BENEFITS BRIEFING WEBINAR:
Hybrid Pension Plan Regulations
December 3, 2014

Slides prepared by the Council

J. Mark Iwry
Senior Advisor to the Secretary, & Deputy Assistant Secretary for Retirement and Health Policy
U.S. Department of Treasury

George H. Bostick
Benefits Tax Council
Harlan M. Weller
Actuary, Office of Tax Policy
U.S. Department of Treasury

Kent Mason
Partner
Davis & Harman LLP
Effective Date

Hybrid Plan Rules

- Final rules addressing market rate of return released in September
- Generally apply to PY beginning on or after 1/1/16
- Provide guidance on certain issues not covered by final regulations issued in October 2010
  - Portion of new rules clarifying October 2010 regulations apply to PY beginning on or after 1/1/2011
Final and Proposed Rule

Compliance prior to reg. effective date

- No inference regarding law in effect prior to regulatory effective date

Market rate of return

- Limited list
- Maximum fixed rate of return: 6%
- Maximum minimum rate of return: 5% (generally) / 4% (if variable rate is based on segment rates)
Select Issues

Whipsaw
- Early retirement and optional form subsidies do not trigger whipsaw requirement
- Plans with whipsaw: ineligible for age discrimination safe harbor

Participant-directed interest crediting rates
- Continuing to study permissibility
- If later ruled impermissible, anti-cutback relief will be provided to plans with this feature as of 9/18/14

Backloading
- Problematic: pay credits that increase with age/service with investment-based rate of return that can be negative for a year
- Regulation: deemed zero rate of return if return for prior year was negative
Transition Issues

Also issued proposed transitional amendments (comments due 12/18, hearing 1/9/15)

- No reliance
- Plan amendments must be adopted and effective prior to first day of 2016 plan year
- Generally provide pathways to compliance
Pension Equity Plans

- Very little PEP-specific guidance
  - Regulations do clarify that a reduction in the PEP benefit is permitted if it results from a decrease in final pay or from an increase in integration level

- Separate pending project on PEPs
  - Status of 411(b)(1)(G) issue

- Status of enforcement
Additional Guidance

- Projection issues for, e.g., 415 and nondiscrimination rules
- Other?
- Regulatory guidance?
- Timing?