRC §412(m).
(13) When calculating the aggregate Guaranteed Account Balances, a participant’s account must be limited to the maximum lump sum permitted under IRC §415(b) if the account were to be distributed as of the valuation date.

CASE STUDY

A GAP is established which promises a six percent hypothetical contribution, and a five percent guaranteed rate of return. Contribution is allocable as of the last day of the plan year.

**Year 1: Total participant compensation is $1,000,000**

Normal cost = $60,000
(This is the total compensation times the hypothetical contribution rate. There were no prior year contributions, so no guaranteed return for the first year.)

GABs as of valuation date: $60,000.

No earnings shortfall because the plan does not have any experience on the first valuation date.

Minimum funding: $60,000
Maximum funding: $90,000
Employer’s actual contribution: $60,000

**Year 2: Total participant compensation is $1,100,000.**

Normal cost = $66,000. This is determined by calculating the hypothetical contribution for this year (six percent x $1,100,000)

Actual earnings since last valuation date: $2,392 (about four percent)

Total value of assets as of the valuation date (before current year contribution is made): $62,392

The guaranteed return for this valuation period on the GABs from the prior valuation date: $3,000

GABs as of valuation date (excluding current year’s contribution): $63,000 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $608 (i.e., assets minus pre-contribution GABs). This would be worth $776 in five years under the plan’s guaranteed rate of five percent.
Amortization payment for shortfall: $140 (round to nearest dollar), based on a 5-year amortization period

Normal cost plus amortization payment: $66,140

Sum of GABs as of valuation date (including current year’s contribution): $129,000

Shortfall on 100 percent funding: $66,608 (i.e., $129,000 minus $62,392)

Minimum funding amount: $66,140 (i.e., the lesser of the normal cost plus amortization payment or the 100 percent funding shortfall)

150 percent x GABs: $193,500

Maximum funding is: $131,108 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $66,500

**Year 3: Total participant compensation is $1,340,000.**

Normal cost = $80,400. This is determined by calculating the hypothetical contribution for this year (six percent x $1,340,000)

Actual earnings since last valuation date: $1,154 (only a one percent rate of return).

Total value of assets as of the valuation date (before current year contribution is made): $130,045

The guaranteed return for this valuation period on the GABs from the prior valuation date: $6,450

GABs as of valuation date (excluding current year’s contribution): $135,450 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $5,405 (i.e., assets minus pre-contribution GABs). This would be worth $6,897 in five years under the plan’s guaranteed rate of five percent.

Amortization payment for shortfall: $1,248 (round to nearest dollar), based on a five-year amortization period

Normal cost plus amortization payment: $81,648

Sum of GABs as of valuation date (including current year’s contribution): $215,850

Shortfall on 100 percent funding: $85,805 (i.e., $215,850 minus $130,045)
Minimum funding amount: $81,648 (i.e., the lesser of the normal cost plus amortization payment or the 100 percent funding shortfall)

150 percent x GABs: $323,775

Maximum funding is: $193,730 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $82,000

**Year 4: Total participant compensation is $1,500,000.**

Normal cost = $90,000. This is determined by calculating the hypothetical contribution for this year (six percent x $1,500,000)

Actual earnings since last valuation date: -$3,908 (a negative rate of return).

Total value of assets as of the valuation date (before current year contribution is made): $208,137

The guaranteed return for this valuation period on the GABs from the prior valuation date: $10,792.50

GABs as of valuation date (excluding current year’s contribution): $226,643 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $18,505 (i.e., assets minus pre-contribution GABs). This would be worth $23,618 in five years under the plan’s guaranteed rate of five percent.

Amortization payment for shortfall: $4,274 (round to nearest dollar), based on a five-year amortization period

Normal cost plus amortization payment: $94,274

Sum of GABs as of valuation date (including current year’s contribution): $316,643

Shortfall on 100 percent funding: $108,506 (i.e., $316,643 minus $208,137)

Minimum funding amount: $94,274 (i.e., the lesser of the normal cost plus amortization payment or one hundred percent funding shortfall)

150 percent x GABs: $474,964

Maximum funding is: $266,827 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $99,000
**Year 5: Total participant compensation is $1,400,000.**

Normal cost = $84,000. This is determined by calculating the hypothetical contribution for this year (six percent x $1,400,000)

Actual earnings since last valuation date: $17,224 (six percent rate).

Total value of assets as of the valuation date (before current year contribution is made): $324,362

The guaranteed return for this valuation period on the GABs from the prior valuation date: $15,832

GABs as of valuation date (excluding current year’s contribution): $332,475 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $8,113 (i.e., assets minus pre-contribution GABs). This would be worth $10,355 in five years under the plan’s guaranteed rate of five percent.

Amortization payment for shortfall: $1,874 (round to nearest dollar), based on a five-year amortization period

Normal cost plus amortization payment: $85,874

Sum of GABs as of valuation date (including current year’s contribution): $416,475

Shortfall on 100 percent funding: $92,113 (i.e., $416,475 minus $324,362)

Minimum funding amount: $85,874 (i.e., the lesser of the normal cost plus amortization payment or the one hundred percent funding shortfall)

150 percent x GABs: $624,712

Maximum funding is: $300,350 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $100,000

**Year 6: Total participant compensation is $1,600,000.**

Normal cost = $96,000. This is determined by calculating the hypothetical contribution for this year (six percent x $1,400,000)

Actual earnings since last valuation date: $36,368 (nine percent rate).

Total value of assets as of the valuation date (before current year contribution is made): $460,729
The guaranteed return for this valuation period on the GABs from the prior valuation date: $20,824

GABs as of valuation date (excluding current year’s contribution): $437,298 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $0 (the plan is now running at an experience gain)

Amortization payment for shortfall: $0 (round to nearest dollar), based on a five-year amortization period

Normal cost plus amortization payment: $96,000

Sum of GABs as of valuation date (including current year’s contribution): $533,298

Shortfall on 100 percent funding: $72,569 (i.e., $533,298 minus $460,729)

Minimum funding amount: $72,569 (i.e., the lesser of the normal cost plus amortization payment or the 100 percent funding shortfall); the plan will have to be brought to full funding this year

150 percent x GABs: $799,948

Maximum funding is: $339,219 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $200,000 (Things are going well, the employer puts in extra for a rainy day and to get a bigger deduction)

**Year 7: Total participant compensation is $2,000,000.**

Normal cost = $120,000. This is determined by calculating the hypothetical contribution for this year (six percent x $2,000,000)

Actual earnings since last valuation date: $31,009 (five percent rate).

Total value of assets as of the valuation date (before current year contribution is made): $691,738

The guaranteed return for this valuation period on the GABs from the prior valuation date: $26,665

GABs as of valuation date (excluding current year’s contribution): $559,963 (i.e., the GABs as of the prior valuation date plus the guaranteed return on those GABs).

Shortfall: $0 (the plan is still running at an experience gain)

Amortization payment for shortfall: $0 (round to nearest dollar), based on a five-year amortization period
Normal cost plus amortization payment: $120,000

Sum of GABs as of valuation date (including current year’s contribution): $679,963

Shortfall on 100 percent funding: $0 (i.e., assets exceed the GABs)

Minimum funding amount: $0 (i.e., the lesser of the normal cost plus amortization payment or the 100 percent funding shortfall)

150 percent x GABs: $1,019,945

Maximum funding is: $328,207 (i.e., 150 percent x GABs minus assets as of valuation date)

Employer’s actual contribution: $0
Appendix D:
Sample Calculations for the Plain Old Pension Plan
Sample Calculations for the Plain Old Pension Plan

**CONTRIBUTION CALCULATIONS**

<table>
<thead>
<tr>
<th>COMPENSATION AGE</th>
<th>$30,000/YEAR</th>
<th>$60,000/YEAR</th>
<th>$100,000/YEAR</th>
<th>$200,000/YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>$585</td>
<td>$1,170</td>
<td>$1,950</td>
<td>$3,900</td>
</tr>
<tr>
<td>40</td>
<td>$960</td>
<td>$1,920</td>
<td>$3,200</td>
<td>$6,400</td>
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<td>$3,168</td>
<td>$5,280</td>
<td>$10,560</td>
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<td>$6,810</td>
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<tr>
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<td>$7,074</td>
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<td>$23,580</td>
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</tbody>
</table>

Assumptions for Contribution Calculations

- Interest rate assumption of five percent.
- Plan formula: A lifetime pension equals one percent times current compensation at age 65, payable monthly.

**BENEFIT CALCULATIONS**

<table>
<thead>
<tr>
<th>COMPENSATION AGE</th>
<th>$30,000/YEAR</th>
<th>$60,000/YEAR</th>
<th>$100,000/YEAR</th>
<th>$200,000/YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>$10,500/year</td>
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<td>$35,000/year</td>
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<td>$50,000/year</td>
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<tr>
<td>50</td>
<td>$4,500/year</td>
<td>$9,000/year</td>
<td>$15,000/year</td>
<td>$30,000/year</td>
</tr>
<tr>
<td>55</td>
<td>$3,000/year</td>
<td>$6,000/year</td>
<td>$10,000/year</td>
<td>$20,000/year</td>
</tr>
</tbody>
</table>

Assumptions for Benefit Calculations

- Participant remains in plan from entry date to retirement.
- No increase in compensation.
Appendix E:
Interplay between GAP and Current Law
Interplay between GAP and Current Law

GAP Provisions Inconsistent with Current Law

- Lower PBGC Premium
- Choice of Defined Benefit or Defined Contribution Plan Limit
- Gateway Contribution to Use Defined Benefit Limit
- Gateway Contribution for Certain Nondiscrimination Testing Methodologies
- Special 401(k) Provisions
- Requirements for Rate of Return on Account Balances
- Simplified Funding Rules
- Side-Car Trust Rules
- Accelerated Minimum Vesting Rule
- Special Past-Service Benefit Rules
- Default Benefit Includes 75 Percent Spousal Survivor Annuity
Appendix F:
Interplay between POPP and Current Law
Interplay between POPP and Current Law

POPP Provisions Inconsistent with Current Law

• Accelerated Minimum Vesting Rule
• Ability to Provide Annual Bonus Benefits at Discretion of Employer
• Special Past-Service Benefit Credit
• Voluntary Employee Contribution Feature/401(k) Account
• Special Simplified Funding Method, Including Development of Contribution Charts
• Mandatory Annuity Benefit Requirement (except for small lump-sum amounts)
• No Top-Heavy Minimum Benefit Requirement
• Reduced PBGC Premium
• No Reversion of Excess Assets to Employer
• Tax Credit for Non-Highly Compensated Employees
Appendix G:
Electronic Funding Process
Electronic Funding Process

- Employer or Plan Manager submits a request to establish an Electronic Funds Transfer (EFT) between their employer’s bank and the Operations record keeping bank.
- A prenote transmission is sent to test the instructions (prenote transactions are $0.00 dollar transmissions required to test the connection and instructions).
- Employer or Plan Manager calculates gross payroll and net contributions.
- Employee receives net pay.
- Details for employee’s contributions are submitted by the employer or plan manager to the operations record keeper.
- Entries are totaled for bank debit from the employer’s account.
- Contributions are remitted electronically by the employer’s bank.
- Proceeds are debited from the bank account.
- Cash is electronically remitted to the operations record keeper (via EFT).
- Operations record keeper receives cash and the system allocates the proceeds according to details previously supplied by the employer or plan manager.
- The employee allocation percentages by fund are applied.
- Employer receives a detailed summary of contributions by each employee as confirmation (no investment selections/allocations are made visible to the employer to protect the employees privacy).
- Employee receives confirmation of contributions and investment allocation by fund.
Appendix H:
Fiduciary Regulation in Australia
Fiduciary Regulation in Australia

A member of Working Group III suggested that the Group might want to look at how Australia regulates its superannuation plans to see if there were arrangements that might be applicable to the Model T plan. The Group was interested in Australia’s regulatory model because it assigns fiduciary responsibility to a financial institution trustee and not to the employer. Members of Working Group III have, from the beginning, hoped to design a new type of plan that would relieve the employer of fiduciary responsibility for the ongoing monitoring of investments options, fees, and services.

A decidedly different menu of qualified plans is offered in Australia. Among the kinds of plans that might be relevant to the design of the Model T are corporate master trusts, which are offered by large financial institutions on a group basis, and multiple-employer industry funds.

The Australian model of retirement plan regulation has strict oversight of plans and a rigorous licensing process for trustees, who act as the fiduciaries for the plans. Trustees are generally appointed – either by the sponsoring organizations (an employer, employer association or trade union) – or by a parent financial institution. In some instances, member-representative trustees are elected by members rather than appointed by a trade union. Since trustees act as fiduciaries, the employer does not have fiduciary liability for the investment options, fees, and services of the plan. The trustees “are in the regulatory cross hairs,” says Dr. Brad Pragnell, Director, Policy and Best Practice for the Association of Superannuation Funds in Australia.

The appointment of trustees to be fiduciaries, the careful licensing process, and the heightened oversight are potential features that might be adopted in the United States, although it would require the creation of a different regulatory structure. For example, there is a stringent process in Australia to become a designated trustee and there are on-site visits to the trustee’s location every six to twelve months from regulators. While employers have less responsibility, the effect of the higher regulatory burden on operations of funds might increase the costs compared to the situation in the United States. The government licensing process for trustees, if adopted in the United States, might also apply to other types of plans besides the Model T.

Following up on this suggestion to look into fiduciary regulation in Australia, a telephone conference call was arranged with Dr. Brad Pragnell, Director, Policy and Best Practice for the Association of Superannuation Funds in Australia. During the conversation Dr. Pragnell explained the basics of the Australian system and how it might potentially apply to the U.S. system and whether there would be any relevance to the work of Working Group III in particular. The following people participated in the telephone conference: Robert England, Karen Friedman, and Martha Hutzelman.