DB: Administrative Issues of Defined Benefit Plans

Practice Exam

Multi-user Distributable Version

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Question 1:

Which of the following plan provisions is/are allowed in defined benefit plans?

I. Lump sum distribution

II. Early retirement subsidy

III. Disability benefits

A. I only
B. III only
C. II and III only
D. I and II only
E. I, II and III

Question 2:

All of the following statements regarding defined benefit accrued benefits are TRUE, EXCEPT:

A. The normal retirement benefit is the benefit that would be paid if a participant continues to work until normal retirement age.

B. An early retirement benefit is the benefit payable to a participant who retires earlier than normal retirement age after meeting certain criteria.

C. The accrued benefit is the monthly benefit payable at any termination date.

D. The nonvested portion of the accrued benefit is subject to forfeiture.

E. The lump-sum value of a given accrued benefit is generally less for younger participants.

Question 3:

Based on the following information, which of the following statements regarding relative value illustrations is/are TRUE?

Benefit Options	APRs using Lump Sum Assumptions	APRs Using Relative Value Assumptions
Life Annuity	141.5291	123.8112
100% QJSA	167.0904	145.9112
50% QJSA	154.3097	134.8612

I. If the 50% QJSA option is $1,000 per month, its relative value expressed as the automatic 100% QJSA option is $924.

II. If the life annuity normal form benefit is $1,000 per month, its relative value expressed as an actuarial present value is $141,529.

III. If the 100% QJSA option is $1,000 per month, its relative value stating the benefit as a life annuity is $1,181.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 4:

Which of the following statements regarding defined benefit plan design is/are TRUE?

I. The assets of the plan are always greater than the present value of accrued benefits.

II. A floor-offset plan benefit is based on a defined benefit formula and a defined contribution account balance.

III. A cash balance plan credits interest at a rate specified in the plan.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 5:

All of the following statements regarding disability benefits are TRUE, EXCEPT:

A. A 10 year service requirement may be used to determine the participant's eligibility for a disability benefit.

B. Defined benefit plans are not required to provide disability benefits.

C. A defined benefit plan may allow for continued accruals while a participant is disabled.

D. A participant must qualify for disability benefits from Social Security in order to obtain benefits from a qualified plan.

E. The plan may allow full participant vesting upon disability.

Question 6:

Based on the following information, determine the high 3 consecutive year average compensation used to determine an accrued benefit of a participant at the end of 2017.

- The 2017 IRC §401(a)(17) compensation cap was $270,000.
- The IRC §401(a)(17) compensation cap for the other years listed exceeded $200,000.

Year	Compensation
2017	$280,000
2016	$200,000
2015	$200,000
2014	$180,000
2013	$190,000

A. $200,000

B. $223,333

C. $226,666

D. $236,667

E. $240,000

Question 7:

Based on the following information, determine the minimum annual accrued benefit as of January 1, 2017 so that it passes the 3% rate of accrual test:

Plan benefit formula	20% of the highest 3-year average compensation
Highest 3-year average annual compensation	$40,000
Date of hire	January 1, 2009
Date of entry	January 1, 2010
NRD	January 1, 2036

A. $1,200
B. $1,680
C. $1,920
D. $2,154
E. $2,370

Question 8:

Which of the following statements regarding top-heavy determination in a defined benefit plan is/are TRUE?

I. If the present value of accrued benefits for key employees exceeds 60% of the present value of accrued benefits for all employees, the plan is top heavy.

II. The date for determining top-heavy status for a plan year is the last day of the preceding plan year for an existing plan.

III. If an employer sponsors more than one plan, you do not test in the aggregate.

A. I only

B. III only

C. I and II

D. I and III

E. I, II and III

Question 9:

Which of the following statements regarding the assumptions that may be used to value accumulated benefits in defined benefit plans is/are TRUE?

I. Mortality tables are used to calculate the probability that participants will live to collect benefits at future ages.

II. In small plans mortality assumptions are commonly used both before and after retirement.

III. The interest assumption takes into account the time value of money.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II and III

Question 10:

Based on the following information, determine the present value of $1,000 per month payable as a life annuity at age 65:

This does not use segmented interest rates.

Current Age	45
Monthly annuity rate-age 65	102.14
Nx-Age 65	1,344,753
Dx-Age 65	13,165.52
Monthly annuity rate-age 45	146.38
Nx-Age 45	7,457,451
Dx-Age 45	50,946.43

A. $ 698
B. $ 18,418
C. $ 26,395
D. $ 102,140
E. $ 146,380

Question 11:

All of the following statements regarding the impact of assumption changes on the calculation of a PVAB payable at retirement are TRUE, EXCEPT:

A. Increasing the pre-retirement interest rate will decrease the PVAB.
B. Adding a pre-retirement mortality assumption will decrease the PVAB.
C. Using lower post-retirement mortality rates will decrease the PVAB.
D. Decreasing the post-retirement interest rate will increase the PVAB.
E. Setting back the post-retirement mortality assumption will increase the PVAB.

Question 12:

All of the following statements regarding the role of actuarial equivalence in a defined benefit plan are TRUE, EXCEPT:

A. A plan can provide a qualified joint and survivor option that is not the actuarial equivalent of the normal form.
B. A plan document defines the normal form of benefit.
C. The minimum lump sum under a plan may be greater than that calculated using the applicable mortality table and the applicable interest rate.
D. A plan must define each optional form of benefit to be the actuarial equivalent of the normal form.
E. A plan may specify that the PVAB is to be calculated without using any pre-retirement mortality.

Question 13:

All of the following may be defined benefit plan provisions, options or features, EXCEPT:

A. Mandatory after-tax employee contributions
B. Loans
C. Distribution of benefit as a lump sum
D. Optional pre-tax employee contributions
E. Benefit determined solely by the value of a participant's hypothetical account in a cash balance plan.

Question 14:

Based on the following information, determine the maximum offset percentage that will satisfy the permitted disparity requirements:

Normal form of benefit	Joint and 100% Survivor Annuity
Optional form of payout elected	Life Annuity
Joint and 100% survivor annuity purchase rate	115.875
Life annuity purchase rate	95.987
Current age and NRA	65
Plan participants' Social Security retirement age	65

A. 0.53
B. 0.62
C. 0.65
D. 0.75
E. 0.90

Question 15:

All of the following may be cut back or eliminated, EXCEPT:

A. The right to distributions within 3 months of termination
B. Loan provisions
C. The right to purchase ancillary life insurance
D. The right to make after-tax employee contributions
E. Social Security supplements

Question 16:

You as an ASPPA member were assigned by your supervisor to determine the benefit split in a QDRO. You are surprised to find that the named participant in the QDRO is a regular member of your golfing foursome. You feel as if you might favor your friend. Which of the following actions under ASPPA's Code of Professional Conduct is/are appropriate for you to take next?

I. Keep quiet about the relationship and perform the calculation accurately while keeping the information concerning the divorce entirely confidential.

II. Ask your manager to reassign the calculation to someone else.

III. Notify the principal(s) of the potential conflict of interest.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 17:

All of the following statements regarding an annuity option are TRUE, EXCEPT:

A. There is a loss of flexibility to deal with financial emergencies.
B. The fixed income may not keep pace with inflation.
C. Some annuity options provide for survivor death benefits.
D. An annuity option provides for protection against a loss of value upon an early death.
E. There is a known amount of monthly income for life.

Question 18:

Which of the following statements regarding RMDs is/are TRUE?

I. If the participant is the owner of the business, the RMD must commence no later than April 1 following the year the participant attains age 70½.

II. RMDs are usually paid using the account balance method for defined benefit plans.

III. RMDs must be allowed to rollover to an IRA.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 19:

Based on the following information, determine the projected monthly benefit for a participant who is married, continues to work until he retires at age 65 and chooses a life and 10-year certain annuity:

Participant Information	Plan Information
Current age is 42.	Normal form of benefit is an ERISA required QJ&S benefit for married participants and life annuity for single participants with no reduction in the J&S benefit. All optional forms of benefit are based on actuarial equivalence.
NRA is 65.	The QJSA annuity purchase rate is 138.88.
	The Life only annuity purchase rate is 127.76
Projected NRB is $3,000 per month.	The Life with 10 year certain annuity purchase rate is 133.89.

A. $2,863
B. $2,892
C. $3,000
D. $3,112
E. $3,144

Question 20:

All of the following statements regarding the PBGC's function are TRUE, EXCEPT:

A. The PBGC provides insurance coverage to defined benefit plans.

B. PBGC is a quasi-governmental corporation.

C. Some defined benefit plans are not covered by the PBGC.

D. PBGC covers defined benefit and defined contribution plans.

E. PBGC may pay benefits to participants if the Plan Sponsor's plan has insufficient assets.

Question 21:

Which of the following statements regarding distribution options is/are TRUE?

I. A life annuity with period certain pays benefits for the life of a spouse but at least as long as the stated period certain.

II. The minimum lump-sum payment must be based on the IRS applicable interest rates.

III. A life annuity is paid for the life of the plan participant.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 22:

Based on the following data, compute the lump sum payable to the plan participant at age 62:

- Monthly accrued benefit of $100.00 payable at 65
- Early retirement factor at age 62 = 0.900
- Plan's actuarial equivalence preretirement interest = 5.00%
- Present value factor based on plan's actuarial equivalence for assumed retirement at age 65 = 120.00
- Present value factor based on plan's actuarial equivalence for assumed retirement at age 62 = 125.00
- Present value factors given reflect the greater of plan's interest and mortality assumptions and 417(e)(3) assumptions
- Plan provides that lump sum payable to participant is the present value of the greater of deferred benefit at age 65 or immediate benefit

A. $10,366

B. $10,800

C. $11,250

D. $12,000

E. $12,500

Question 23:

All of the following statements regarding cash balance plans are TRUE, EXCEPT:

A. The participant's lump-sum distribution is the account balance.
B. The employer's cost is the sum of the contribution credits to the participants' accounts offset by forfeitures.
C. The plan sponsor assumes the plan's investment risks.
D. The plan must offer the QJSA as the automatic form of payment for married participants.
E. The benefit at retirement is generally defined as an annuity equivalent to the accumulation of contribution credits and interest credits to the participant's hypothetical account.

Question 24:

All of the following statements regarding types of hybrid plans are TRUE, EXCEPT:

A. An applicable defined benefit plan is either a pension equity plan or a cash balance plan.
B. Hybrid plans contain elements of both defined benefit and defined contribution plans.
C. A pension equity plan is a defined benefit plan which uses hypothetical account balances.
D. A floor-offset plan is a defined benefit plan which uses a defined contribution offset to determine benefits.
E. A cash balance plan is a defined contribution plan that appears like a defined benefit plan.

Question 25:

All of the following statements regarding hybrid defined benefit plans are TRUE, EXCEPT:

A. The accrued benefit under a cash balance plan is based on the hypothetical account balance.

B. Benefit distributions from a cash balance plan may be in the form of a life annuity, rather than a lump-sum.

C. A DB-K plan combines features of a defined benefit plan and a 401(k) plan.

D. Under a floor-offset arrangement, there is always a guaranteed payment from the defined benefit portion of the arrangement.

E. A DB-K plan does not require top-heavy testing.

Question 26:

Based on the following information, determine the participant's theoretical balance at the end of the plan year in a cash balance plan:

Contribution	5% of compensation
Interest credit	30 yr treasury rate based on beginning of year balance
Beginning balance	$50,000
1-year Treasury Rate	4%
30-year Treasury Rate	5%
417(e)(3) applicable rate	6%
Plan actuarial equivalence rate	6.5%
Current year compensation	$70,000
High 3 year average compensation	$65,000

A. $55,250
B. $55,380
C. $56,000
D. $56,175
E. $56,750

Question 27:

Which of the following statements regarding floor offset plans is/are TRUE?

I. The defined contribution portion of the floor offset arrangement may be a profit sharing plan.

II. If the benefit derived from the defined contribution plan exceeds the benefit derived from the defined benefit plan, the participant's benefit will be provided exclusively by the defined contribution plan.

III. An employer may use two defined benefit plans to create the floor offset relationship.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II, and III

Question 28:

Which of the following statements regarding post-NRA accruals is/are TRUE?

I. A flat benefit based on average compensation at NRA is permissible provided that compensation after NRA is considered for those who delay retirement.

II. It is acceptable for a plan to disregard service on the basis that it is completed after a participant becomes eligible to receive Social Security benefits.

III. A plan may provide that a benefit option of life with 5 years certain would only be available to anyone retiring before age 70.

A. I only
B. II only
C. I and III only
D. II and III only
E. I, II and III

Question 29:

Which of the following statements regarding post-NRA accruals is/are TRUE?

I. While it is permissible to cease further accruals based on completion of a maximum number of years of service, it is not permissible to cap accruals based on attainment of Social Security retirement age.

II. Post-NRA compensation increases must be considered.

III. Ancillary benefits such as plan loans may be eliminated for participants who have reached normal retirement age.

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 30:

Based on the following information, determine the early retirement benefit payable at age 60 for a participant in a defined benefit plan with an accrued benefit of $1,000 per month payable as a life annuity at age 65:

Actuarial Equivalence Factors:
Dx at 65 is 88,418
Dx at 60 is 150,518
APR at 65 is 102.14
APR at 60 is 127.19

A. $471.73

B. $587.42

C. $731.49

D. $803.05

E. $1,367.07

Question 31:

Based on the following information, determine the monthly accrued benefit at the participant's current age:

- Hire age: 21
- Participation age: 22
- Current age: 44
- NRA: 65
- Current average monthly compensation over last 5 years: $2,200
- NRB: 1.0% of average monthly compensation times years of service up to a maximum 25; unit accrual method based on years of service
- The plan has always been top-heavy.

A. $288

B. $440

C. $484

D. $506

E. $1,012

Question 32:

Based on the following information, determine the early retirement benefit for a participant currently eligible for early retirement:

Method of determining early retirement benefit	The current accrued benefit reduced 1/15th for each year prior to 65
Participant's current age	63
Participant's current accrued benefit	$ 7,385

A. $ 5,600

B. $ 6,067

C. $ 6,400

D. $ 6,933

E. $ 7,000

Question 33:

Which of the following statements regarding early retirement benefits is/are TRUE?

I. The availability of an early retirement benefit may not discriminate in favor of HCEs.

II. An early retirement benefit may be subsidized, thus providing a benefit of a greater value than the accrued benefit under the plan.

III. An early retirement benefit cannot be offered to any employee who is younger than age 55.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 34:

All of the following statements regarding advantages to the alternate payee in a QDRO of the separate interest approach to assignment of benefit are TRUE, EXCEPT:

A. The alternate payee may commence payment at the earliest retirement date available to the participant and receive the subsidized early retirement benefit even if the participant doesn't retire on that date.
B. The alternate payee may elect the commencement date without regard to the participant's election.
C. The alternate payee may elect the form of benefit without regard to the participant's election.
D. Payments may continue for the alternate payee's lifetime.
E. Payments may continue beyond the life expectancy of the participant

Question 35:

All of the following statements regarding mandatory employee contributions in defined benefit plans are TRUE, EXCEPT:

A. The total of contributions plus interest may exceed the accrued benefit under the plan.

B. The contributions may be allocated to separate accounts for each participant.

C. The contributions count toward the participant's annual additions limit under IRC §415(c).

D. The contributions may be used to reduce the portion of the NRB that must be funded by the employer.

E. The contributions with interest are often converted to a normal form annuity beginning at NRA in order to determine what part of the accrued benefit they provide.

Question 36:

Based on the following information, determine the present value of accrued benefit for a participant who is age 60

- This does not use segmented interest rates.
- Normal retirement age is 65.
- The accrued benefit payable at age 65 is $100 per month.
- Early retirement benefit is reduced 4% per year from age 65.
- APR age 65 is 100
- APR age 60 is 130

A. $6,000

B. $7,800

C. $10,000

D. $10,400

E. $13,000

Question 37:

Which of the following statements regarding the QPSA benefits is/are TRUE?

I. The QPSA is payable to the estate of a single participant.

II. The QPSA cannot be paid to the surviving spouse until the participant would have attained age 65.

III. The plan document may stipulate limitations on the number of times the QPSA may be waived and the waiver revoked.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 38:

All of the following statements regarding ancillary benefits in a defined benefit plan are TRUE, EXCEPT:

A. Death benefits must satisfy an incidental benefit test.
B. The present value of the accrued benefit is often provided as a death benefit in small plans.
C. Plans must provide 100% vesting of accrued benefits upon death.
D. A disability benefit is not required in a defined benefit plan.
E. A life insurance policy may not provide more than 100 times the projected monthly benefit.

Question 39:

Which of the following statements regarding the maximum benefit limit is/are TRUE?

I. It is determined as the maximum between the dollar limit and the percentage limit.

II. The dollar limit is adjusted for the participant's age and years of participation service.

III. The percentage limit is adjusted for years of service.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 40:

Based on the following information, determine the maximum annual benefit under IRC §415 for a participant reaching normal retirement age of 65.

Highest 5 consecutive years of compensation	$125,000
Highest 3 consecutive years of compensation, reflecting the paycap under 401(a)(17)	$150,000
Years of service	8
Years of participation	7
Maximum dollar limit	$205,000

A. $100,000
B. $120,000
C. $143,500
D. $150,000
E. $156,000

Question 41:

All of the following statements regarding defined benefit plans are TRUE, EXCEPT:

A. The participant bears the investment risk.
B. Normal retirement age is defined in the plan.
C. The employer guarantees a benefit to the participant.
D. The accrued benefit is the amount of benefit a participant has earned at a given point in time.
E. Some plans allow for a lump-sum distribution.

Question 42:

Based on the following information, determine the maximum allowable monthly benefit for a participant in 2017 who has never been in any other plan of the employer:

Average monthly compensation	$ 500
Years of service	5
Years of participation	4
Maximum dollar limit for 2017	$ 215,000

A. $ 200
B. $ 250
C. $ 333
D. $ 416
E. $ 500

Question 43:

All of the following statements are characteristics of a defined benefit pension plan, EXCEPT:

A. The employer bears the investment risk.

B. The assets of the plan may be less than the present value of the accrued benefits.

C. The minimum funding requirements and ERISA apply.

D. The amount of contribution budgeted by an employer is irrelevant when designing a defined benefit plan.

E. The plan is not an individual account plan.

Question 44:

Which of the following statements regarding actuarial equivalence is/are TRUE?

I. Optional forms of benefit payment are required to use actuarial equivalence.

II. Actuarial equivalence may be defined in the plan using an interest rate and mortality basis.

III. Actuarial equivalence may be defined in the plan using tables of factors.

A. I only

B. III only

C. II and III only

D. I and II only

E. I, II and III

Question 45:

All of the following circumstances will require adjustments to the 0.75 percent permitted disparity factor, EXCEPT:

A. The plan provides for unit accrual of the excess benefit over 40 years of service.

B. The plan provides for normal retirement at age 62.

C. The participant has elected a lump-sum benefit based on the plan’s actuarial equivalence factor which uses 7.5 percent interest.

D. The offset plan’s gross benefit percentage is 1 percent of average compensation per year of credited service.

E. The participant’s normal retirement age is 65 and Social Security retirement age is 66.

Question 46:

Based on the following information, determine the maximum permissible value of the formula’s excess allowance (represented below by X):

- A plan utilizing permitted disparity has a benefit formula of 1% of average compensation per year of service plus X% of average compensation in excess of covered compensation for each year of service to a maximum of 35 years.
- The NRA is 65.
- The normal form of benefit is a life annuity.

A. 0.52

B. 0.57

C. 0.65

D. 0.66

E. 0.75

Question 47:

All of the following are required in a QDRO, EXCEPT:

A. The dollar amount or percentage of benefit (or method to calculate an amount or percentage) to which an order applies

B. The payment period or number of installment payments

C. The name of the plan to which the order applies

D. The name and address of the plan sponsor

E. The name and address of the alternate payee

Question 48:

Which of the following is/are factors that may affect the benefit paid to alternate payees?

I. Plan amendments increasing benefits

II. The actuarial equivalent of the benefit paid to the participant

III. Whether the plan provides for an early retirement date for the alternate payee that is earlier than the participant's early retirement date

A. I only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 49:

All of the following statements regarding early retirement subsidies and QDRO's are TRUE, EXCEPT:

A. The early retirement subsidy cannot be paid to the alternate payee if the alternate payee's benefit commences before the participant's benefit.
B. Under a shared payments assignment the alternate payee shares in the early retirement subsidy.
C. If the alternate payee is to share in the early retirement subsidy, the QDRO must so specify.
D. The alternate payee may commence benefits with the early retirement subsidy at the earliest eligible retirement age for the participant.
E. If the alternate payee's benefits is to be increased to reflect the early retirement subsidy should the participant's benefit begin at a later date, the QDRO must so specify.

Question 50:

All of the following statements regarding deaths and QDROs are TRUE, EXCEPT:

A. The plan's QDRO policy may have a default provision describing the procedure if either the alternate payee or the participant dies before the commencement of benefits.
B. Unless it specifies, the QDRO will have no effect in the event of a preretirement death of either the alternate payee or the participant.
C. With a shared payment assignment it is not possible to stipulate that the alternate payee be considered the spouse for a portion of the QPSA and QJSA benefits.
D. Separate interest assignments can continue for the life of the alternate payee.
E. If a death benefit is to be paid in the event of the death of either the alternate payee or the participant, the QDRO should so state.

Question 51:

Which of the following statements regarding a benefit freeze as a result of PPA underfunding is/are TRUE?

I. AFTAP of 70% requires a benefit accrual freeze.

II. A participant notice is required within 60 days of an underfunding benefit freeze.

III. If AFTAP is deemed under 60%, benefit accruals may not be reinstated back to the valuation date if AFTAP reaches 60% during the year.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 52:

All of the following statements regarding RASDs in a defined benefit plan are TRUE, EXCEPT:

A. The retiree receives make-up payments from the RASD to the actual start date with interest.
B. The plan must permit RASDs.
C. Both the participant and spouse must agree to use an RASD.
D. The benefit amount is based on the participant's age at the RASD.
E. The benefit amount reflects any benefit improvements between the RASD and the actual start date.

Question 53:

All of the following statements regarding defined benefit plan distribution disclosures are TRUE, EXCEPT:

A. The explanation of the QJSA must describe the right to waive the QJSA.

B. The QJSA disclosure rules limit both how early the disclosure may be given and also how late it may be given.

C. The QJSA disclosure must include the relative values of other available options.

D. The IRC §402(f) Special Tax Notice must explain the participant's right to maintain the tax sheltered status of eligible distributions.

E. The IRC §402(f) Special Tax Notice must be given no more than 90 days before the distribution.

Question 54:

Which of the following statements regarding required plan distribution disclosures is/are TRUE?

I. An IRC §402(f) Special Tax Notice must explain the tax consequences of not rolling over a distribution.

II. An explanation of a QJSA must include a description of optional forms of benefit other than the QJSA.

III. An RMD is an eligible rollover distribution.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 55:

All of the following statements regarding taxation of defined benefit plan distributions are TRUE, EXCEPT:

A. Mandatory after-tax participant contributions are not taxable.
B. Cost basis is recovered using simplified recovery rules.
C. Recovery rules depend on the participant's age.
D. Federal mandatory withholding is 25 percent on distributions that are eligible for rollover.
E. Form W-4P may be filed to adjust withholding.

Question 56:

All of the following statements regarding tax withholding from defined benefit plan distributions are TRUE, EXCEPT:

A. Taxable distributions that are not eligible for rollover are subject to the same withholding rules as ordinary income.
B. 20% must be withheld from a lump sum distribution if the distribution is not directly rolled over to an IRA or qualified plan.
C. There is no tax withholding on a distribution that is directly rolled over to a qualified plan.
D. On distributions not eligible for rollover, withholding may be waived by the participant.
E. A Form W-4P must be completed for all distributions from a defined benefit plan.

Question 57:

Which of the following statements regarding tax withholding from distributions is/are TRUE?

I. There is no tax withholding on a distribution that is directly rolled over to an IRA.

II. State tax withholding rules on distributions not rolled over may vary.

III. Federal tax withholding on distributions not eligible for rollover is mandatory.

A. I only
B. III only
C. I and II only
D. II and III only
E. I, II and III

Question 58:

All of the following statements impose restrictions on lump sum distributions to the 25 highest paid employees, EXCEPT:

A. The amount of distribution is more than 1% of the plan's assets before the distribution is made.

B. The plan is less than 110% funded after the distribution is made.

C. The participant is an HCE.

D. The amount of distribution is more than 1% of the plan's liability before the distribution is made.

E. The top 25 paid group includes current and former employees.

Question 59:

All of the following statements regarding PBGC insurance premiums are TRUE, EXCEPT:

A. The premium is composed of two parts.

B. The premium includes a variable rate component of $34 (for plan years beginning in 2017) per $1,000 of unfunded vested benefits.

C. The premium includes a flat rate component of $69 (for plan years beginning in 2017) per participant.

D. PBGC premiums include a charge for terminated vested participants entitled to future benefits.

E. Plans with less than 100 participants as of the last day of the year preceding the premium payment year are not required to pay PBGC premium.

Question 60:

All of the following plans are covered by the PBGC, EXCEPT:

A. A defined benefit plan of a law firm covering 30 participants
B. A target benefit plan of a used car dealer covering 35 participants
C. A cash balance plan of a manufacturing company covering 100 participants
D. The defined benefit portion of a floor-offset arrangement for a grocery store covering 15 participants
E. A safe harbor defined benefit plan of a retail clothing store covering three equal partners and two non-owner employees

Question 61:

Which of the following statements regarding ERISA 101(j) notice is/are TRUE?

I. It is required when the plan's Adjusted Funding Target Attainment Percentage (AFTAP) falls below 60%.

II. It is required for certain discretionary amendments that reduce future benefit accruals.

III. It should be provided to terminated vested participants.

A. I only

B. III only

C. I and III only

D. II and III only

E. I, II and III

Question 62:

Which of the following three statements about the Suspension of Benefits Notice is/are TRUE?

I. The plan is not required to actuarially increase benefits due to delayed retirement when the notice is provided timely.

II. The notice must be provided to affected participants during the first calendar month or payroll period in which the payments are suspended.

III. Failure to provide the notice timely may lead to misstatement of liabilities on the funding valuation.

A. II only

B. III only

C. I and II only

D. II and III only

E. I, II and III

Question 63:

All of the following statements regarding Annual Funding Notice are TRUE, EXCEPT:

A. The Annual Funding Notice, when required, is provided in place of the Summary Annual Report.
B. Plan sponsors of a plan with fewer than 100 participants are required to distribute the Notice no later than 120 days following plan year end.
C. The Notice must list the plan's Funding Target Attainment Percentage (FTAP) for the current and two preceding plan years.
D. A plan that is exempt from PBGC coverage is exempt from the requirement to distribute the Annual Funding Notice.
E. The Annual Funding Notice should provide a summary of the rules governing termination of single-employer plans under Title IV of ERISA.

Question 64:

You discover that your company has identified you as a QPA in a recent publication. Assuming you are NOT a QPA, which of the following actions do you take?

I. Request that a correction be placed in the publication.

II. Ignore the inaccuracy if most readers would not notice the incorrect designation.

III. Notify the IRS.

A. I only
B. II only
C. III only
D. I and II only
E. I, II and III

Question 65:

All of the following are examples of defined benefit pension plans, EXCEPT:

A. Cash balance plan

B. Flat benefit plan

C. Career average unit credit plan

D. Age-weighted plan

E. Floor-offset plan

SHORT ANSWER KEY

Question #	Answer	Question #	Answer
1	E	34	A
2	C	35	A
3	A	36	D
4	D	37	B
5	D	38	C
6	B	39	D
7	B	40	B
8	C	41	A
9	C	42	D
10	C	43	D
11	C	44	C
12	D	45	C
13	D	46	C
14	B	47	D
15	A	48	E
16	D	49	D
17	D	50	C
18	A	51	B
19	D	52	E
20	D	53	E
21	D	54	C
22	C	55	D
23	B	56	E
24	E	57	C
25	D	58	A
26	C	59	E
27	C	60	B
28	A	61	C
29	C	62	E
30	A	63	B
31	D	64	A
32	C	65	D
33	C		

END SHORT ANSWER KEY

ANSWER KEY WITH EXPLANATIONS

1		E		All three statements are true. The “normal form” of benefit defines the standard method of distribution of the normal retirement benefit. Most commonly used is a life annuity. Plan generally allow for optional forms of benefit. A joint and survivor annuity option is required for married participants (unless married for less than a year) and is an optional benefit offered in addition to the normal form of benefit. Another common type of optional benefit is a life annuity with a guarantee of a certain number of payments. A **lump sum** payment is also an option commonly found in defined benefit plans. This option provides that the entire current actuarial value of the benefit to be paid can be distributed to the participant immediately. Benefits other than normal retirement benefits that may be provided in defined benefit plans are known as “ancillary benefits.” They include: • Death benefits • Disability benefits • Early retirement benefits • Early retirement window benefits (Syllabus Topic 1)
2		C		A participant’s “normal retirement benefit” is the benefit the participant would receive if the participant remained employed through “normal retirement age,” the age at which the plan assumes the participant will retire. The normal retirement benefit is the stated benefit under the plan’s formula and is used when calculating the **accrued benefit**. The plan document must state how a participant will accrue the normal retirement benefit. A participant’s **accrued benefit** is the portion of the normal retirement benefit earned to date **but payable at normal retirement age.** (Syllabus Topic 2)
3		A		Statement I – True; Use relative value APR assumptions ($1,000/m x 134.8612)/145.9112 = $924/m Statement II – False; Use relative value APR assumptions ($1,000/m x 123.8112) = $123,811 Statement III – False; Use relative value APR assumptions ($1,000/m x 145.9112)/123.8112 = $1,178.49/m Statements II and III are false since they incorrectly use the APRs from the lump sum assumptions. (Syllabus Topic 10)
4		D		Assets in a defined benefit plan may be **higher or lower** than the present value of accrued benefit at a given point in time. This is in contrast to a defined contribution plan where the value of assets is equal to the account balance of plan participants. A cash balance plan is a defined benefit plan that has a very different look and feel from a traditional defined benefit plan. A cash balance plan is similar in appearance to a money purchase plan in that a specific credit is made to an individual account for each participant

				in accordance with the plan document. However, in a cash balance plan, each participant has a *hypothetical account*, called a cash balance account, which is credited periodically with pay credits and interest credits. These individual accounts are hypothetical in that they are representative of the value of the participant's benefits and there are no accounts actually set up for participants. Pay credits can be a percentage of compensation or a flat dollar amount. The interest credit on the cash balance account is specified by the plan and can be based on a fixed percentage (e.g., 5%), a variable index, or actual trust earnings. The sum of the hypothetical account balances **do not need to be equal to plan assets** and the required contribution for a cash balance plan will n**ot** be the same as the total amount credited to the hypothetical individual accounts. A floor-offset plan is another variation of a defined benefit plan. Under a floor-offset plan, the retirement benefit determined under a defined benefit plan is offset by the equivalent benefits provided under a defined contribution plan**.** **(**Syllabus Topic 1)
5		D		A plan is allowed to use the Social Security definition of disability, but it is not required to do so. An alternative definition of disability can be used by the plan. A defined benefit plan is not required to offer any benefit payable upon the disability of a participant. However, if the plan chooses to offer a disability benefit there are a number of options and requirements to consider. The disability benefit provisions may include granting full vesting to a participant who was not vested or partially vested based on service (though the plan is not required to do so). The disability benefit may include allowing the participant to begin receiving the accrued benefit as if the participant were at normal retirement age, resulting in a subsidized benefit. The disability benefit could allow the participant to accrued benefits while on disability as if the participant were still working at the most recent rate of compensation. A plan may require a participant to complete a certain number of years of service with the employer to qualify for a disability benefit. The document must clearly define disability and disability benefits provided by the plan so that they are not subject to the discretion of the plan administrator. There is considerable flexibility in how disability can be defined. It could be defined to be eligibility for disability under Social Security. Social Security disability requires full and permanent inability to perform any job. The plan could grant disability upon the permanent inability to perform the participant's current job. Alternatively, a plan may require that one or more doctors independently determine a disabling condition. (Syllabus Topic 6)
6		B		The participant's compensation must be limited to the IRC §401(a)(17) IRS paycap (i.e., \$200,000 as adjusted for cost of living) for each year. The 2017 IRC §401(a)(17) paycap is \$270.000. Answer is (\$270,000 (limited)+\$200,000+\$200,000)/3 = \$223,333. (Syllabus Topic 7)
7		B		Generally, the accrued benefit under the 3% method at any point in time is equal to 3% of the normal retirement benefit multiplied by years of participation. (\$40,000 x 20%) x 3% x 7 years of participation = \$1,680 (Syllabus Topic 2)

8		C		If the employer is a sponsor of more than one plan, all plans in the “required aggregation group” must be combined. The required aggregation group includes any plan sponsored by the employer, or controlled group of employers, in which at least one key employee participates and any other plan of the employer that is taken into account to show the plan satisfies IRC §410(b) {Coverage} or IRC §401(a)(4) {Nondiscrimination}. (Syllabus Topic 2)
9		C		Pre-retirement mortality accounts for the probability of death between the valuation date (VD) and normal retirement age (NRA). It may be, but not always, used to calculate the present value of the accrued benefit (PVAB). It is usually dependent on whether or not there is a death benefit payable if the employee dies after the VD and before benefits commence at retirement age. If there is a full value death benefit payable prior to retirement, then the assumption of no preretirement mortality is appropriate since the benefit will be paid whether or not death occurs. Small plans typically provide for a full value death benefit and therefore a preretirement mortality assumption is, generally, not used. (Syllabus Topic 3)
10		C		The present value is the monthly benefit at age 65 multiplied by the age 65 annuity purchase rate multiplied by the D_x at 65 divided by D_x at age 45. ($1,000/m x 102.14) x (13,165.52/50,946.43) = $26,395 (Syllabus Topic 3)

11		C		A higher (pre-retirement or post-retirement) interest rate will produce a lower PVAB because less money would need to be invested today at that higher rate to ensure enough money is saved to pay the accrued benefit in retirement. A lower post-retirement interest rate will increase the PVAB because more money would need to be invested today at that lower rate to ensure enough money is saved to pay the accrued benefit in retirement. In most cases, a pre-retirement mortality assumption will have the effect of decreasing the PVAB. Setting back the post-retirement mortality assumption will increase the PVAB. The PVAB increases because a participant has a higher probability of surviving to each future payment year. **Statement C is a false statement. Using a lower post-retirement mortality rate will increase the PVAB. The PVAB increases because the participant has a higher probability of surviving to each future payment year.** (Syllabus Topic 3)
12		D		An actuarial equivalent optional benefit is a benefit that has a present value equal to that of the plan’s normal form of payment at the time of the first payment. A plan can provide for a **subsidized** optional form of benefit. This **subsidized** payment is greater in value that the actual equivalent benefit. This is often done to entice a participant to choose to receive a specific form of benefit (e.g., qualified joint and survivor annuity in lieu of a lump sum). There is no requirement that all optional forms of benefit offered under the plan be the actuarial equivalent of each other. (Syllabus Topic 3)
13		D		Defined benefit plans do not allow for optional pre-tax employee contributions. A 401(k) plan is the only qualified plan that can permit pre-tax employee contributions (i.e., pre-tax elective deferrals). (Syllabus Topic 1)

14		B		The 0.75% factor must be adjusted so that all normal and optional benefit forms satisfy the 0.75% requirement. (Note: The current age, normal retirement age and Social Security age in this question are all age 65. Therefore one begins with the 0.75% factor.) This only becomes an issue if there is an optional form of benefit that is less valuable than the normal form – "less valuable" meaning that the optional form of benefit will be paid over a shorter period of time than the normal form. For example, if the normal form is a qualified joint and survivor annuity with an optional life annuity (i.e., less valuable optional form) that is the actuarial equivalent, and actuarial adjustment will be needed so that the life annuity optional benefit does not fail the 0.75% test. The actuarial equivalence rate to adjust from a life annuity to a joint and 100% survivor annuity is 95.987/115.875 = 0.8284. The adjusted factor in this question for the offset percentage is 0.75% x 0.8284 which equals 0.62%. (Syllabus Topic 8)
15		A		The anti-cutback rules generally protect plan participants' accrued benefit from being reduced or eliminated by plan amendment or plan termination. With limited exceptions the protection extends to: (1) accrued benefits, including actuarial equivalence options, (2) early retirement benefits and retirement-type subsidies, and (3) optional forms of benefit, **including the timing of payment.** Benefits that are not protected include: (1) ancillary life insurance protection, (2) accident or health insurance benefits, (3) Social Security supplements, (4) the availability of loans, (5) the right to make after-tax employee contributions, (6) administrative procedures for distributing notices, information or election forms, and (7) early retirement window benefits. The "right to distributions within 3 months of termination" cannot be cutback or eliminated since it pertains to the timing of payment. (Syllabus Topic 2)
16		D		An ASPPA member is not permitted to perform professional services involving a conflict of interest unless: (1) the ASPPA member's ability to act fairly is unimpaired, (2) there has been full disclosure of the conflict to the Principal(s), **and** (3) all Principals have expressly agreed to the performance of services by the ASPPA member. If an ASPPA member is aware of any significant conflict between the interests of a Principal and the interests of another party, the ASPPA member should advise the Principal of the conflict and include appropriate qualifications or disclosures in any related communication. (Syllabus Topic 15)
17		D		**Advantages** of an **annuity** form of distribution: • There is a known amount of income that is guaranteed for the life of the participant and spouse. • Taxes during the period the income is received may well be lower that the taxes that would need to be paid on a lump sum distribution. • Flexible annuity options may be able to address some of the perceived disadvantages of an annuity option. **Disadvantages** of an **annuity** form of distribution: • Living on a fixed income may not be able to keep pace with inflation. • An early death may lead to the loss of much of the value of the retirement benefit. • Loss of flexibility to deal with medical or other emergencies. (Syllabus Topic 3)
18		A		Statement I – True for 5% owners only

				Statement II – False; Defined benefit plans usually use the “annuity method.” The only possible exception is if the form of benefit is a lump sum benefit and the participant wanted to roll over as much as possible to an IRA or another retirement plan. In such a situation, the “account balance” method could be used to determine the required minimum distribution that could not be rolled over. Statement III – False, RMDs are not “eligible rollover distributions” and, as such, may not be rolled over into a qualified vehicle such as an IRA or another retirement plan. (Syllabus Topic 10)
19		D		The monthly conversion is the conversion from the QJSA (i.e., the normal form of benefit since the participant is married) to the 10-year certain and life annuity. The monthly benefit is the conversion from the QJSA to 10-year certain and life annuity is calculated as follows: ($3,000/m * 138.88)(i.e., APR of QJSA) / 133.89 (i.e., APR of 10-year certain and life annuity) = $3,111.80/m or $3,112/m. (Syllabus Topic 3)
20		D		The PBGC is a quasi-government corporation that guarantees defined benefit participants will receive benefits up to specified levels even if the plan is terminated with insufficient assets to pay all plan participants the promised benefits. The PBGC does **not** cover defined contribution plans. Although the PBGC covers most qualified defined benefit plans (including hybrid plans such as cash balance plans), the following plan types are exempt from PBGC coverage: (1) A plan of a professional service employer that has never had more than 25 active participants since the enactment of ERISA in 1974; (2) A plan of a government agency including Indian tribal governments, however, if the plan covers workers carrying out significant commercial activities it may require PBGC coverage (e.g., gaming casinos, lumber operations); (3) A church plan, unless ERISA coverage is irrevocable elected; (4) A plan open only to non-resident aliens; and (5) A plan established only for substantial owners or their spouses (in this case a substantial owner is a sole proprietor, partner or shareholder who owns more than 10% of the business, and the typical stock attributions do not apply. (Syllabus Topic 11)
21		D		A life annuity is payable for the life of the participant with no further payments after the participant’s death. A life with a period certain is payable for the life of the participant but if the participant dies during the certain period, payments will continue for the stated period certain and paid to the named beneficiary. Statement I is false. The participant (not the spouse) is the correct life involved in the case of a life period certain situation. Two calculations are made relative to a lump sum. The amount of the lump sum that is ultimately distributed is the greater of the two calculations. For the first calculation, the actuarial equivalence definition (specified interest and mortality table) in the plan document is used to calculate the first lump sum value. The applicable mortality table and applicable interest rate as specified in IRC §417 is used to calculate the second lump sum value. The greater value is ultimately paid to the participant. Therefore, Statement II is true: The **minimum** lump sum payment must be based on the IRS applicable interest rates. (Syllabus Topic 3)

22		C		This is one of the Practice Exam's toughest questions. The lump sum payable to the participant at age 62 is to be calculated. However, the last bullet point is very important: *Plan provides that lump sum payable to participant is the present value of the* ***greater*** *of deferred benefit at age 65 or immediate benefit.* Therefore, two calculation need to be made. The lump sum based on the deferred benefit at age 65 is calculated as follows: [$100/m (Benefit payable at age 65) * 120 (APR at age 65] * $(1.05)^{-3}$ (5% interest discount) $10,366 The lump sum based on the immediate benefit at age 65 is calculated as follows: Immediate benefit = ($100/m at age 65 * 0.900 (Early Retirement Factor) $90/m payable at age 62 [$90/m (Benefit payable at age 62) * 125 (APR at age 62) $11,250 The greater of the two is $11,250 (Syllabus Topic 8)
23		B		A cash balance plan is a defined benefit plan. This means that the cash balance plan is subject to the QJSA requirements, the plan sponsor assumes the investment risk and the plan is subject to the minimum funding requirements. The hypothetical cash balance accounts are a bookkeeping device to keep track of participant's accrued benefits and are not directly related to plan assets. A cash balance plan is a defined benefit plan because accrued benefits are not determined solely by the value of trust assets in an allocated account (otherwise the plan would be a defined contribution plan). Because a cash balance plan is a define benefit plan, employer contributions are calculated using actuarial assumptions and funding methods. The trust asset value will always differ from the sum of the participants' accounts. The employer's minimum funding cost is not directly related to pay and interest credits to the hypothetical accounts since the minimum funding cost may also include payment toward past service credits and will increase due to asset losses and decrease due to asset gains. Forfeitures are not a direct offset to employer costs but rather add to any asset gains from investment. (Syllabus Topic 4)
24		E		Hybrid plans have features of both defined benefit and defined contribution plans. Examples of hybrid plans are cash balance and pension equity plans. A floor-offset plan is a hybrid arrangement of a defined benefit and defined contribution plan where the benefit in the defined benefit plan is offset by the value of the defined contribution account. A cash balance plan (even though it has features of a defined contribution plan) is a **defined benefit** plan. (Syllabus Topic 4)
25		D		A participant's accrued benefit and ultimate retirement benefit under a cash balance plan is the benefit provided by the hypothetical account balance. Since a cash balance plan is a **defined benefit** plan it is subject to the QJSA requirements which means the plan must provide for at least a QJSA annuity option. However, the vast majority of cash balance

				plans will also offer a lump sum option, which is one of the attractive features of a cash balance plan from a participant's perspective. The DB-K plan is officially termed an "eligible combined plan." The plan combines features of a defined benefit plan and a 401(k) plan. Top heavy testing is not required in a DB-K plan. In order to have a floor-offset arrangement, both a defined benefit and a defined contribution plan must be in place. The term floor-offset describes the relationship between the defined benefit and defined contribution plan. An equivalent normal retirement benefit that could be provided by the account balance in the defined contribution plan is calculated using the definition of actuarial equivalence in the defined benefit plan. This requires a projection of the account to the normal retirement date, and the method of projection must be specified in the defined benefit plan document. If the equivalent benefit determined from the defined contribution plan exceeds the accrued normal retirement benefit from the defined benefit plan, the participant will receive benefits **exclusively** from the defined contribution plan. In other words, the participant's net benefit in the defined benefit plan would be $0. A defined benefit from the defined benefit plan is received in a floor-offset arrangement **only if** the defined benefit plan's benefit is larger than the equivalent defined contribution benefit. (Syllabus Topic 4)
26		C		The participant's hypothetical (theoretical) balance at the end of the plan year is $56,000 calculated as follows: $50,000 (Beginning Balance) + $2,500* (Interest Credit) + $3,500** (Pay Credit) * $50,000 * .05 (30 year Treasury Rate) = $2,500 ** $70,000 * .05 = $3,500 (Syllabus Topic 4)
27		C		In order to have a floor-offset arrangement, **both a defined benefit and a defined contribution plan must be in place**. The term floor-offset describes the relationship between the defined benefit and defined contribution plan. An equivalent normal retirement benefit that could be provided by the account balance in the defined contribution plan is calculated using the definition of actuarial equivalence in the defined benefit plan. This requires a projection of the account to the normal retirement date, and the method of projection must be specified in the defined benefit plan document. If the equivalent benefit determined from the defined contribution plan exceeds the accrued normal retirement benefit from the defined benefit plan, the participant will receive benefits exclusively from the defined contribution plan. In other words, the participant's net benefit in the defined benefit plan would be $0. A defined benefit from the defined benefit plan is received in a floor-offset arrangement only if the defined benefit plan's benefit is larger than the equivalent defined contribution benefit. (Syllabus Topic 4)
28		A		A defined benefit plan's benefit formula does not cease to apply once an employee reaches normal retirement age (NRA). The benefit continues to be calculated using service and salary for each year the employee continues to work. Each year after an employee attains normal retirement age, a plan may be required to compare the benefit under the plan's benefit formula to the actuarial equivalent of the prior year's benefit. Therefore, Statement I is true.

				A participant's benefit accrual or rate of benefit accrual may not be reduce because of the attainment of any age. The post-NRA accrual requirements generally apply to all benefits and forms of benefits provided under the plan. Any limitation imposed on the amount of benefits or on the number of years of credited service taken into account may not be based, directly or indirectly on age. Disregarding years of service completed after a participant becomes eligible to receive Social Security benefits would not be an acceptable limitation since eligibility for Social Security cannot be determined without reference to age. (Syllabus Topic 5)
29		C		Some limits on benefit accruals can be included in the terms of the plan. A plan may impose (without regard to age) a limit on the amount of benefits that a participant may accrue. A plan may impose a limit on the number of years of service or years of participation that are taken into account for purposes of determining benefit accruals. A limitation that is either determined by reference to age or is not determinable except by reference to age is considered to be directly based on age. Disregarding years of service completed after a participant becomes eligible to receive Social Security benefits would not be an acceptable limitation since eligibility for Social Security cannot be determined without reference to age. A plan may not disregard compensation or years of service earned after the attainment of a certain age. The post-NRA accrual requirements apply to all benefits and forms of benefits provided under a plan, including: • Accrued benefits • IRC §411(d)(6) protected benefits • Ancillary benefits • Optional forms of benefit • Other benefits, rights, and features (BRF) **(including participant loans)** of the plan Beyond NRA, there should be no discrimination. (Syllabus Topic 5)
30		A		Based in the information provided in this question, the early retirement benefit payable at age 60 is simply the actuarial equivalent of the accrued benefit of $1,000 per month payable as a life annuity at age 65. Calculation is as follows: [($1,000/m * APR at age 65) * D_{65}/D_{60}] / APR at age 60 = ER benefit payable at age 60 [($1,000/m * 102.14) * 88,418/150,518] / 127.19 = $471.73/m payable at age 60 (Syllabus Topic 5)
31		D		The question states that the plan has always been top heavy and it is assumed, since we are not told otherwise, that the participant is a non-key employee (i.e., required to receive a

				top heavy minimum benefit). Two calculations are required. The accrued benefit needs to be calculated using the plan formula and the minimum top heavy benefit needs to be calculated. The ultimate accrued benefit is the greater of the two. Plan accrued benefit equals current average compensation over the last 5 years times years of service up to a maximum of 25 years. ($2,200 * 1% * 23 years) = $506/m Top heavy minimum accrued benefit equals top heavy compensation (i.e., high 5 consecutive years) times 2% times years of top heavy participation with a maximum of 10 ($2,200 * 2% * 10 years) = $440/m The greater of the two is $506/m (Syllabus Topic 2)
32		C		There are two ways to do the calculation. Version 1 - $7,385 * (15/15 – 2/15) = $6,400.33 Version 2 – Calculate the reduction and then reduce the benefit by the reduction $7,385 * 2/15 = $984.67 (This is the amount of the reduction.) $7,385 - $984.67 (reduction) = $6,400.33 (Syllabus Topic 6)
33		C		The availability of an early retirement benefit must not be discriminatory in favor of highly compensated employees. Early retirement is considered a plan benefit, right, or feature that must be both currently available and effectively available on a nondiscriminatory basis. A plan may provide for a **subsidized early retirement benefit** where the amount of subsidy is equal to the amount that the early retirement benefit calculated under the plan's rules exceeds the actuarial equivalent of the accrued retirement benefit at the early retirement age. A plan can condition availability of early retirement on a participant's attainment of a certain age **(no minimum age is required by law)**, having a certain number of years of service or both. (Syllabus Topic 6)
34		A		Separate interest assignments provide much greater flexibility for the alternate payee regarding commencement date, form of annuity, and the guarantee that payments can continue for the alternate payee's lifetime. If the plan provides for subsidized early retirement benefits (i.e., greater than the benefit that would be payable under the plan's actuarial equivalency assumptions) the subsidy cannot be paid to the alternate payee if the alternate payee's benefits commence prior to the actual retirement of the participant (Syllabus Topic 9)

35		A		A defined benefit plan that requires mandatory after-tax employee contributions or allows for voluntary after-tax employee contributions is considered to be contributory. Mandatory contributions are required to be made as either (1) a condition of employment or (2) a condition of participation in the plan. Some plans allow for voluntary contributions which are made at the discretion of the employee and subsequently do not affect participation within the plan. The portion of the accrued benefit attributable to employee contributions is fully vested. Employee contributions count towards the employee's annual addition under the defined contribution IRC §415 limit. Voluntary contributions must be allocated to a separate account for each individual participant and are subject to the average contribution percentage (ACP) test of IRC §401(m). The accrued benefit attributable to a voluntary employee contributions will be determined by the amount of the account balance. The accrued benefit attributable to mandatory employee contributions is determined by converting the amount of contributions made by the participant to the equivalent normal form of payment (normally a single life annuity) payable beginning at NRA. The accrued benefit in a plan with mandatory employee contributions can never be less than the aggregate amount of the mandatory employee contributions **without** interest. (Syllabus Topic 2)
36		D		First, the early retirement benefit payable at age 60 must be calculated. Second, the early retirement benefit payable at age 60 must be valued. The calculation of the early retirement benefit can be done one of two ways. Version 1 - $100/m * (100% - [4% * 5 years] = $80/m payable at age 60 Version 2 - Calculate the reduction and then reduce the benefit by the reduction $100/m * (4% * 5 years) = $20/m (i.e., reduction) $100/m - $20 (reduction) = $80/m payable at age 60 Value the early retirement benefit as follows: $80/m payable at age 60 * 130 (APR at age 60) = $10,400 (Syllabus Topic 6)
37		B		The QPSA is a life annuity payable **to the surviving spouse** of a vested participant who dies before retirement. Therefore, this is a preretirement death benefit. If the participant is not married there is no QPSA payable. Under the QPSA, the surviving spouse must receive the survivor percentage of the vested annuity that would have been received at the earliest retirement date under the terms of the plan (early or normal retirement).

				The plan must make the QPSA available to the surviving spouse no later than the month in which the participant would have reached the earliest retirement age**, but the plan may make distribution available sooner.** The participant may permanently waive the QPSA coverage with spousal consent only after attainment of age 35, or upon termination of employment, up until the date of death. There is no limit to the number of times a participant and spouse may waive the QPSA or revoke a waiver. However, the plan document may stipulate limitations on the number of waivers/revocation. (Syllabus Topic 8)
38		C		In addition to the mandatory death benefit (i.e., the QPSA), a plan **may** provide for additional benefits upon the death of a participant, which can be funded by: (1) A life insurance contract on the life of the participant; and/or (2) A distribution upon death of a portion of the plan's assets. Optional death benefits must qualify as **incidental benefits**. Life insurance as a preretirement benefit will be incidental if the proceeds of the policy do not provide a death benefit greater than **100 times the projected monthly benefit**. Plans that do not have an insured death benefit often provide for a **lump sum** benefit to the participant's beneficiary equal to the present value of the vested accrued benefit. There is no legal requirement to provide 100% vesting upon death. Traditional defined benefit plans **of small employers** often provide 100% vesting upon death (although not required by law) and provide a death benefit equal to the present value of the accrued benefit payable to the beneficiary in the form of a lump sum. A defined benefit is **not requir**ed to offer any benefit payable upon the disability of a participant. However, if the plan chooses to offer a disability benefit there are a number of option and requirements to consider. The disability benefit may (although not required under law) include granting full vesting to a participant who was not vested or partially vested. The disability benefit may include allowing the participant to begin receiving the accrued benefit as if the participant was at NRA, resulting in a subsidized benefit. The disability benefit could allow the participant to continue to accrue benefits while on disability s if the participant were still working at the most recent rate of compensation. As one can see, the employer has significant flexibility to define the disability benefit. (Syllabus Topic 8)
39		D		The maximum annual retirement benefit that a defined benefit plan may provide is limited to the **LESSER** of: (1) A **dollar limit** of \$160,000 that is indexed for cost-of-living adjustments or (2) A **percentage limit** of 100% of the participant's average compensation (Compensation is averaged of the highest three consecutive years subject to the IRC §401(a)(17) maximum compensation limit). **Note:** If the employer never maintained a defined contribution plan in which the employee has participated, a \$10,000 de minimis annual benefit can be provided, regardless of compensation. The **dollar limit** is reduced by 10% for each year of plan **participation** less than ten at the determination date, although it is never below 10% of the full limit.

				The **percentage limit**, as well as the $10,000 de minimis benefit, are both reduced by 10% for each year of **service** less than ten at the determination date. (Syllabus Topic 7)
40		B		Compute both the **dollar limit** and the **percentage limit.** The maximum IRC §415 annual benefit is the **lesser** of the two: **Dollar limit** – Applicable dollar limit prorated for less than 10 years of **participation** $205,000 x 7/10 = $143,000 **Percentage limit** – (100% x **high 3 year average compensation**) prorated for less than 10 years of **service** $150,000 x 8/10 = $120,000 Lesser of the two is $120,000 (Syllabus Topic 7)
41		A		The employer bears the investment risk in a defined benefit plan since the employer is required to make sufficient contributions to pay the benefit under the plan and must increase contributions to make up for any unexpected investment losses. In a defined contribution plan the employee bears the investment risk. If the investments do not perform as expected in a defined contribution there will simply be less money in the employee's account to provide retirement benefits. (Syllabus Topic 1)
42		D		**Note:** The question states that the participant has never been in any other plan of the employer. This indicates that the $10,000 di minimis benefit needs to be considered in addition to the **dollar limit** and the **percentage limit.** **Dollar limit:** Applicable dollar limit prorated for less than 10 years of **participation** $215,000 x 4/10 = $86,000/year or $7,166/m **Percentage limit:** (100% x **high 3 year average compensation)** prorated for less than 10 years of **service** $500/m x 100% x 5/10 = $250/m Di minimis benefit: $10,000 x 5/10 = $5,000/year of $416/m (Syllabus Topic 7)
43		D		In a defined benefit plan, the employer guarantees the benefit that the participant is to receive. The employer bears the invest risk since the employer is required to make sufficient contributions to pay the benefits under the plan and must increase contributions to make up for any unexpected investment losses. The plan's actuary calculates the contribution required to be contributed under the minimum finding standards. Different defined benefit arrangements have different costs associated with them since the ultimate plan cost depends on how much and when the benefits are paid from the plan to the participants. When designing the plan the employer needs to consider the amount of contribution that it can reasonably afford to pay to fund the defined benefit plan. **The**

				amount of contribution budgeted by an employer is very important to know and understand when designing a defined benefit plan. (Syllabus Topic 1)
44		C		Optional forms of benefits are **not** required to use actuarial equivalence. An actuarial equivalent optional benefit is a benefit that has a present value equal to that of the plan's normal form of payment at the time of the first payment. **A plan can provide for a subsidized optional form of benefit.** This **subsidized** payment is greater in value than the actual equivalent benefit. This is often done to encourage a participant to choose to receive a specific form of benefit (e.g., qualified joint and survivor annuity in lieu of a lump sum). There is no requirement that all optional forms of benefit offered under the plan be the actuarial equivalent of each other. In order for each alternate form of benefit to be definitely determinable, the plan can specify both interest and mortality assumptions to be used to calculate the amount of the alternate form. Using these defined rates, the alternative benefit options are actuarially equivalent to the normal form. As an alternative, the plan may specify other procedures such as a table of factors (e.g., 10-year certain and life annuity is equal to 92% of the life annuity) or a simple formula for determining the amount of some of the alternate forms. (Syllabus Topic 3)
45		C		Maximum excess or offset allowances must be reduced for the following reasons: • Adjustment to the 0.75% factor is required so that all normal and optional benefit forms satisfy the 0.75% requirement. **Note:** This only becomes applicable if there is an optional form of benefit that is less valuable than the normal form – "less valuable" meaning that the optional form of benefit will be paid over a shorter period of time than the normal form. For example, if the normal form is a QJSA with an optional life annuity that is the actuarial equivalent, an actuarial equivalent adjustment will be needed to that the life annuity optional benefit does not fail the 0.75% test. • Adjustment to the 0.75% factor is required when the excess or offset integration levels are defined to be other than covered compensation. • Adjustment to the 0.75% factor is required is the normal retirement age is not equal to the Social Security Retirement Age. • If more than 35 years of disparity are used, the maximum excess/offset allowance must be reduced proportionately so that the lifetime maximum is not exceeded. • If the plan provides for an lump sum optional benefit, an adjustment to the 0.75% factor is required if the interest rate used to calculate the lump sum does not fall within the 7.5% and 8.5% In this question, since Statement C states the lump sum used 7.5% interest factor, no adjustment to the 0.75% factor is needed. (Syllabus Topic 8)
46		C		The maximum excess allowance before any required reductions is 0.75%. In this question, the excess allowance must be reduced to 0.65% because all participants have age 65 as their NRA regardless of each participant's SSRA (i.e., Social Security Retirement Age). (Syllabus Topic 8)
47		D		QDROs must contain all of the following information: • The name and last known address of each alternate payee (the person or persons other than the participant who are being assigned benefits under the QDRO; • The name of each plan to which the order applies; • The dollar amount or percentage of benefits to which the order applies (or a method by which the dollar amount of percentage can be determined; and • The time period to which the order applies (e.g., when payments to the alternate payee may begin) and the duration of the payments – often for the life of the alternate payee or participant.

				The name and address of the plan sponsor is **not** a requirement in a QDRO. (Syllabus Topic 9)
48		E		There is no restriction on the amount of the benefit assigned to the alternate payee except that it cannot exceed the actuarial equivalent of the amount that could have been paid to the participant. If the assignment is a percentage of the accrued benefit, it is important to specify the date as of which the benefit is to be determined and to specify how future changes in the benefit due to amendments or increases in final average compensation will affect the benefit due the alternate payee. If the plan provides for subsidized early retirement benefits (greater than the benefit that would be payable under the plan’s actuarial equivalency assumptions) the subsidy cannot be paid to the alternate payee if the alternate payee’s benefits commence prior to the actual retirement of the participant. In this case, it is important for the QDRO to clarify whether or not the payments to the alternate payee would be adjusted upward to include a subsidized early retirement benefit should the participant begin to receive such a subsidized early benefit at a later date. For all of these reasons, all three are factors that can affect benefits paid under the QDRO to the alternate payee (Syllabus Topic 9)
49		D		If the plan provides for subsidized early retirement benefits (greater than the benefit that would be payable under the plan’s actuarial equivalency assumptions) the subsidy cannot be paid to the alternate payee if the alternate payee’s benefits commence prior to the actual retirement of the participant. In this case, it is important for the QDRO to clarify whether or not the payments to the alternate payee would be adjusted upward to include a subsidized early retirement benefit should the participant begin to receive such a subsidized early benefit at a later date. In conclusion, the subsidy cannot be paid to the alternate payee if the alternate payee’s benefits commence prior to the actual retirement of the participant. (Syllabus Topic 9)
50		C		It is important that a QDRO specify what is to happen in the event that either the alternate payee or the participant dies prior to the commencement of benefits. This can either be done through explicit language in the QDRO or by means of default provisions in the plan’s QDRO policy. Absent specific death benefit provisions, the QDRO would have no effect in the event of preretirement death of either the participant or the alternate payee (which may not be the intent of the interested parties). In addition to any other death benefit provisions, the QDRO can always specify that the alternate payee is to remain the spouse for QPSA and QJSA purposes for at least a portion of the benefit amount. (Syllabus Topic 9)

51		B		If the AFTAP is **less than 60%** funded the following restrictions apply: (1) must freeze accruals; (2) cannot pay "accelerated benefit payments; (3) cannot pay shutdown benefits without funding up to 60%; and (4) if over 60% but payment of shutdown benefits would push AFTAP below 60%, must fund up to pay shutdown benefits. If the AFTAP is 60%-80% funded the following restrictions apply: (1) limited ability to adopt benefit improvements without funding up to the 80% level including the liabilities created by the plan amendment and (2) limitations on the payment of "accelerated benefit payments." If the AFTAP is over 80% funded then if shutdown or benefit improvements through amendments causes AFTAP to fall below 60% (for shutdowns) or 80% (for amendments), need to fund more to pay shutdown benefits or accrue additional benefits. If benefits are restricted as a result of the plan's AFTAP falling below 80% or below 60%, the plan administrator must provide a notice to plan participants and beneficiaries **within 30 days** after the time the plan becomes restricted. If the actuary has not certified the plan's AFTAP within three months of the beginning of the plan year, a **presumed** AFTAP is used. The **presumed** AFTAP is equal to the prior year's AFTAP reduced by 10 percentage points. The **presumed** AFTAP is used until the actuary certifies the **actual** AFTAP for the plan year. Furthermore, if the actuary has not certified the AFTAP by the first day of the tenth month of the plan year, the AFTAP is then **deemed** to be less than 60% **for the balance of the year regardless of later certification.** (Syllabus Topic 10 &11)
52		E		Beginning with plan years on or after January 1. 2004, the law was changed to allow the QJSA notice and benefit election to occur after the intended annuity start date with the intended annuity start date then being called the **retroactive annuity start date (RASD).** A RASD is allowed if: (1) The participant and spouse must have had 30 days before payments actually begin to consider their options; (2) The Plan must have been drafted to permit RASDs; and (3) The participant and spouse must agree to use a RASD. An RASD has the following effects: (1) The actual annuity start date rather than the RASD is used to determine whether the QJSA notice requirements were met; (2) The recipient receives makeup payments from the RASD to the actual start date with interest; and (3) The payments are calculated as of the RASD using the participant's age at that time **and plan provisions then in effect (i.e., at the time of the RASD ignoring any benefit improvements that may have occurred after the RASD)**, although IRC §415 and IRC §417(e)(3) requirements must be met at both the RASD and the actual annuity start date. (Syllabus Topic 10)
53		E		The qualified joint and survivor annuity (QJSA) notice must be given no more than 180 days before the annuity start date and must be given no sooner than 30 days before the annuity start date. The explanation of QJSA notice must include the following information: • Terms and conditions of the QJSA; • The participant's right to waive the QJSA and the effect of the waiver; • The spouse's right to consent or not consent to a QJSA waiver; • The spouse's right to revoke a QJSA waiver and the effect of a revocation, if allowed by the plan document; and • Description of optional forms other than the QJSA and disclosure of the relative value of these forms. The IRC §402(f) special tax notice, which describes the rollover rules, must be provided **no more than 180 days** and no less than 30 days before the distribution.

				The notice must explain the right to maintain the tax sheltered status of the distribution either through a direct rollover into an IRA or eligible retirement plan or through deposit of the distribution (including amounts withheld) within 60 days. (Syllabus Topic 10)
54		C		The explanation of QJSA notice must include the following information: • Terms and conditions of the QJSA; • The participant's right to waive the QJSA and the effect of the waiver; • The spouse's right to consent or not consent to a QJSA waiver; • The spouse's right to revoke a QJSA waiver and the effect of a revocation, if allowed by the plan document; and • Description of optional forms other than the QJSA and disclosure of the relative value of these forms. The IRC §402(f) special tax notice notice must explain the right to maintain the tax sheltered status of the distribution either through a direct rollover into an IRA or eligible retirement plan or through deposit of the distribution (including amounts withheld) within 60 days. An eligible rollover distribution is any distribution of all or part of the benefit in the plan **except** the following: • Installment or annuity payments: A series of substantially equal payments made over the recipient's lifetime, life expectancy, or a period of at least ten years; • **Mandatory payment: A required minimum distribution (RMD)**; • Nontaxable payment: Any distribution not included in the recipient's gross income (e.g., a portion attributable to after-tax employee contributions or a previously taxed cost basis such as the PS-58 cost of life insurance). (Syllabus Topic 10)
55		D		Generally, distributions from qualified plans are taxed as ordinary income in the year of distribution. Nontaxable distributions include **mandatory after-tax employee contributions** and other cost bases items (such as PS-58 cost of death benefits) that have already been treated as taxable income. The cost basis is recovered using simplified recovery rules. The simplified recovery rules provide a chart showing approximately the number of expected payments at each participant's age. Distributions that are eligible for rollover are subject to a mandatory **20%** federal tax withholding and applicable state withholding. Annuity payments are taxable distributions that are **not** eligible for rollover and are subject to the same withholding rules as ordinary income. Participants can elect withholding on their annuity distribution by completing and filing a Form W-4P. (Syllabus Topic 10)
56		E		Annuity payments are taxable distributions that are **not** eligible for rollover and are subject to the same withholding rules as ordinary income. Participants can elect **alternative** withholding on their annuity distribution by completing and filing a Form W-4P**. A Form W-4P is not required for all distributions from a defined benefit plan but only for distributions that are not eligible rollover distributions and the participant desires to elect an alternative withholding amount (including no withholding).** (Syllabus Topic 10)

57		C		Some states, not all, have mandatory tax withholding on retirement plan distributions not rolled over. On distributions not eligible for rollover, withholding may be waived by the participant by filing Form W-4P. (Syllabus Topic 10)
58		A		The restriction on distributions only applies if each of the following conditions are met: (1) The plan is funded less that 110% *after* the distribution; (2) The distribution is more than 1% of the plans **liability** *before* the distribution (**Note:** The 1% rule depends on the plan liability, not the assets.); and (3) The participant is a top-25 paid highly compensated employee of former highly compensated employee. (Syllabus Topic 10)
59		E		The sponsor of a plan covered by the PBGC must pay annual insurance premiums composed of two elements: a ***flat portion*** participant ($69 per participant for plan years beginning in 2017 and a ***variable rate portion*** ($34 per $1,000 of unfunded vested accrued benefits for plan years beginning in 2017) based on the unfunded value of vested accrued benefits. The definition of participant for PBGC purposes includes active participants, retirees receiving benefits and deferred vested participants. The number of participants is based on the count at the end of the prior year. **There is no exemption for a Plan Sponsor to pay PBGC premiums based on participant count.** (Syllabus Topic 11)
60		B		The following plan types are exempt from PBGC coverage: (1) A plan of a professional service employer that has never has more than 25 active participants; (2) A plan of a government agency including Indian tribal governments; however, if the plan covers workers carrying out significant commercial activities it may require PBGC coverage (e.g., gaming casinos, lumber operations); (3) A church plan, unless ERISA coverage is irrevocably elected; (4) A plan open only to non-resident aliens; and (5) A plan established only for substantial owners or their spouses (in this case a substantial owner if a sole proprietor, partner, or shareholder who owns more than 10% of the business, and the typical stock attribution rules do **not** apply) **A target benefit plan is a defined contribution plan and is not covered by the PBGC.** (Syllabus Topic 11)

61		C		An ERISA 101(j) notice informs participants about restrictions on accelerated distribution options, shutdown benefits, frozen accruals, and disallowed plan amendments when the plan's Adjusted Funding Target Attainment Percentage (AFTAP) falls below 80% or 60%. The notice is not necessarily required to be distributed to all participants of the plan. The notice is only required to be furnished to participants and beneficiaries to whom the restrictions will or could apply. This could include terminated vested participants that have a benefit payable under the plan. **For an amendment that will significantly reduce or cease future accruals plan sponsors must provide an ERISA §204(h) notice (i.e., not an ERISA §101(j) notice).** (Syllabus Topic 11)
62		E		A defined benefit plan may provide for the suspension of benefit payments for employees who continue to work past normal retirement age or those that return to work after benefit commencement (employees in pay status). Under this rule, the plan is **not** required to provide an actuarial increase for late retirement. This has the economic impact of permanently forfeiting payments. If this rule is satisfied, the plan will not violate anti-cutback or prohibited forfeiture of vested benefits regulations. If the plan provides for this feature, a suspension of benefits notice is required. The notice must be provided to the participant by personal delivery or first class mail **during the first calendar month or payroll period** in which payments are suspended. The suspension of benefits provision is important when determining the amount of a benefit due to a participant for distribution or in connection with valuing liabilities on the funding valuation. Not correctly accounting for the suspension of benefits could lead to over/under payments of a plan participant **or an incorrect statement of plan liabilities** which directly impacts the amount of contribution owed to the plan. (Syllabus Topic 11)
63		B		The Annual Funding Notice (ERISA §101(f) notice) must be provided to the participants of a defined benefit plan that is covered by the PBGC. The Annual Funding Notice replaces the Summary Annual Report (SAR). If the plan is not required to provide an Annual Funding Notice (i.e., a defined benefit plan exempt from PBGC coverage), the plan must provide a Summary Annual Report (SAR). The Annual Funding Notice must be distributed no later than 120 days after the end of the plan year for a large plan. **For small plans with fewer than 100 participants, the notice is due by the Form 5500 filing date.** The Annual Funding Notice must include: • General plan information – Plan name, address and phone number of the plan administrator and the plan's principal administrative office; Sponsor's Employer Identification Number (EIN); and Plan number • Funding information – Plan's Funding Target Attainment Percentage (FTAP) for the current plan year and two preceding years; A statement of the total assets and liabilities of the plan for the current plan year and for the two preceding years; A statement of the value of the plan's assets and estimated liabilities as of the end of the current plan year; and **A summary of the rules governing the termination of single employer plans under Title IV (i.e., PBGC) of ERISA.** • Additional information – A statement of the number of participants who are retired or separated from service and are receiving benefits , retired or separated participants entitled to future benefits, and active participants under the plan; A

				statement setting forth the funding policy of the plan and the asset allocation of investments under the plan (expressed as percentages of total assets) as of the end of the plan year to which the notice relates; An explanation of any plan amendment, scheduled benefit increase or reduction, or other known event taking effect in the current plan year and having a material effect on plan liabilities or assets, and a projection to the end of such year of the effect of the amendment, scheduled increase or reduction, or effect on plan liabilities; A general description of the benefits under the plan that are eligible to be guaranteed by the PBGC, and the limitations on the guarantee and the circumstances under which such limitations apply; A statement that a person can obtain a copy of the plan's Form 5500 at the DOL's website or through an Intranet website by the plan sponsor; and Any additional information a plan administrator elects to include. (Syllabus Topic 11)
64		A		In most instances, the ASPPA Code of Professional Conduct is simply common sense. Statement I is the appropriate answer.
65		D		An age-weighted plan is a defined contribution plan, not a defined benefit plan. (Syllabus Topic 1)