

Pension Benefit Guaranty Corporation

76-12

January 27, 1976

REFERENCE:

[\*1] 4021(b)(1). Plans covered. Individual Account Plans  
4041(f). Termination by Plan Administrator. Application of Termination Procedures Upon Amendment to Individual Account Plan

OPINION:

This is in response to your inquiry concerning the conversion of a defined benefit plan to a "target" or "assumed" benefit plan.

As you may know, this Corporation insures basic benefits upon termination of certain tax qualified, defined benefit pension plans, Employee Retirement Income Security Act of 1974 (the "Act") § 4021(a). Certain plans, such as individual account plans, are specifically excluded from coverage under the plan termination insurance program. Act 4021(b). Where an amendment to a covered plan results in the plan's exclusion from coverage, the plan is treated as terminated upon the adoption of such an amendment. Act § 4041(f).

Generally, a "target" or "assumed" benefit plan provides an individual account for each participant, and a benefit based on the value of the participant's individual account. Target plans of this type are excluded from coverage under Act § 4021(b)(1). However, some target benefit plans may not operate this way and be covered by the plan termination insurance program. [\*2] Since you have not submitted to us the proposed amendment to your client's plan, we are unable to determine whether the amendment would result in a termination of the plan.

If the amendment to the plan results in the plan's termination, a notice of termination must be filed with this Corporation. See Act § 4041(a) and C.F.R. 2604, Federal Register, Vol. 40, No. 179, Monday, September 15, 1975. Upon receipt of the notice of termination, this Corporation will determine if possible, after assets are allocated in accordance with § 4044 of the Act, whether the plan is able to discharge its obligations with respect to basic benefits. No distributions pursuant to the plan's termination may be made before 90 days after the proposed date of termination or receipt of a notice of sufficiency, whichever is earlier.

It may be possible to transfer the value of earned benefits to individual accounts in the amended plan if employees are given a choice of receiving their benefits in the form of a paid-up annuity or having an amount equal to the value of their benefits transferred to their individual account in the amended plan.

Irrespective of whether your plan is amended, premiums continue [\*3] to accrue until the plan's assets are distributed pursuant to a termination procedure, or until a trustee is appointed pursuant to § 4042 of the Act, whichever is earlier.

I hope this information is helpful.

Henry Rose  
General Counsel