Comments on Proposed Rule on Payment of Premiums, the Alternative Calculation Method

August 5, 1999

Office of the General Counsel, Suite 340
Pension Benefit Guaranty Corporation
1200 K. Street, N.W.
Washington, D.C. 2005-4026

RE: Comments on Proposed Rule on Payment of Premiums, the Alternative Calculation Method

Dear General Counsel:

On behalf of the American Society of Pension Actuaries, we would like to thank you for the opportunity to comment in the proposed rule on payment of premiums (published April 10, 1992) and, in particular, the opportunity to discuss the alternative calculation method (ACM).

ASPPA is a national organization of approximately 3,700 members who provide actuarial, consulting, administrative, legal and other professional services for about one-third of the qualified retirement plans in the United States, the majority of which are maintained by small businesses. ASPPA's mission is to educate pension actuaries, consultants, administrators, and other benefits professionals and to preserve and enhance the private retirement system as part of the development of a cohesive and coherent national retirement income policy.

The use of the ACM has two benefits for Service Providers and Plan Administrators of small defined benefit pension plans.

1. It does not require actuarial certification. For a very small defined benefit pension plan this may save annual administration costs.

2. It does not require the data at the beginning of the current plan year.

The problem with the current ACM is that it is complicated enough that unless the Service Provider or Plan Administrator has computer software which automatically performs the calculation, it may actually require the services of an actuary to do the calculations. This reduces some of the benefits of using the ACM.

The proposed rule from 1992 reduces the calculation of the unfunded vested benefits (UVB) to a five step process as follows:

1. Adjust the beginning of the prior year benefit value for retires and beneficiaries based upon a table lookup adjustment factor determined by the difference between the funding interest rate and the premium interest rate;

2. Adjust the beginning of the prior year benefit value for retirees and beneficiaries based upon a table lookup adjustment factor determined by the normal retirement age and at he difference between the funding interest rate and the premium interest rate;

3. Adjust the beginning of the prior year benefit value for active participants based upon adding accruals and a table lookup adjustment factor determined by the difference between the funding interest rate and the premium rate and the premium interest rate and the normal retirement age;

4. Adjust the beginning of the prior year value of assets to reflect contributions for the year;

5. Compute the UVBs by subtracting the benefits from steps 1, 2, and 3 less the assets form step 4 and then adjusting the difference with interest for a year.

The proposed rule does impose new restrictions on the use of the ACM by plans with 500 or more participants on the theory that such plans routinely calculate the UVB both using the general rule and the ACM and then use the result generating the smallest premium. Such plans would not be allowed to use the new method if their estimated UVBs were less than under the general rule.

ASPPA does not support the restriction on the ability of a larger plan to use the simplified alternative. There are situations on which a Plan Administrator or Service Provider uses the ACM because the data necessary for the general rile is not available. Further, such a restriction simply bars the use of expense of general rule calculations. If the general rule UVB is less than the estimate, there is little reason to invoke the simplified rule.

Our recommendation with respect to larger plans is a separate, more accurate method of calculating the ACM. This would provide larger plans with the main benefits of the ACM, (not needing the current year's data).

ASPPA favors the proposed changes in the calculation of the UVB under the ACM but rather than eliminate the option for the sponsors of large plans of t he UVB under the general test turns out to have resulted in a higher premium, ASPPA recommends a more accurate ACM for large plans. If the PBGC would like to discuss our proposal or new ways the ACM can be changed, for larger plans, to more accurately estimate the UVB, please contact us.

Sincerely,

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