Pension Benefit Guaranty Corporation

86-1

January 15, 1986

REFERENCE:
[*1] 29 CFR 2617 Determination of Plan Sufficiency & Termination of Sufficient Plans
29 CFR 2619 Valuation of Plan Benefits

OPINION:

This is in response to your inquiries concerning the interpretation of the Pension Benefit Guaranty Corporation's ("PBGC") regulation, 29 C.F.R. § 2619.26, "Lump Sums and Other Alternative Forms of Distribution in Lieu of Annuities." You specifically asked for clarification of subsection b(1) with regard to "the present value of the normal form of benefit provided by the plan payable at normal retirement age."

Under an ongoing pension plan (a plan that has not terminated), active plan participants accrue service credit under the terms of the plan for participation right, benefit level, and vesting purposes. As a participant accrues more years of service, he or she generally accrues higher benefits which will be payable upon retirement. On the date of plan termination, however, all accruals will cease. Benefit entitlements under the terminated plan are calculated with reference only to each participant's service accrued up to the date of termination. For example, a participant with 15 years of service and 45 years of age on the date of plan termination will [*2] generally be entitled to a benefit calculated with reference to 15 years of service and payable at normal retirement age. The regulations of the PBGC at 29 C.F.R. § 2617.4 require that such a benefit be paid in the form of an annuity unles an alternative form (such as a lump sum) is permitted by one of the exceptions in the rule.

Section 2619.26(b)(1) provides

The value of the lump sum or other alternative form of distribution payable under this section is the present value of the normal form of benefit provided by the plan payable at normal retirement age, determined as of the date of distribution using reasonable actuarial assumptions as to interest and mortality.

In order to determine the value of a lump sum or other alternative form of distribution in accordance with this regulation, the plan administrator first must determine the "benefit provided by the plan payable at normal retirement age," i.e., as noted above, the benefit to which a participant is entitled under the terms of the pension plan as of the plan termination date. Second, the plan administrator must calculate the present value of the normal form of such benefit, using reasonable actuarial assumptions as [*3] to interest and mortality determined as of the date assets of the plan are distributed pursuant to the termination. See 29 U.S.C. § § 1341, 1344; 29 C.F.R. § 2617.21. The "normal form of benefit" is the form in which benefits are payable under the plan (e.g., joint and survivor annuity or lump sum) assuming that participants have not elected payment in different forms. Section 2619.26(c)(2) lists certain interest assumptions that PBGC will consider reasonable for calculating the value of a lump sum or other alternative form of distribution.

I hope this letter is of assistance. If you have further questions on this matter, please contact Valerie Dinkins of my staff at the above address or at (202) 956-5024.

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General Counsel