Defined Benefit/Cash Balance Terms & Definitions

1. Hypothetical Account Balance - The monthly benefit calculated from a Defined Benefit Plan that is expressed as a contribution and account balance. IRS sometimes calls this a "Notional Account."

2. Accounts - Are hypothetical because there are no investments directly related them. Instead, they grow by the following additions, which are defined by the terms of the plan, on each allocation date (usually annual) until the benefit is paid.

3. Pay Credits - Are the current 'year hypothetical contributions defined like contributions in a Defined Contribution Plan based on the monthly benefit. Also known as Contribution Credit.

4. Interest Credits - Are the "gain/loss" in the hypothetical account balance. They are defined as either a fixed rate or an indexed rate that varies on each allocation date. The rules limit the interest credit rates and, under current guidance, the rate should not exceed the third funding segment rate for the applicable plan year.

5. Projection Rate- Is a reasonable interest rate that is the expected long term return on the investment for a plan. This rate is used in the calculations for funding and the distribution at retirement. It does not actually affect the true investment returns.

6. Meaningful Benefit - This is the amount that a participant must receive to be considered benefiting for the 401(a)(26) minimum participation test. Regulations do not definitely determine the amount considered to be meaningful benefit and relies on facts and circumstances. IRS Guidelines and accepted practice is considered to be"½ of 1 % benefit accrual rate," or simply .5%.

7. 40l(a)(26) Minimum Participation Test - Non-discrimination test for the minimum required participation in a Defined Benefit Plan. A plan must provide a benefit to at least 40% of the non-excludable eligible employees or 50 -employees if less. There is a special rule for two employees that both must be covered. See Meaningful Benefit above.

8. Minimum Required Contribution (MRC) - The minimum contribution due to fund the defined benefit/cash balance plan that must be deposited no later than 8½ months after the plan year end (or quarterly if required).

9. Segment Rate - Interest rate assumptions stabilized over a 25-year average that use three periods of expected distribution: 1) benefits payable within 5 years, 2) benefits payable after 5 years through the 20th year, and 3) benefits payable after 20 years.

10. Accrued Benefit - Is the portion of the normal retirement benefit that has been earned to date. It may vary based on service age and compensation.

11. Accumulated Benefit - A participant's benefit accrued to date and is expressed as an annuity payable at normal retirement age, the balance of a hypothetical account, or the current value of the accumulated percentage of the employee's final average compensation.

12. At-Risk - A plan that has additional funding requirements if the plan's assets are less than 80% of the funding target using actuarial assumptions and if the plan's assets are less than 70% of the at-risk assumptions.

13. Burn - Often referred to as a Deemed Burn, it is the requirement that some of the carryover balance and prefunding balance must be used to achieve a certain percentage of funding.

14. Carryover Balance - A funding standard carryover balance is automatically established for a plan that had a positive balance in the funding standard as of the end of the pre-effective plan year for the plan. The carryover balance is reduced for the amount used to prior year minimum required contribution (MRC).

15. Cushion Amount - The amount a plan is overfunded, usually 50% of the plan's funding target for the year.

16. Effective Interest Rate - Is the single rate of interest that is used to determine the present value of the plan's accrued benefits for funding purposes.

17. Fresh Start - When there is an amendment to the benefit formula, there may need to be an adjustment to future benefit accruals. This point in time and benefit is called Fresh Start.

18. Funding Target - Present Value of all benefits for all participants for the current year.

19. Lump Sum at Retirement - A single-sum distribution that can be payable to a participant instead of the Normal Form.

20. Mortality Table - Is a table that estimates the number of participants that will die each year. Pre-Retirement is how many before retirement age and Post Retirement is how many after retirement benefits begin.

21. Most Valuable Accrual Rate (MVAR) - The most valuable form of an optional payment in Defined Benefit Plan. The MVAR is part of the non-discrimination testing. It includes early retirement subsidies, early retirement benefits, etc. The measurement period can be the current plan year, the current plan year and all prior years, or the current plan year and all prior and future plan years.

22. Moving Ahead for Progress in the 21st Century (MAP-21) - Beginning in 2012, established new funding rules to help single employer Defined Benefit Plans. It provides new segment rates for the purposes of funding.

23. Normal Form of Benefit - Is the automatic form distribution in a plan and usually the least expensive form is a single life annuity where the distributions end with the death of the participant.

24. Optional Forms of Benefit - Additional benefits that can be selected in addition to the specified distribution (Normal Form). Variables to the Optional Forms can be frequency of payments, timing, election of annuity percentages, and who is entitled to payment.

25. Pension Benefit Guaranty Corporation (PBGC) - Agency that collects premiums from Defined Benefit Plans and guarantees certain benefits will be payable.

26. Pension Protection Act of 2006 (PPA) - Major law change effective in 2006 on how Defined Benefit Plans are calculated along with new funding requirements. It typically increases the amount necessary to fund, affects the valuation of assets and places limits on the amounts of credit balances allowed.

27. Present Value of Accrued Benefits (PVAB) - The current value of the benefit calculated at retirement for a participant.

28. Prefunding Balance - A prefunding balance is created by excess contributions of the employer. The prefunding balance is adjusted further for investment return and interest. Carryover balances must be used before making any excess contributions.

29. Rate of Return - Is determined on the basis of fair market value and must take into account the amount and timing of all contributions, distributions, and other plan payments made during that period.

30. Setback - Is used in the mortality table to calculate the present value as if the participant or spouse was younger and would increase the lump sum benefits.

31. Shortfall (Funding) - The amount of funding that a short by when the Funding Target is compared to the assets of the plan. A shortfall must be amortized over a set number of years and could create additional funding as well as required participant notices.

32. Target Normal Cost - Present Value of all benefits for a participant in the current year.