



Friday
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Part III

**Pension Benefit
Guaranty
Corporation**

29 CFR Parts 4001, 4006, 4022, 4041,
4050

Termination of Single-Employer Plans;
Final Rule

PENSION BENEFIT GUARANTY CORPORATION

29 CFR Parts 4001, 4006, 4022, 4041, 4050

RIN 1212-AA82

Termination of Single-Employer Plans**AGENCY:** Pension Benefit Guaranty Corporation.**ACTION:** Final rule.

SUMMARY: The Pension Benefit Guaranty Corporation is amending its termination regulation to extend deadlines, to otherwise simplify the standard termination process, and to ensure that participants receive information on state guaranty association coverage of annuities.

EFFECTIVE DATE: January 1, 1998. This rule is applicable to terminations for which the first notice of intent to terminate is issued on or after January 1, 1998. Certain provisions of the rule that provide increased flexibility during the termination process apply to pending terminations, as explained under Applicability of Final Rule in **SUPPLEMENTARY INFORMATION.**

FOR FURTHER INFORMATION CONTACT: Harold J. Ashner, Assistant General Counsel, or Catherine B. Klion, Attorney, Office of the General Counsel, PBGC, 1200 K Street, NW., Washington, DC 20005-4026, 202-326-4024 (800-877-8339 for TTY and TDD).

SUPPLEMENTARY INFORMATION:**Background**

A single-employer plan covered by the PBGC's insurance program may be voluntarily terminated only in a standard or distress termination. The rules governing voluntary terminations are in section 4041 of the Employee Retirement Income Security Act of 1974 and part 4041 of the PBGC's regulations.

On March 14, 1997, the PBGC published a proposed rule (62 FR 12508) revising and simplifying the standard termination process and making a limited number of conforming changes to the distress termination and premium regulations, as well as conforming and simplifying changes to the missing participants regulation. The proposal was developed after conducting focus groups with plan practitioners and took into account participant concerns and the PBGC's experience.

The proposed regulation extended certain standard termination deadlines—most significantly the deadlines for filing the standard termination notice (Form 500) and for

distributing benefits after receiving a determination letter from the Internal Revenue Service (IRS)—and gave the PBGC discretion to extend these and other deadlines.

The final regulation generally follows the proposed regulation. The commenters commended the PBGC for extending deadlines, but raised some technical and other issues. The PBGC has carefully considered all comments. The following includes a discussion of the major comments and the significant changes from the proposed regulation.

Notice of Intent To Terminate

One commenter suggested that the notice of intent to terminate include a copy of the summary plan description. Plan administrators are required to provide participants and beneficiaries with the summary plan description periodically and upon request pursuant to section 104(b) of ERISA. The final regulation requires plan administrators to include in the notice of intent to terminate a statement as to how a participant or beneficiary can get the summary plan description under section 104(b).

Another commenter suggested that the PBGC specify different information requirements for the notice in the case of affected parties discovered long after the termination process is complete. The PBGC has not adopted the suggestion because tailoring the information requirements depending on the passage of time would be unnecessarily complicated.

The PBGC received a number of inquiries, including a comment on the proposed rule, about the relationship between the notice of intent to terminate and section 204(h) of ERISA, and about the proposed requirement that the notice of intent to terminate address whether accruals have been or will be frozen.

The final regulation, like the proposed regulation, requires that the notice of intent to terminate make clear when, and under what circumstances, accruals cease. The notice of intent to terminate, in and of itself, does not constitute a section 204(h) notice. If the termination is successfully completed, the plan will be deemed to satisfy section 204(h) not later than the termination date, and therefore there will be no post-termination date accruals (see Treas. Reg. § 1.411(d)-6T, Q&A 14(a)). The deeming rule does not apply if the plan does not successfully complete the termination process. In addition, the deeming rule will not cause accruals to stop before the termination date. In order for accruals to cease before the termination date, the plan administrator

must provide a notice that satisfies section 204(h). The notice may be provided separately or with or as part of the notice of intent to terminate.

The final regulation provides that the notice of intent to terminate (and the notice of plan benefits) must be issued to each person who becomes a beneficiary of a deceased participant or an alternate payee after the proposed termination date and on or before the distribution date. (The notice will be saved from being untimely, provided the "after-discovered affected parties" requirements are satisfied.)

Notice of Plan Benefits

While the proposed regulation did not make substantive changes to the existing requirements for the content of the notice of plan benefits, there were several comments and questions about this notice. The notice of plan benefits is designed to facilitate the ability of participants and beneficiaries to determine whether their benefit calculations are correct before all plan assets are distributed.

One commenter asked what actions are required when necessary personal data is unavailable. The final regulation requires the plan administrator to provide the best available data, to inform the affected party of any personal data needed to calculate a benefit that is not available, and to give the affected party an opportunity to supply it and to correct any information he or she believes to be incorrect.

Another commenter suggested eliminating the personal data requirement for persons who have already received a prior benefit notice (e.g., a terminated vested participant) and asked whether personal data should be provided in the form of "root data" or "derived data." To facilitate the ability of participants and beneficiaries to review benefit calculations at the time of termination, the final regulation retains the requirement that personal data be provided in all cases except where a participant or beneficiary has been in pay status for more than one year. The final regulation continues to give plan administrators the flexibility to provide personal data in the form they consider to be most useful.

The same commenter also suggested that the PBGC drop the existing requirement to provide information about alternative benefit forms (because it is available in the summary plan description) and actuarial adjustment factors (because it is not provided by ongoing plans and is difficult for affected parties to understand). The final regulation retains this requirement, thereby keeping in a single document

key information that helps affected parties (or their advisors) check the accuracy of benefit calculations.

To further ensure that the notice of plan benefits provides affected parties with adequate information to check their benefit calculations, the final regulation requires that, for benefits that will or may be paid in lump sum form, the plan administrator must specify the mortality table used to convert the benefit, describe the interest rate to be used to convert to the lump sum benefit (e.g., the 30-year Treasury rate for the third month before the month in which the lump sum is distributed), and (if known) provide the applicable interest rate. This information will enable affected parties to ensure that plan administrators are using permissible interest and mortality assumptions in calculating lump sums.

State Guaranty Information

The proposed regulation, in response to a General Accounting Office recommendation, required plan administrators to include with the notice of identity of insurer a general explanation of state guaranty coverage and state-by-state information (addresses, telephone numbers, and coverage limits for each state). The proposed forms and instructions package included all of the required information so that plan administrators could copy it and provide it to affected parties.

Several commenters thought the information on state guaranty coverage was burdensome and not useful. They argued that the majority of participants elect lump sums, and that participants who choose annuities do not need the information unless and until the annuity provider experiences financial difficulty. On the other hand, a participant organization did not believe the notice went far enough in clearly informing participants of the consequences of insurance company failure (in particular that, in certain limited circumstances, they may not receive state guaranty protection).

Basic information about state guaranty coverage is useful at the time of plan termination. Participants who understand the potential consequences of the plan administrator's selection of an insurer can make better informed decisions as to the form of their benefit and whether to bring any concerns about a particular insurer to the attention of the plan administrator.

The final regulation retains the state guaranty information requirement with some modifications. Plan administrators must still provide a general explanation of state guaranty coverage. (A model

notice is included in the forms and instructions package.) The notice must inform affected parties that a guaranty association is responsible for all, part, or none of the annuity if the insurance company cannot pay. While the detailed state-by-state information is not required, the notice must include a statement generally describing applicable dollar coverage limits, and must also inform affected parties how they can obtain the addresses and telephone numbers of state guaranty association offices from the PBGC. The PBGC intends to maintain a current list of these addresses and telephone numbers on its home page and to respond to inquiries for this information so that affected parties may obtain current information whenever it is most useful to them.

Closeout of Plan

Several commenters addressed the statement in the proposed rule that the PBGC intends to audit insurer selections for compliance with Title I fiduciary standards and to take appropriate corrective action, with one specifically questioning the PBGC's statutory authority for this statement. One commenter suggested that the PBGC periodically publish a list of "safe-harbor" insurers that plan administrators could select and thereby avoid audit. Another commenter suggested that the PBGC audit proposed insurer selections before the selection is made and include in the notice of identity of insurer both insurance company ratings and a certification of compliance with fiduciary standards in selecting an insurer.

By requiring compliance with Title I fiduciary standards to have a valid termination and by monitoring that compliance, the PBGC is furthering one of Title IV's fundamental purposes—"to provide for the timely and uninterrupted payment of pension benefits" (section 4002(a)(1) of ERISA). The Department of Labor's Interpretive Bulletin 95-1 (60 FR 12329, March 6, 1995), codified at 29 CFR § 2509.95-1, provides guidance with respect to the application of Title I of ERISA to the selection of annuity providers when purchasing annuities for the purpose of distributing benefits under a pension plan. As explained in Interpretive Bulletin 95-1, the selection process depends in part on the relevant facts and circumstances at the time an annuity is purchased. The PBGC will coordinate with the Department of Labor in this area.

The PBGC does not believe it appropriate to publish a list of "safe harbor" insurers, to audit proposed

insurer selections, or to require as part of the notice of identity of insurer either ratings or a special certification for this one aspect of the termination process.

PBGC Audits

The PBGC currently reviews benefit calculations after distribution for a statistically significant number of plans terminating in standard terminations, as required by section 4003(a) of ERISA. A participant organization suggested that the PBGC review benefit calculations before distribution. Prior to passage of the Single-Employer Pension Plan Amendments Act of 1986 (SEPPAA), the PBGC did conduct pre-distribution reviews of benefit calculations. Congress's intent in passing SEPPAA was to reduce the PBGC's role in standard terminations, thereby enabling the PBGC to devote more of its resources to underfunded terminations (where both premium payers and participants can face significant exposure). See 52 FR 33318, 33318-19, September 2, 1987. Although the PBGC has not adopted the commenter's suggestion, the PBGC has revised the forms and instructions packages to address common errors found in post-distribution audits by including detailed guidance on calculating lump sum distributions. The PBGC will continue to conduct post-distribution audits and require appropriate corrective action.

Filing and Issuance Rules

The proposed regulation eased filing deadlines by changing the date of filing a notice with the PBGC from the date of receipt to the date of the U.S. Postal Service postmark or (if the notice is received by the PBGC within two regular business days) the date of deposit with a commercial delivery service. The final regulation provides further flexibility in situations where the postmark was made by a private postage meter or is illegible.

For filings by commercial delivery service, the final regulation supplements the two-day receipt rule with IRS rules under section 7502(f) of the Internal Revenue Code. Under the IRS rules, a document is generally considered filed on the date it is provided to a "designated private delivery service" for delivery using a specified type of delivery service, e.g., overnight service. (See I.R.S. Notice 97-26, 1997-17 I.R.B. 6 (April 10, 1997) and I.R.S. Notice 97-50, 1997-37 I.R.B. 21 (August 29, 1997) for relevant rules and IRS's first two lists of designated private delivery services.)

The proposed regulation allowed electronic filing in certain circumstances and provided that the

date of electronic filing is the date of receipt by the PBGC. The final regulation liberalizes these rules by generally providing that the date of electronic filing is the date of electronic transmission to the PBGC.

The final regulation, like the proposed regulation, allows the plan administrator to issue a notice to an affected party by electronic means reasonably calculated to ensure actual receipt. The PBGC received comments relating to confirmation of receipt of electronically-issued notices. Confirmation of receipt is not required. However, the final rule provides that, if there is reason to believe that a notice was not delivered, the plan administrator must reissue the notice promptly in order for the transmission date to be treated as the issuance date. (A similar rule applies to documents filed electronically with the PBGC.)

The final regulation makes clear that plan administrators are not required to issue notices to persons they cannot locate after making reasonable efforts, as long as they issue the notice promptly in the event the person is located.

In response to a comment, the final regulation provides that plan administrators may provide additional information with any notice only if the information is not misleading.

Miscellaneous

Definitions

In response to a comment, the PBGC has clarified the definition of "plan benefits." The final regulation also ties this definition to the rules governing post-termination amendments.

A commenter questioned the inclusion of PBGC premiums as a plan liability in the "residual assets" definition. The proposed regulation merely conformed this definition to the existing requirement that PBGC premiums be taken into account in determining sufficiency for a standard termination (see existing § 4041.27(b)). Distribution of plan benefits in a standard termination without taking into account the plan's premium obligation may result in nullification of the termination or imposition of personal liability on the plan administrator (see 57 FR 59206, 59214 (December 14, 1992); PBGC Op. Ltr. 94-6 (September 28, 1994)).

The PBGC has rejected as unnecessary the suggestions of another commenter to change two definitions. The commenter requested that the definition of "participant" exclude individuals who have received a "deemed" zero-dollar cashout and that the definition of "majority owner" provide for expanded

attribution rules. The definition of "participant" already excludes any nonvested individual who has been cashed out under the terms of the plan and in accordance with applicable law and regulations (see section 411(a)(7) of the Code and Treas. Reg. § 1.411(a)-7) because the individual is no longer "earning or retaining" credited service. Similarly, the "majority owner" definition already incorporates Code attribution rules, which provide for attribution of ownership to spouses, ascendants, and descendants in certain circumstances. The PBGC sees no reason to provide for greater attribution in its termination regulations.

Facilitating Plan Sufficiency

In response to a comment seeking clarification of the election and consent requirements governing alternative treatment of a majority owner's benefit, the final regulation makes clear that the election and consent may be made at any time during the termination process.

The Taxpayer Relief Act of 1997 (which was enacted after the publication of the proposed rule) amends section 206(d) of ERISA to provide for the offset of a participant's benefit against the amount the participant owes to a plan as a result of settlement or other resolution of certain fiduciary breach or criminal actions. Because this offset reduces the benefits that must be taken into account in a voluntary termination, there is no need to revise the regulation to reflect this legislation.

Qualified Domestic Relations Orders

A participant organization asked the PBGC to address the relationship between the termination process and qualified domestic relations orders (QDRO's). A standard termination has no effect on the ability to obtain a QDRO or on benefits received under a QDRO. (Of course, as is the case with an ongoing plan, a distribution from the plan may affect the ability to obtain benefits under a QDRO.) Plan administrators and annuity providers must comply with the terms of a QDRO. As affected parties, alternate payees under QDRO's receive all required notices, including the notice of plan benefits. A spouse contemplating a divorce (and QDRO) retains his or her spousal consent rights.

Post-Termination Amendments

The proposed regulation provided that, with limited exceptions, a plan amendment adopted after a plan's termination date is disregarded with respect to a participant or beneficiary.

The final regulation clarifies how the rule works where a share of residual assets will go to participants and beneficiaries based on an allocation formula.

Lump Sum Assumptions

The final regulation clarifies the rules for determining the valuation date for a lump sum distribution.

Participating Annuity Contracts

In response to a comment, the PBGC notes that its change in the rules governing purchase of participating annuity contracts (from existing § 4041.6(d) to proposed and final § 4041.28(c)(2)) is merely clarifying, not substantive.

Deadlines and Extensions

Commenters approved of the proposed regulation's provision giving the PBGC discretionary authority to extend standard termination deadlines. The final regulation extends this discretionary authority to distress termination and missing participants deadlines.

One commenter recommended that the PBGC eliminate intermediate deadlines. The PBGC believes that intermediate deadlines are useful in managing the termination process, in particular, in coordinating with the IRS determination letter process. The combination of extended deadlines and the ability to obtain discretionary extensions should result in the intermediate deadlines causing few, if any, difficulties.

The PBGC has not incorporated a suggestion that the final regulation include more specific criteria for discretionary extensions. The grounds for granting a discretionary extension will vary with the facts and circumstances of the particular case. The final regulation, like the proposed regulation, includes factors (e.g., length of the delay) that the PBGC will consider.

Record Retention and Availability

In response to a comment, the final regulation allows records to be retained in any format that reasonably ensures the integrity of the original information, as long as the records can be converted to hardcopy if requested by the PBGC. (This provision addresses only the record retention requirements under section 4041 of ERISA and part 4041 of the PBGC's regulations; it does not address record retention requirements under Title I of ERISA or the Code.) The final regulation also clarifies that the plan administrator must make available to the PBGC upon request any records

necessary to demonstrate compliance with the termination requirements under section 4041 of ERISA and part 4041 of the PBGC's regulations, and applies this same test to the record retention requirement.

Missing Participants

The final rule gives the PBGC authority to grant discretionary extensions and makes technical changes to (1) the deadline for payment of residual assets for a participant or beneficiary who cannot be located; and (2) the rules governing post-age 70½ PBGC payments.

Other

In response to comments, the PBGC (1) has reviewed its model notice of intent to terminate and model state guaranty notice for readability and made simplifying changes, and (2) has added a standard termination time line to the forms and instructions package.

The PBGC has not adopted suggestions to change the requirements for calculating lump sum distributions (because they are prescribed by the Code and IRS regulations) or the deadline for filing the post-distribution certification (because it is prescribed by Title IV of ERISA). (As discussed in **Applicability of Final Rule** below, the PBGC has provided penalty relief for late filing of the post-distribution certification.) The PBGC also has not adopted suggestions to change certain existing requirements and interpretations.

The final rule makes other clarifying, conforming, or editorial changes from the proposed rule in the PBGC's termination, missing participants, and benefit payment regulations.

Applicability of Final Rule

This rule is applicable to terminations for which the first notice of intent to terminate is issued on or after January 1, 1998. As explained below, certain provisions of the rule apply to terminations for which the first notice of intent to terminate is issued before January 1, 1998.

Deadline Extensions

Any deadline that has not passed as of January 1, 1998 is extended to the deadline that applies under this final rule, including a deadline extended under the PBGC's discretionary authority under § 4041.30.

Filing and Issuance Rules

The filing rules in § 4041.3(b) and issuance rules in § 4041.3(c)(1) through (c)(4) apply to any information (except for the notice under § 4041.31(g) that a

termination is nullified) required to be filed or issued on or after January 1, 1998.

Notice of Noncompliance

The rules in § 4041.31 that (1) address the PBGC's discretion not to issue a notice of noncompliance for failure to meet a distribution requirement (§ 4041.31(b)), and (2) deem a termination valid if the plan administrator files a post-distribution certification and the PBGC does not issue a notice of noncompliance (§ 4041.31(f)(2)) apply to any termination for which, as of January 1, 1998, the distribution deadline has not passed.

Late Filing of Post-Distribution Certification

The final regulation provides penalty relief for late filing of the post-distribution certification and certain information under the missing participants program. It also eliminates two other potential consequences for late post-distribution certification filings: (1) the loss of part or all of the plan's premium refund for its final short plan year; and (2) the loss of the interest-free grace period for late payment of a designated benefit for a missing participant. The relevant amendments " in § 4041.29(b) (regarding assessment of penalties for late filing of the post-distribution certification), § 4050.6(b)(2) (regarding assessment of interest for late payment of a designated benefit for a missing participant and penalties for late filing of information), and § 4006.5(f)(3) (regarding the plan's premium refund for its final short plan year)—are applicable to terminations for which, as of January 1, 1998, the statutory deadline for filing the post-distribution certification has not passed.

The penalty relief described in the PBGC's March 14, 1997, policy statement (62 FR 12521) " which does not eliminate the other potential consequences of a late post-distribution certification " will continue for pending terminations for which the post-distribution certification is statutorily due before January 1, 1998.

Forms and Instructions Packages

The PBGC will issue new forms and instructions packages for terminations for which the first notice of intent to terminate is issued on or after January 1, 1998.

The PBGC will also issue revised forms and instructions packages for terminations for which the first notice of intent to terminate is issued before January 1, 1998. These packages explain

in detail which provisions of the final rule apply to pending terminations. As discussed in **Applicability of Final Rule**, the only changes that apply provide increased flexibility for plan administrators; plan administrators may therefore complete pending terminations by complying with existing requirements.

After the new and revised forms and instructions packages are approved by the Office of Management and Budget (see **Compliance with Rulemaking and Paperwork Reduction Act Guidelines**), the PBGC intends to mail the revised packages to persons with pending terminations on file with the PBGC and to mail the new and revised packages to practitioners who have requested that they be placed on a mailing list to receive policy and technical updates from the PBGC. Persons may also obtain the packages by contacting the PBGC's Customer Service Center, 1200 K Street, NW., Washington, D.C. 20005-4026 ((202) 326-4000) or by accessing the PBGC's home page at <http://www.pbgc.gov>.

Compliance With Rulemaking and Paperwork Reduction Act Guidelines

The PBGC has determined that this action is not a "significant regulatory action" under the criteria set forth in Executive Order 12866.

The PBGC certifies under section 605(b) of the Regulatory Flexibility Act that this rule will not have a significant economic impact on a substantial number of small entities. While this rule simplifies procedures and extends deadlines, the actions required to terminate a plan are essentially unchanged. Accordingly, sections 603 and 604 of the Regulatory Flexibility Act do not apply.

This rule contains information collection requirements. As required by the Paperwork Reduction Act of 1995, the PBGC has submitted a copy of this information collection, including the implementing forms and instructions, to the Office of Management and Budget for its review. Persons do not have to comply with the revised information collection requirements of this rule until the PBGC publishes in the **Federal Register** a notice announcing OMB's approval of this collection of information along with a currently valid OMB control number.

List of Subjects

29 CFR Part 4001

Pension insurance, Pensions, Reporting and Recordkeeping requirements.

29 CFR Part 4006

Penalties, Pension insurance, Pensions, Reporting and Recordkeeping requirements.

29 CFR Part 4022

Pension insurance, Pensions, Reporting and Recordkeeping requirements.

29 CFR Part 4041

Pension insurance, Pensions, Reporting and Recordkeeping requirements.

29 CFR Part 4050

Pensions, Reporting and Recordkeeping requirements.

For the reasons set forth above, the PBGC is amending parts 4001, 4006, 4022, 4041, and 4050 of 29 CFR chapter XL as follows:

PART 4001—TERMINOLOGY

1. The authority citation for Part 4001 continues to read as follows:

Authority: 29 U.S.C. 1301, 1302(b)(3).

§ 4001.2 [Amended]

2. In § 4001.2, paragraph (2) of the definition of *Distribution date* is amended by removing the words "Other than for purposes of determining the interest rate to be used in calculating the value of a benefit to be paid as a lump sum to a late-discovered participant, the" and adding in their place "The"; and by removing the words "PBGC, a benefit provided after the deemed distribution date to a late-discovered participant, or an irrevocable commitment purchased from an insurer after the deemed distribution date for a recently-missing participant" and adding in their place the word "PBGC".

PART 4006—PREMIUM RATES

3. The authority citation for Part 4006 continues to read as follows:

Authority: 29 U.S.C. 1302(b)(3), 1306, 1307.

§ 4006.5 [Amended]

4. In § 4006.5, paragraph (f)(3) is amended by removing the words "or, if later (in the case of a single-employer plan), the date 30 days prior to the date the PBGC receives the plan's post-distribution certification".

PART 4022—BENEFITS PAYABLE IN TERMINATED SINGLE-EMPLOYER PLANS

5. The authority citation for Part 4022 continues to read as follows:

Authority: 29 U.S.C. 1302, 1322, 1322b, 1341(c)(3)(D), and 1344.

§ 4022.61 [Amended]

6. In § 4022.61, paragraph (a) is amended by replacing "4041.4" with "4041.42".

7. Part 4041 is revised to read as follows:

PART 4041—TERMINATION OF SINGLE-EMPLOYER PLANS**Subpart A—General Provisions**

Sec.

- 4041.1 Purpose and scope.
- 4041.2 Definitions.
- 4041.3 Computation of time; filing and issuance rules.
- 4041.4 Disaster relief.
- 4041.5 Record retention and availability.
- 4041.6 Effect of failure to provide required information.
- 4041.7 Challenges to plan termination under collective bargaining agreement.
- 4041.8 Post-termination amendments.

Subpart B—Standard Termination Process

- 4041.21 Requirements for a standard termination.
- 4041.22 Administration of plan during pendency of termination process.
- 4041.23 Notice of intent to terminate.
- 4041.24 Notices of plan benefits.
- 4041.25 Standard termination notice.
- 4041.26 PBGC review of standard termination notice.
- 4041.27 Notice of annuity information.
- 4041.28 Closeout of plan.
- 4041.29 Post-distribution certification.
- 4041.30 Requests for deadline extensions.
- 4041.31 Notice of noncompliance.

Subpart C—Distress Termination Process

- 4041.41 Requirements for a distress termination.
- 4041.42 Administration of plan during termination process.
- 4041.43 Notice of intent to terminate.
- 4041.44 PBGC review of notice of intent to terminate.
- 4041.45 Distress termination notice.
- 4041.46 PBGC determination of compliance with requirements for distress termination.
- 4041.47 PBGC determination of plan sufficiency/insufficiency.
- 4041.48 Sufficient plans; notice requirements.
- 4041.49 Verification of plan sufficiency prior to closeout.
- 4041.50 Closeout of plan.

Authority: 29 U.S.C. 1302(b)(3), 1341, 1344, 1350.

Subpart A—General Provisions**§ 4041.1 Purpose and scope.**

This part sets forth the rules and procedures for terminating a single-employer plan in a standard or distress termination under section 4041 of ERISA, the exclusive means of voluntarily terminating a plan.

§ 4041.2 Definitions.

The following terms are defined in § 4001.2 of this chapter: affected party,

annuity, benefit liabilities, Code, contributing sponsor, controlled group, distress termination, distribution date, EIN, employer, ERISA, guaranteed benefit, insurer, irrevocable commitment, IRS, mandatory employee contributions, normal retirement age, notice of intent to terminate, PBGC, person, plan administrator, plan year, PN, single-employer plan, standard termination, termination date, and title IV benefit. In addition, for purposes of this part:

Distress termination notice means the notice filed with the PBGC pursuant to § 4041.45.

Distribution notice means the notice issued to the plan administrator by the PBGC pursuant to § 4041.47(c) upon the PBGC's determination that the plan has sufficient assets to pay at least guaranteed benefits.

Majority owner means, with respect to a contributing sponsor of a single-employer plan, an individual who owns, directly or indirectly, 50 percent or more (taking into account the constructive ownership rules of section 414(b) and (c) of the Code) of—

- (1) An unincorporated trade or business;
- (2) The capital interest or the profits interest in a partnership; or
- (3) Either the voting stock of a corporation or the value of all of the stock of a corporation.

Notice of noncompliance means a notice issued to a plan administrator by the PBGC pursuant to § 4041.31 advising the plan administrator that the requirements for a standard termination have not been satisfied and that the plan is an ongoing plan.

Notice of plan benefits means the notice to each participant and beneficiary required by § 4041.24.

Participant means—

- (1) Any individual who is currently in employment covered by the plan and who is earning or retaining credited service under the plan, including any individual who is considered covered under the plan for purposes of meeting the minimum participation requirements but who, because of offset or similar provisions, does not have any accrued benefits;
- (2) Any nonvested individual who is not currently in employment covered by the plan but who is earning or retaining credited service under the plan; and
- (3) Any individual who is retired or separated from employment covered by the plan and who is receiving benefits under the plan or is entitled to begin receiving benefits under the plan in the future, excluding any such individual to whom an insurer has made an irrevocable commitment to pay all the

benefits to which the individual is entitled under the plan.

Plan benefits means benefit liabilities determined as of the termination date (taking into account the rules in § 4041.8(a)).

Proposed termination date means the date specified as such by the plan administrator in the notice of intent to terminate or, if later, in the standard or distress termination notice.

Residual assets means the plan assets remaining after all plan benefits and other liabilities (e.g., PBGC premiums) of the plan have been satisfied (taking into account the rules in § 4041.8(b)).

Standard termination notice means the notice filed with the PBGC pursuant to § 4041.25.

State guaranty association means an association of insurers created by a State, the District of Columbia, or the Commonwealth of Puerto Rico to pay benefits and to continue coverage, within statutory limits, under life and health insurance policies and annuity contracts when an insurer fails.

§ 4041.3 Computation of time; filing and issuance rules.

(a) *Computation of time.* In computing any period of time under this part, the day of the event from which the period begins is not counted. The last day of the period is counted. If the last day falls on a Saturday, Sunday, or Federal holiday, the period runs until the end of the next regular business day. A proposed termination date may be any day, including a Saturday, Sunday, or Federal holiday.

(b) *Filing with the PBGC.* Any document to be filed under this part must be filed with the PBGC in the manner described in the applicable forms and instructions package. The document is deemed filed on the date described in paragraph (b)(1), (b)(2), (b)(3) or (b)(4) of this section, as applicable, or such earlier date as is provided in the applicable forms and instructions package. For purposes of this paragraph (b), information received by the PBGC on a weekend or Federal holiday or after 5:00 p.m. on a weekday is considered filed on the next regular business day.

(1) *Filing by mail.* If the document is mailed with the United States Postal Service by first class mail postage prepaid to the PBGC, the document is filed on—

- (i) The date of the legible United States Postal Service postmark;
- (ii) If there is no legible United States Postal Service postmark, the date of the legible postmark made by a private postage meter, provided that the document is received by the PBGC not

later than the date when a document sent by first class mail would ordinarily be received if it were postmarked at the same point of origin by the United States Postal Service on the last date prescribed for filing the document; or

(iii) In any other case, the date that the plan administrator can establish the document was deposited in the mail before the last collection of mail from the place of deposit.

(2) *Filing by commercial delivery service.* If the document is deposited with a commercial delivery service, the document is filed on the earlier of—

(i) The date that would be considered the postmark date under section 7502(f) of the Code; or

(ii) The date it is deposited for delivery with the commercial delivery service, provided it is received by the PBGC within two regular business days.

(3) *Electronic filings.* If the document is filed electronically, the document is filed on the date on which it is transmitted electronically to the PBGC, provided that, if there is reason to believe the document was not delivered, the plan administrator promptly refiles the document in accordance with the applicable forms and instructions package.

(4) *Other filings.* If a filing date is not established under paragraphs (b)(1) through (b)(3) of this section, the document is filed on the date on which it is received by the PBGC.

(c) *Issuance to other parties.* The following rules apply to affected parties (other than the PBGC). For purposes of this paragraph (c), a person entitled to notice under the spin-off/termination transaction rules of §§ 4041.23(c) or 4041.24(f) is treated as an affected party.

(1) *Permissible methods of issuance.* The plan administrator must issue any notice to an affected party individually—

- (i) By hand delivery;
- (ii) By first-class mail or commercial delivery service to the affected party's last known address; or
- (iii) By electronic means reasonably calculated to ensure actual receipt by the affected party.

(2) *Date of issuance.* Any notice is deemed issued to an affected party on the date on which it is—

- (i) Handed to the affected party;
- (ii) Deposited in the mail;
- (iii) Deposited with a commercial delivery service; or
- (iv) Transmitted electronically to the affected party, provided that, if there is reason to believe the notice was not delivered, the plan administrator promptly reissues the notice in accordance with the applicable forms and instructions package.

(3) *Omission of affected parties.* The failure to issue any notice to an affected party (other than any employee organization) within the specified time period will not cause the notice to be untimely if—

(i) *After-discovered affected parties.* The plan administrator could not reasonably have been expected to know of the affected party, and issues the notice promptly after discovering the affected party;

(ii) *De minimis administrative errors.* The failure was due to administrative error involving only a *de minimis* percentage of affected parties, and the plan administrator issues the notice to each such affected party promptly after discovering the error; or

(iii) *Unlocated participants.* The plan administrator could not locate the affected party after making reasonable efforts, and issues the notice promptly in the event the affected party is located.

(4) *Deceased participants.* In the case of a deceased participant, the plan administrator need not issue a notice to the participant's estate if the estate is not entitled to a distribution.

(5) *Form of notices to affected parties.* All notices to affected parties must be readable and written in a manner calculated to be understood by the average plan participant. The plan administrator may provide additional information with a notice only if the information is not misleading.

(6) *Foreign languages.* The plan administrator of a plan that (as of the proposed termination date) covers the numbers or percentages in § 2520.104b-10(e) of this title of participants literate only in the same non-English language must, for any notice to affected parties—

- (i) Include a prominent legend in that common non-English language advising them how to obtain assistance in understanding the notice; or
- (ii) Provide the notice in that common non-English language to those affected parties literate only in that language.

§ 4041.4 Disaster relief.

When the President of the United States declares that, under the Disaster Relief Act (42 U.S.C. 5121, 5122(2), 5141(b)), a major disaster exists, the Executive Director of the PBGC (or his or her designee) may, by issuing one or more notices of disaster relief, extend by up to 180 days any due date under this part.

§ 4041.5 Record retention and availability.

(a) *Retention requirement.* (1) *Persons subject to requirement.* Each contributing sponsor and the plan administrator of a plan terminating in a standard termination, or in a distress

termination that closes out in accordance with § 4041.50, must maintain all records necessary to demonstrate compliance with section 4041 of ERISA and this part. A record may be maintained in any format that reasonably ensures the integrity of the original information and that allows the record to be converted to hardcopy if necessary under paragraph (b) of this section. If a contributing sponsor or the plan administrator maintains information in accordance with this paragraph (a)(1), the other(s) need not maintain that information.

(2) *Retention period.* The records described in paragraph (a)(1) of this section must be preserved for six years after the date when the post-distribution certification under this part is filed with the PBGC.

(b) *Availability of records.* The contributing sponsor or plan administrator must make all records needed to determine compliance with section 4041 of ERISA and this part available to the PBGC upon request for inspection and photocopying, and must submit such records to the PBGC within 30 days after the date of a written request by the PBGC or by a later date specified therein. Unless the PBGC agrees to a different format, records must be submitted in hardcopy.

§ 4041.6 Effect of failure to provide required information.

If a plan administrator fails to provide any information required under this part within the specified time limit, the PBGC may assess a penalty under section 4071 of ERISA of up to \$1,100 a day for each day that the failure continues. The PBGC may also pursue any other equitable or legal remedies available to it under the law, including, if appropriate, the issuance of a notice of noncompliance under § 4041.31.

§ 4041.7 Challenges to plan termination under collective bargaining agreement.

(a) *Suspension upon formal challenge to termination* (1) *Notice of formal challenge.* (i) If the PBGC is advised, before its review period under § 4041.26(a) ends, or before issuance of a notice of inability to determine sufficiency or a distribution notice under § 4041.47(b) or (c), that a formal challenge to the termination has been initiated as described in paragraph (c) of this section, the PBGC will suspend the termination proceeding and so advise the plan administrator in writing.

(ii) If the PBGC is advised of a challenge described in paragraph (a)(1)(i) of this section after the time specified therein, the PBGC may suspend the termination proceeding and

will so advise the plan administrator in writing.

(2) *Standard terminations.* During any period of suspension in a standard termination —

(i) The running of all time periods specified in ERISA or this part relevant to the termination will be suspended; and

(ii) The plan administrator must comply with the prohibitions in § 4041.22.

(3) *Distress terminations.* During any period of suspension in a distress termination —

(i) The issuance by the PBGC of any notice of inability to determine sufficiency or distribution notice will be stayed or, if any such notice was previously issued, its effectiveness will be stayed;

(ii) The plan administrator must comply with the prohibitions in § 4041.42; and

(iii) The plan administrator must file a distress termination notice with the PBGC pursuant to § 4041.45.

(b) *Existing collective bargaining agreement.* For purposes of this section, an existing collective bargaining agreement means a collective bargaining agreement that has not been made inoperative by a judicial ruling and, by its terms, either has not expired or is extended beyond its stated expiration date because neither of the collective bargaining parties took the required action to terminate it. When a collective bargaining agreement no longer meets these conditions, it ceases to be an "existing collective bargaining agreement," whether or not any or all of its terms may continue to apply by operation of law.

(c) *Formal challenge to termination.* A formal challenge to a plan termination asserting that the termination would violate the terms and conditions of an existing collective bargaining agreement is initiated when —

(1) Any procedure specified in the collective bargaining agreement for resolving disputes under the agreement commences; or

(2) Any action before an arbitrator, administrative agency or board, or court under applicable labor-management relations law commences.

(d) *Resolution of challenge.* Immediately upon the final resolution of the challenge, the plan administrator must notify the PBGC in writing of the outcome of the challenge, provide the PBGC with a copy of any award or order, and, if the validity of the proposed termination has been upheld, advise the PBGC whether the proposed termination is to proceed. The final

resolution ends the suspension period under paragraph (a) of this section.

(1) *Challenge sustained.* If the final resolution is that the proposed termination violates an existing collective bargaining agreement, the PBGC will dismiss the termination proceeding, all actions taken to effect the plan termination will be null and void, and the plan will be an ongoing plan. In this event, in a distress termination, § 4041.42(d) will apply as of the date of the dismissal by the PBGC.

(2) *Termination sustained.* If the final resolution is that the proposed termination does not violate an existing collective bargaining agreement and the plan administrator has notified the PBGC that the termination is to proceed, the PBGC will reactivate the termination proceeding by sending a written notice thereof to the plan administrator, and —

(i) The termination proceeding will continue from the point where it was suspended;

(ii) All actions taken to effect the termination before the suspension will be effective;

(iii) Any time periods that were suspended will resume running from the date of the PBGC's notice of the reactivation of the proceeding;

(iv) Any time periods that had fewer than 15 days remaining will be extended to the 15th day after the date of the PBGC's notice, or such later date as the PBGC may specify; and

(v) In a distress termination, the PBGC will proceed to issue a notice of inability to determine sufficiency or a distribution notice (or reactivate any such notice stayed under paragraph (a)(3) of this section), either with or without first requesting updated information from the plan administrator pursuant to § 4041.45(c).

(e) *Final resolution of challenge.* A formal challenge to a proposed termination is finally resolved when—

(1) The parties involved in the challenge enter into a settlement that resolves the challenge;

(2) A final award, administrative decision, or court order is issued that is not subject to review or appeal; or

(3) A final award, administrative decision, or court order is issued that is not appealed, or review or enforcement of which is not sought, within the time for filing an appeal or requesting review or enforcement.

(f) *Involuntary termination by the PBGC.* Notwithstanding any other provision of this section, the PBGC retains the authority in any case to initiate a plan termination in accordance with the provisions of section 4042 of ERISA.

§ 4041.8 Post-termination amendments.

(a) *Plan benefits.* A participant's or beneficiary's plan benefits are determined under the plan's provisions in effect on the plan's termination date. Notwithstanding the preceding sentence, an amendment that is adopted after the plan's termination date is taken into account with respect to a participant's or beneficiary's plan benefits to the extent the amendment—

(1) Does not decrease the value of the participant's or beneficiary's plan benefits under the plan's provisions in effect on the termination date; and

(2) Does not eliminate or restrict any form of benefit available to the participant or beneficiary on the plan's termination date.

(b) *Residual assets.* In a plan in which participants or beneficiaries will receive some or all of the plan's residual assets based on an allocation formula, the amount of the plan's residual assets and each participant's or beneficiary's share thereof is determined under the plan's provisions in effect on the plan's termination date. Notwithstanding the preceding sentence, an amendment adopted after the plan's termination date is taken into account with respect to a participant's or beneficiary's allocation of residual assets to the extent the amendment does not decrease the value of the participant's or beneficiary's allocation of residual assets under the plan's provisions in effect on the termination date.

(c) *Permitted decreases.* For purposes of this section, an amendment shall not be treated as decreasing the value of a participant's or beneficiary's plan benefits or allocation of residual assets to the extent—

(1) The decrease is necessary to meet a qualification requirement under section 401 of the Code;

(2) The participant's or beneficiary's allocation of residual assets is paid in the form of an increase in the participant's or beneficiary's plan benefits; or

(3) The decrease is offset by assets that would otherwise revert to the contributing sponsor or by additional contributions.

(d) *Distress terminations.* In the case of a distress termination, a participant's or beneficiary's benefit liabilities are determined as of the termination date in the same manner as plan benefits under this section.

Subpart B—Standard Termination Process**§ 4041.21 Requirements for a standard termination.**

(a) *Notice and distribution requirements.* A standard termination is valid if the plan administrator—

(1) Issues a notice of intent to terminate to all affected parties (other than the PBGC) in accordance with § 4041.23;

(2) Issues notices of plan benefits to all affected parties entitled to plan benefits in accordance with § 4041.24;

(3) Files a standard termination notice with the PBGC in accordance with § 4041.25;

(4) Distributes the plan's assets in satisfaction of plan benefits in accordance with § 4041.28(a) and (c); and

(5) In the case of a spin-off/termination transaction (as defined in § 4041.23(c)), issues the notices required by § 4041.23(c), § 4041.24(f), and § 4041.27(a)(2) in accordance with such sections.

(b) *Plan sufficiency.* (1) *Commitment to make plan sufficient.* A contributing sponsor of a plan or any other member of the plan's controlled group may make a commitment to contribute any additional sums necessary to enable the plan to satisfy plan benefits in accordance with § 4041.28. A commitment will be valid only if—

(i) It is made to the plan;

(ii) It is in writing, signed by the contributing sponsor or controlled group member(s); and

(iii) In any case in which the person making the commitment is the subject of a bankruptcy liquidation or reorganization proceeding, as described in § 4041.41(c)(1) or (c)(2), the commitment is approved by the court before which the liquidation or reorganization proceeding is pending or a person not in bankruptcy unconditionally guarantees to meet the commitment at or before the time distribution of assets is required.

(2) *Alternative treatment of majority owner's benefit.* A majority owner may elect to forgo receipt of his or her plan benefits to the extent necessary to enable the plan to satisfy all other plan benefits in accordance with § 4041.28. Any such alternative treatment of the majority owner's plan benefits is valid only if—

(i) The majority owner's election is in writing;

(ii) In any case in which the plan would require the spouse of the majority owner to consent to distribution of the majority owner's receipt of his or her plan benefits in a form other than a

qualified joint and survivor annuity, the spouse consents in writing to the election;

(iii) The majority owner makes the election and the spouse consents during the time period beginning with the date of issuance of the first notice of intent to terminate and ending with the date of the last distribution; and

(iv) Neither the majority owner's election nor the spouse's consent is inconsistent with a qualified domestic relations order (as defined in section 206(d)(3) of ERISA).

§ 4041.22 Administration of plan during pendency of termination process.

(a) *In general.* A plan administrator may distribute plan assets in connection with the termination of the plan only in accordance with the provisions of this part. From the first day the plan administrator issues a notice of intent to terminate to the last day of the PBGC's review period under § 4041.26(a), the plan administrator must continue to carry out the normal operations of the plan. During that time period, except as provided in paragraph (b) of this section, the plan administrator may not—

(1) Purchase irrevocable commitments to provide any plan benefits; or

(2) Pay benefits attributable to employer contributions, other than death benefits, in any form other than an annuity.

(b) *Exception.* The plan administrator may pay benefits attributable to employer contributions either through the purchase of irrevocable commitments or in a form other than an annuity if—

(1) The participant has separated from active employment or is otherwise permitted under the Code to receive the distribution;

(2) The distribution is consistent with prior plan practice; and

(3) The distribution is not reasonably expected to jeopardize the plan's sufficiency for plan benefits.

§ 4041.23 Notice of intent to terminate.

(a) *Notice requirement.* (1) *In general.* At least 60 days and no more than 90 days before the proposed termination date, the plan administrator must issue a notice of intent to terminate to each person (other than the PBGC) that is an affected party as of the proposed termination date. In the case of a beneficiary of a deceased participant or an alternate payee, the plan administrator must issue a notice of intent to terminate promptly to any person that becomes an affected party after the proposed termination date and on or before the distribution date.

(2) *Early issuance of NOIT.* The PBGC may consider a notice of intent to terminate to be timely under paragraph (a)(1) of this section if the notice was early by a *de minimis* number of days and the PBGC finds that the early issuance was the result of administrative error.

(b) *Contents of notice.* The PBGC's standard termination forms and instructions package includes a model notice of intent to terminate. The notice of intent to terminate must include —

(1) *Identifying information.* The name and PN of the plan, the name and EIN of each contributing sponsor, and the name, address, and telephone number of the person who may be contacted by an affected party with questions concerning the plan's termination;

(2) *Intent to terminate plan.* A statement that the plan administrator intends to terminate the plan in a standard termination as of a specified proposed termination date and will notify the affected party if the proposed termination date is changed to a later date or if the termination does not occur;

(3) *Sufficiency requirement.* A statement that, in order to terminate in a standard termination, plan assets must be sufficient to provide all plan benefits under the plan;

(4) *Cessation of accruals.* A statement (as applicable) that—

(i) Benefit accruals will cease as of the termination date, but will continue if the plan does not terminate;

(ii) A plan amendment has been adopted under which benefit accruals will cease, in accordance with section 204(h) of ERISA, as of the proposed termination date or a specified date before the proposed termination date, whether or not the plan is terminated; or

(iii) Benefit accruals ceased, in accordance with section 204(h) of ERISA, as of a specified date before the notice of intent to terminate was issued;

(5) *Annuity information.* If required under § 4041.27, the annuity information described therein;

(6) *Benefit information.* A statement that each affected party entitled to plan benefits will receive a written notification regarding his or her plan benefits;

(7) *Summary plan description.* A statement as to how an affected party entitled to receive the latest updated summary plan description under section 104(b) of ERISA can obtain it.

(8) *Continuation of monthly benefits.* For persons who are, as of the proposed termination date, in pay status, a statement (as applicable) —

(i) That their monthly (or other periodic) benefit amounts will not be affected by the plan's termination; or

(ii) Explaining how their monthly (or other periodic) benefit amounts will be affected under plan provisions; and

(9) *Extinguishment of guarantee.* A statement that after plan assets have been distributed in full satisfaction of all plan benefits under the plan with respect to a participant or a beneficiary of a deceased participant, either by the purchase of irrevocable commitments (annuity contracts) or by an alternative form of distribution provided for under the plan, the PBGC no longer guarantees that participant's or beneficiary's plan benefits.

(c) *Spin-off/termination transactions.* In the case of a transaction in which a single defined benefit plan is split into two or more plans and there is a reversion of residual assets to an employer upon the termination of one or more but fewer than all of the resulting plans (a "spin-off/termination transaction"), the plan administrator must, within the time period specified in paragraph (a) of this section, provide a notice describing the transaction to all participants, beneficiaries of deceased participants, and alternate payees in the original plan who are, as of the proposed termination date, covered by an ongoing plan.

§ 4041.24 Notices of plan benefits.

(a) *Notice requirement.* The plan administrator must, no later than the time the plan administrator files the standard termination notice with the PBGC, issue a notice of plan benefits to each person (other than the PBGC and any employee organization) who is an affected party as of the proposed termination date. In the case of a beneficiary of a deceased participant or an alternate payee, the plan administrator must issue a notice of plan benefits promptly to any person that becomes an affected party after the proposed termination date and on or before the distribution date.

(b) *Contents of notice.* The plan administrator must include in each notice of plan benefits—

(1) The name and PN of the plan, the name and EIN of each contributing sponsor, and the name, address, and telephone number of an individual who may be contacted to answer questions concerning plan benefits;

(2) The proposed termination date given in the notice of intent to terminate and any extended proposed termination date under § 4041.25(b);

(3) If the amount of plan benefits set forth in the notice is an estimate, a statement that the amount is an estimate

and that plan benefits paid may be greater than or less than the estimate;

(4) Except in the case of an affected party in pay status for more than one year as of the proposed termination date—

(i) The personal data (if available) needed to calculate the affected party's plan benefits, along with a statement requesting that the affected party promptly correct any information he or she believes to be incorrect; and

(ii) If any of the personal data needed to calculate the affected party's plan benefits is not available, the best available data, along with a statement informing the affected party of the data not available and affording him or her the opportunity to provide it; and

(5) The information in paragraphs (c) through (e) of this section, as applicable.

(c) *Benefits of persons in pay status.* For an affected party in pay status as of the proposed termination date, the plan administrator must include in the notice of plan benefits —

(1) The amount and form of the participant's or beneficiary's plan benefits payable as of the proposed termination date;

(2) The amount and form of plan benefits, if any, payable to a beneficiary upon the participant's death and the name of the beneficiary; and

(3) The amount and date of any increase or decrease in the benefit scheduled to occur (or that has already occurred) after the proposed termination date and an explanation of the increase or decrease, including, where applicable, a reference to the pertinent plan provision.

(d) *Benefits of persons with valid elections or de minimis benefits.* For an affected party who, as of the proposed termination date, has validly elected a form and starting date with respect to plan benefits not yet in pay status, or with respect to whom the plan administrator has determined that a nonconsensual lump sum distribution will be made, the plan administrator must include in the notice of plan benefits—

(1) The amount and form of the person's plan benefits payable as of the projected benefit starting date, and what that date is;

(2) The information in paragraphs (c)(2) and (c)(3) of this section;

(3) If the plan benefits will be paid in any form other than a lump sum and the age at which, or form in which, the plan benefits will be paid differs from the normal retirement benefit—

(i) The age or form stated in the plan; and

(ii) The age or form adjustment factors; and

(4) If the plan benefits will be paid in a lump sum —

(i) An explanation of when a lump sum may be paid without the consent of the participant or the participant's spouse;

(ii) A description of the mortality table used to convert to the lump sum benefit (e.g., the mortality table published by the IRS in Revenue Ruling 95-6, 1995-1 C.B. 80) and a reference to the pertinent plan provisions;

(iii) A description of the interest rate to be used to convert to the lump sum benefit (e.g., the 30-year Treasury rate for the third month before the month in which the lump sum is distributed), a reference to the pertinent plan provision, and (if known) the applicable interest rate;

(iv) An explanation of how interest rates are used to calculate lump sums;

(v) A statement that the use of a higher interest rate results in a smaller lump sum amount; and

(vi) A statement that the applicable interest rate may change before the distribution date.

(e) *Benefits of all other persons not in pay status.* For any other affected party not described in paragraph (c) or (d) of this section (or described therein only with respect to a portion of the affected party's plan benefits), the plan administrator must include in the notice of plan benefits—

(1) The amount and form of the person's plan benefits payable at normal retirement age in any one form permitted under the plan;

(2) Any alternative benefit forms, including those payable to a beneficiary upon the person's death either before or after benefits commence;

(3) If the person is or may become entitled to a benefit that would be payable before normal retirement age, the amount and form of benefit that would be payable at the earliest benefit commencement date (or, if more than one such form is payable at the earliest benefit commencement date, any one of those forms) and whether the benefit commencing on such date would be subject to future reduction; and

(4) If the plan benefits may be paid in a lump sum, the information in paragraph (d)(4) of this section.

(f) *Spin-off/termination transactions.* In the case of a spin-off/termination transaction (as defined in § 4041.23(c)), the plan administrator must, no later than the time the plan administrator files the standard termination notice for any terminating plan, provide all participants, beneficiaries of deceased participants, and alternate payees in the original plan who are (as of the proposed termination date) covered by

an ongoing plan with a notice of plan benefits containing the information in paragraphs (b) through (e) of this section.

§ 4041.25 Standard termination notice.

(a) *Notice requirement.* The plan administrator must file with the PBGC a standard termination notice, consisting of the PBGC Form 500, completed in accordance with the instructions thereto, on or before the 180th day after the proposed termination date.

(b) *Change of proposed termination date.* The plan administrator may, in the standard termination notice, select a proposed termination date that is later than the date specified in the notice of intent to terminate, provided it is not later than 90 days after the earliest date on which a notice of intent to terminate was issued to any affected party.

(c) *Request for IRS determination letter.* To qualify for the distribution deadline in § 4041.28(a)(1)(ii), the plan administrator must submit to the IRS a valid request for a determination of the plan's qualification status upon termination ("determination letter") by the time the standard termination notice is filed.

§ 4041.26 PBGC review of standard termination notice.

(a) *Review period.* (1) *In general.* The PBGC will notify the plan administrator in writing of the date on which it received a complete standard termination notice at the address provided in the PBGC's standard termination forms and instructions package. If the PBGC does not issue a notice of noncompliance under § 4041.31 during its 60-day review period following such date, the plan administrator must proceed to close out the plan in accordance with § 4041.28.

(2) *Extension of review period.* The PBGC and the plan administrator may, before the expiration of the PBGC review period in paragraph (a)(1) of this section, agree in writing to extend that period.

(b) *If standard termination notice is incomplete.* (1) *For purposes of timely filing.* If the standard termination notice is incomplete, the PBGC may, based on the nature and extent of the omission, provide the plan administrator an opportunity to complete the notice. In such a case, the standard termination notice will be deemed to have been complete as of the date when originally filed for purposes of § 4041.25(a), provided the plan administrator provides the missing information by the later of—

(i) The 180th day after the proposed termination date; or

(ii) The 30th day after the date of the PBGC notice that the filing was incomplete.

(2) *For purposes of PBGC review period.* If the standard termination notice is completed under paragraph (b)(1) of this section, the PBGC will determine whether the notice will be deemed to have been complete as of the date when originally filed for purposes of determining when the PBGC's review period begins under § 4041.26(a)(1).

(c) *Additional information.* (1) *Deadline for providing additional information.* The PBGC may in any case require the submission of additional information relevant to the termination proceeding. Any such additional information becomes part of the standard termination notice and must be submitted within 30 days after the date of a written request by the PBGC, or within a different time period specified therein. The PBGC may in its discretion shorten the time period where it determines that the interests of the PBGC or participants may be prejudiced by a delay in receipt of the information.

(2) *Effect on termination proceeding.* A request for additional information will suspend the running of the PBGC's 60-day review period. The review period will begin running again on the day the required information is received and continue for the greater of—

(i) The number of days remaining in the review period; or

(ii) Five regular business days.

§ 4041.27 Notice of annuity information.

(a) *Notice requirement.* (1) *In general.* The plan administrator must provide notices in accordance with this section to each affected party entitled to plan benefits other than an affected party whose plan benefits will be distributed in the form of a nonconsensual lump sum.

(2) *Spin-off/termination transactions.* The plan administrator must provide the information in paragraph (d) of this section to a person entitled to notice under §§ 4041.23(c) or 4041.24(f), at the same time and in the same manner as required for an affected party.

(b) *Content of notice.* The plan administrator must include, as part of the notice of intent to terminate—

(1) *Identity of insurers.* The name and address of the insurer or insurers from whom (if known), or (if not) from among whom, the plan administrator intends to purchase irrevocable commitments (annuity contracts);

(2) *Change in identity of insurers.* A statement that if the plan administrator later decides to select a different

insurer, affected parties will receive a supplemental notice no later than 45 days before the distribution date; and

(3) *State guaranty association coverage information.* A statement informing the affected party—

(i) That once the plan distributes a benefit in the form of an annuity purchased from an insurance company, the insurance company takes over the responsibility for paying that benefit;

(ii) That all states, the District of Columbia, and the Commonwealth of Puerto Rico have established “guaranty associations” to protect policy holders in the event of an insurance company’s financial failure;

(iii) That a guaranty association is responsible for all, part, or none of the annuity if the insurance company cannot pay;

(iv) That each guaranty association has dollar limits on the extent of its guaranty coverage, along with a general description of the applicable dollar coverage limits;

(v) That in most cases the policy holder is covered by the guaranty association for the state where he or she lives at the time the insurance company fails to pay; and

(vi) How to obtain the addresses and telephone numbers of guaranty association offices from the PBGC (as described in the applicable forms and instructions package).

(c) *Where insurer(s) not known.* (1) *Extension of deadline for notice.* If the identity-of-insurer information in paragraph (b)(1) of this section is not known at the time the plan administrator is required to provide it to an affected party as part of a notice of intent to terminate, the plan administrator must instead provide it in a supplemental notice under paragraph (d) of this section.

(2) *Alternative NOIT information.* A plan administrator that qualifies for the extension in paragraph (c)(1) of this section with respect to a notice of intent to terminate must include therein (in lieu of the information in paragraph (b) of this section) a statement that—

(i) Irrevocable commitments (annuity contracts) may be purchased from an insurer to provide some or all of the benefits under the plan;

(ii) The insurer or insurers have not yet been identified; and

(iii) Affected parties will be notified at a later date (but no later than 45 days before the distribution date) of the name and address of the insurer or insurers from whom (if known), or (if not) from among whom, the plan administrator intends to purchase irrevocable commitments (annuity contracts).

(d) *Supplemental notice.* The plan administrator must provide a supplemental notice to an affected party in accordance with this paragraph (d) if the plan administrator did not previously notify the affected party of the identity of insurer(s) or, after having previously notified the affected party of the identity of insurer(s), decides to select a different insurer. A failure to provide a required supplemental notice to an affected party will be deemed to be a failure to comply with the notice of intent to terminate requirements.

(1) *Deadline for supplemental notice.* The deadline for issuing the supplemental notice is 45 days before the affected party’s distribution date (or, in the case of an employee organization, 45 days before the earliest distribution date for any affected party that it represents).

(2) *Content of supplemental notice.* The supplemental notice must include—

(i) The identity-of-insurer information in paragraph (b)(1) of this section;

(ii) The information regarding change of identity of insurer(s) in paragraph (b)(2) of this section; and

(iii) Unless the state guaranty association coverage information in paragraph (b)(3) of this section was previously provided to the affected party, such information and the extinguishment-of-guarantee information in § 4041.23(b)(9).

§ 4041.28 Closeout of plan.

(a) *Distribution deadline.* (1) *In general.* Unless a notice of noncompliance is issued under § 4041.31(a), the plan administrator must complete the distribution of plan assets in satisfaction of plan benefits (through priority category 6 under section 4044 of ERISA and part 4044 of this chapter) by the later of—

(i) 180 days after the expiration of the PBGC’s 60-day (or extended) review period under § 4041.26(a); or

(ii) If the plan administrator meets the requirements of § 4041.25(c), 120 days after receipt of a favorable determination from the IRS.

(2) *Revocation of notice of noncompliance.* If the PBGC revokes a notice of noncompliance issued under § 4041.31(a), the distribution deadline is extended until the 180th day after the date of the revocation.

(b) *Assets insufficient to satisfy plan benefits.* If, at the time of any distribution, the plan administrator determines that plan assets are not sufficient to satisfy all plan benefits (with assets determined net of other liabilities, including PBGC premiums), the plan administrator may not make

any further distribution of assets to effect the plan’s termination and must promptly notify the PBGC.

(c) *Method of distribution.* (1) *In general.* The plan administrator must, in accordance with all applicable requirements under the Code and ERISA, distribute plan assets in satisfaction of all plan benefits by purchase of an irrevocable commitment from an insurer or in another permitted form.

(2) *Lump sum calculations.* In the absence of evidence establishing that another date is the “annuity starting date” under the Code, the distribution date is the “annuity starting date” for purposes of—

(i) Calculating the present value of plan benefits that may be provided in a form other than by purchase of an irrevocable commitment from an insurer (e.g., in selecting the interest rate(s) to be used to value a lump sum distribution); and

(ii) Determining whether plan benefits will be paid in such other form.

(3) *Selection of insurer.* In the case of plan benefits that will be provided by purchase of an irrevocable commitment from an insurer, the plan administrator must select the insurer in accordance with the fiduciary standards of Title I of ERISA.

(4) *Participating annuity contracts.* In the case of a plan in which any residual assets will be distributed to participants, a participating annuity contract may be purchased to satisfy the requirement that annuities be provided by the purchase of irrevocable commitments only if the portion of the price of the contract that is attributable to the participation feature—

(i) Is not taken into account in determining the amount of residual assets; and

(ii) Is not paid from residual assets allocable to participants.

(5) *Missing participants.* The plan administrator must distribute plan benefits to missing participants in accordance with part 4050.

(d) *Provision of annuity contract.* If plan benefits are provided through the purchase of irrevocable commitments—

(1) Either the plan administrator or the insurer must, within 30 days after it is available, provide each participant and beneficiary with a copy of the annuity contract or certificate showing the insurer’s name and address and clearly reflecting the insurer’s obligation to provide the participant’s or beneficiary’s plan benefits; and

(2) If such a contract or certificate is not provided to the participant or beneficiary by the date on which the post-distribution certification is

required to be filed in order to avoid the assessment of penalties under § 4041.29(b), the plan administrator must, no later than that date, provide the participant and beneficiary with a notice that includes—

- (i) A statement that the obligation for providing the participant's or beneficiary's plan benefits has transferred to the insurer;
- (ii) The name and address of the insurer;
- (iii) The name, address, and telephone number of the person designated by the insurer to answer questions concerning the annuity; and
- (iv) A statement that the participant or beneficiary will receive from the plan administrator or insurer a copy of the annuity contract or a certificate showing the insurer's name and address and clearly reflecting the insurer's obligation to provide the participant's or beneficiary's plan benefits.

§ 4041.29 Post-distribution certification.

(a) *Deadline.* Within 30 days after the last distribution date for any affected party, the plan administrator must file with the PBGC a post-distribution certification consisting of the PBGC Form 501, completed in accordance with the instructions thereto.

(b) *Assessment of penalties.* The PBGC will assess a penalty for late filing of a post-distribution certification only to the extent the certification is filed more than 90 days after the distribution deadline (including extensions) under § 4041.28(a).

§ 4041.30 Requests for deadline extensions.

(a) *In general.* The PBGC may in its discretion extend a deadline for taking action under this subpart to a later date. The PBGC will grant such an extension where it finds compelling reasons why it is not administratively feasible for the plan administrator (or other persons acting on behalf of the plan administrator) to take the action until the later date and the delay is brief. The PBGC will consider—

- (1) The length of the delay; and
- (2) Whether ordinary business care and prudence in attempting to meet the deadline is exercised.

(b) *Time of extension request.* Any request for an extension under paragraph (a) of this section that is filed later than the 15th day before the applicable deadline must include a justification for not filing the request earlier.

(c) *IRS determination letter requests.* Any request for an extension under paragraph (a) of this section of the deadline in § 4041.25(c) for submitting a

determination letter request to the IRS (in order to qualify for the distribution deadline in § 4041.28(a)(1)(ii)) will be deemed to be granted unless the PBGC notifies the plan administrator otherwise within 60 days after receipt of the request (or, if later, by the end of the PBGC's review period under § 4041.26(a)). The PBGC will notify the plan administrator in writing of the date on which it receives such request.

(d) *Statutory deadlines not extendable.* The PBGC will not—

(1) *Pre-distribution deadlines.* (i) *Extend the 60-day time limit under § 4041.23(a) for issuing the notice of intent to terminate; or*

(ii) Waive the requirement in § 4041.24(a) that the notice of plan benefits be issued by the time the plan administrator files the standard termination notice with the PBGC; or

(2) *Post-distribution deadlines.* Extend the deadline under § 4041.29(a) for filing the post-distribution certification. However, the PBGC will assess a penalty for late filing of a post-distribution certification only under the circumstances described in § 4041.29(b).

§ 4041.31 Notice of noncompliance.

(a) *Failure to meet pre-distribution requirements.* (1) *In general.* Except as provided in paragraphs (a)(2) and (c) of this section, the PBGC will issue a notice of noncompliance within the 60-day (or extended) time period prescribed by § 4041.26(a) whenever it determines that—

(i) The plan administrator failed to issue the notice of intent to terminate to all affected parties (other than the PBGC) in accordance with § 4041.23;

(ii) The plan administrator failed to issue notices of plan benefits to all affected parties entitled to plan benefits in accordance with § 4041.24;

(iii) The plan administrator failed to file the standard termination notice in accordance with § 4041.25;

(iv) As of the distribution date proposed in the standard termination notice, plan assets will not be sufficient to satisfy all plan benefits under the plan; or

(v) In the case of a spin-off/termination transaction (as described in § 4041.23(c)), the plan administrator failed to issue any notice required by § 4041.23(c), § 4041.24(f), or § 4041.27(a)(2) in accordance with such section.

(2) *Interests of participants.* The PBGC may decide not to issue a notice of noncompliance based on a failure to meet a requirement under paragraphs (a)(1)(i) through (a)(1)(iii) or (a)(1)(v) of this section if it determines that issuance of the notice would be

inconsistent with the interests of participants and beneficiaries.

(3) *Continuing authority.* The PBGC may issue a notice of noncompliance or suspend the termination proceeding based on a failure to meet a requirement under paragraphs (a)(1)(i) through (a)(1)(v) of this section after expiration of the 60-day (or extended) time period prescribed by § 4041.26(a) (including upon audit) if the PBGC determines such action is necessary to carry out the purposes of Title IV.

(b) *Failure to meet distribution requirements.* (1) *In general.* If the PBGC determines, as part of an audit or otherwise, that the plan administrator has not satisfied any distribution requirement of § 4041.28(a) or (c), it may issue a notice of noncompliance.

(2) *Criteria.* In deciding whether to issue a notice of noncompliance under paragraph (b)(1) of this section, the PBGC may consider—

(i) The nature and extent of the failure to satisfy a requirement of § 4041.28(a) or (c);

(ii) Any corrective action taken by the plan administrator; and

(iii) The interests of participants and beneficiaries.

(3) *Late distributions.* The PBGC will not issue a notice of noncompliance for failure to distribute timely based on any facts disclosed in the post-distribution certification if 60 or more days have passed from the PBGC's receipt of the post-distribution certification. The 60-day period may be extended by agreement between the plan administrator and the PBGC.

(c) *Correction of errors.* The PBGC will not issue a notice of noncompliance based solely on the plan administrator's inclusion of erroneous information (or omission of correct information) in a notice required to be provided to any person under this part if—

(1) The PBGC determines that the plan administrator acted in good faith in connection with the error;

(2) The plan administrator corrects the error no later than—

(i) In the case of an error in the notice of plan benefits under § 4041.24, the latest date an election notice may be provided to the person; or

(ii) In any other case, as soon as practicable after the plan administrator knows or should know of the error, or by any later date specified by the PBGC; and

(3) The PBGC determines that the delay in providing the correct information will not substantially harm any person.

(d) *Reconsideration.* A plan administrator may request reconsideration of a notice of

noncompliance in accordance with the rules prescribed in part 4003, subpart C.

(e) *Consequences of notice of noncompliance.* (1) *Effect on termination.* A notice of noncompliance ends the standard termination proceeding, nullifies all actions taken to terminate the plan, and renders the plan an ongoing plan. A notice of noncompliance is effective upon the expiration of the period within which the plan administrator may request reconsideration under paragraph (d) of this section or, if reconsideration is requested, a decision by the PBGC upholding the notice. However, once a notice is issued, the running of all time periods specified in ERISA or this part relevant to the termination will be suspended, and the plan administrator may take no further action to terminate the plan (except by initiation of a new termination) unless and until the notice is revoked. A plan administrator that still desires to terminate a plan must initiate the termination process again, starting with the issuance of a new notice of intent to terminate.

(2) *Effect on plan administration.* If the PBGC issues a notice of noncompliance, the prohibitions in § 4041.22(a)(1) and (a)(2) will cease to apply—

(i) Upon expiration of the period during which reconsideration may be requested or, if earlier, at the time the plan administrator decides not to request reconsideration; or

(ii) If reconsideration is requested, upon PBGC issuance of a decision on reconsideration upholding the notice of noncompliance.

(3) *Revocation of notice of noncompliance.* If a notice of noncompliance is revoked, unless the PBGC provides otherwise, any time period suspended by the issuance of the notice will resume running from the date of the revocation. In no case will the review period under § 4041.26(a) end less than 60 days from the date the PBGC received the standard termination notice.

(f) *If no notice of noncompliance is issued.* A standard termination is deemed to be valid if—

(1) The plan administrator files a standard termination notice under § 4041.25 and the PBGC does not issue a notice of noncompliance pursuant to § 4041.31(a); and

(2) The plan administrator files a post-distribution certification under § 4041.29 and the PBGC does not issue a notice of noncompliance pursuant to § 4041.31(b).

(g) *Notice to affected parties.* Upon a decision by the PBGC on reconsideration affirming the issuance

of a notice of noncompliance or, if earlier, upon the plan administrator's decision not to request reconsideration, the plan administrator must notify the affected parties (other than the PBGC), and any persons who were provided notice under § 4041.23(c), in writing that the plan is not going to terminate or, if applicable, that the termination was invalid but that a new notice of intent to terminate is being issued.

Subpart C—Distress Termination Process

§ 4041.41 Requirements for a distress termination.

(a) *Distress requirements.* A plan may be terminated in a distress termination only if—

(1) The plan administrator issues a notice of intent to terminate to each affected party in accordance with § 4041.43 at least 60 days and (except with PBGC approval) not more than 90 days before the proposed termination date;

(2) The plan administrator files a distress termination notice with the PBGC in accordance with § 4041.45 no later than 120 days after the proposed termination date; and

(3) The PBGC determines that each contributing sponsor and each member of its controlled group satisfy one of the distress criteria set forth in paragraph (c) of this section.

(b) *Effect of failure to satisfy requirements.* (1) Except as provided in paragraph (b)(2)(i) of this section, if the plan administrator does not satisfy all of the requirements for a distress termination, any action taken to effect the plan termination is null and void, and the plan is an ongoing plan. A plan administrator who still desires to terminate the plan must initiate the termination process again, starting with the issuance of a new notice of intent to terminate.

(2)(i) The PBGC may, upon its own motion, waive any requirement with respect to notices to be filed with the PBGC under paragraph (a)(1) or (a)(2) of this section if the PBGC believes that it will be less costly or administratively burdensome to the PBGC to do so. The PBGC will not entertain requests for waivers under this paragraph.

(ii) Notwithstanding any other provision of this part, the PBGC retains the authority in any case to initiate a plan termination in accordance with the provisions of section 4042 of ERISA.

(c) *Distress criteria.* In a distress termination, each contributing sponsor and each member of its controlled group must satisfy at least one (but not necessarily the same one) of the

following criteria in order for a distress termination to occur:

(1) *Liquidation.* This criterion is met if, as of the proposed termination date—

(i) A person has filed or had filed against it a petition seeking liquidation in a case under title 11, United States Code, or under a similar federal law or law of a State or political subdivision of a State, or a case described in paragraph (e)(2) of this section has been converted to such a case; and

(ii) The case has not been dismissed.

(2) *Reorganization.* This criterion is met if—

(i) As of the proposed termination date, a person has filed or had filed against it a petition seeking reorganization in a case under title 11, United States Code, or under a similar law of a state or a political subdivision of a state, or a case described in paragraph (e)(1) of this section has been converted to such a case;

(ii) As of the proposed termination date, the case has not been dismissed;

(iii) The person notifies the PBGC of any request to the bankruptcy court (or other appropriate court in a case under such similar law of a state or a political subdivision of a state) for approval of the plan termination by concurrently filing with the PBGC a copy of the motion requesting court approval, including any documents submitted in support of the request; and

(iv) The bankruptcy court or other appropriate court determines that, unless the plan is terminated, such person will be unable to pay all its debts pursuant to a plan of reorganization and will be unable to continue in business outside the reorganization process and approves the plan termination.

(3) *Inability to continue in business.* This criterion is met if a person demonstrates to the satisfaction of the PBGC that, unless a distress termination occurs, the person will be unable to pay its debts when due and to continue in business.

(4) *Unreasonably burdensome pension costs.* This criterion is met if a person demonstrates to the satisfaction of the PBGC that the person's costs of providing pension coverage have become unreasonably burdensome solely as a result of declining covered employment under all single-employer plans for which that person is a contributing sponsor.

(d) *Non-duplicative efforts.* (1) If a person requests approval of the plan termination by a court, as described in paragraph (c)(2) of this section, the PBGC—

(i) Will normally enter an appearance to request that the court make specific findings as to whether the contributing

sponsor or controlled group member meets the distress test in paragraph (c)(3) of this section, or state that it is unable to make such findings;

(ii) Will provide the court with any information it has that may be germane to the court's ruling;

(iii) Will, if the person has requested, or later requests, a determination by the PBGC under paragraph (c)(3) of this section, defer action on the request until the court makes its determination; and

(iv) Will be bound by a final and non-appealable order of the court.

(2) If a person requests a determination by the PBGC under paragraph (c)(3) of this section, the PBGC determines that the distress criterion is not met, and the person thereafter requests approval of the plan termination by a court, as described in paragraph (c)(2) of this section, the PBGC will advise the court of its determination and make its administrative record available to the court.

(e) *Non-recognition of certain actions.* If the PBGC finds that a person undertook any action or failed to act for the principal purpose of satisfying any of the distress criteria contained in paragraph (c) of this section, rather than for a reasonable business purpose, the PBGC will disregard such act or failure to act in determining whether the person has satisfied any of those criteria.

(f) *Requests for deadline extensions.* The PBGC may extend any deadline under this subpart in accordance with the rules described in section § 4041.30, except that the PBGC will not extend—

(1) *Pre-distribution deadlines.* The 60-day time limit under § 4041.43(a) for issuing the notice of intent to terminate; or

(2) *Post-distribution deadlines.* The deadline under § 4041.50 for filing the post-distribution certification.

§ 4041.42 Administration of plan during termination process.

(a) *General rule.* Except to the extent specifically prohibited by this section, during the pendency of termination proceedings the plan administrator must continue to carry out the normal operations of the plan, such as putting participants into pay status, collecting contributions due the plan, and investing plan assets.

(b) *Prohibitions after issuing notice of intent to terminate.* The plan administrator may not make loans to plan participants beginning on the first day he or she issues a notice of intent to terminate, and from that date until a distribution is permitted pursuant to

§ 4041.50, the plan administrator may not—

(1) Distribute plan assets pursuant to, or (except as required by this part) take any other actions to implement, the termination of the plan;

(2) Pay benefits attributable to employer contributions, other than death benefits, in any form other than as an annuity; or

(3) Purchase irrevocable commitments to provide benefits from an insurer.

(c) *Limitation on benefit payments on or after proposed termination date.* Beginning on the proposed termination date, the plan administrator must reduce benefits to the level determined under part 4022, subpart D, of this chapter.

(d) *Failure to qualify for distress termination.* In any case where the PBGC determines, pursuant to § 4041.44(c) or § 4041.46(c)(1), that the requirements for a distress termination are not satisfied—

(1) The prohibitions in paragraph (b) of this section, other than those in paragraph (b)(1), will cease to apply—

(i) Upon expiration of the period during which reconsideration may be requested under §§ 4041.44(e) and 4041.46(e) or, if earlier, at the time the plan administrator decides not to request reconsideration; or

(ii) If reconsideration is requested, upon PBGC issuance of its decision on reconsideration.

(2) Any benefits that were not paid pursuant to paragraph (c) of this section will be due and payable as of the effective date of the PBGC's determination, together with interest from the date (or dates) on which the unpaid amounts were originally due until the date on which they are paid in full at the rate or rates prescribed under § 4022.81(d) of this chapter.

(e) *Effect of subsequent insufficiency.* If the plan administrator makes a finding of subsequent insufficiency for guaranteed benefits pursuant to § 4041.49(b), or the PBGC notifies the plan administrator that it has made a finding of subsequent insufficiency for guaranteed benefits pursuant to § 4041.40(d), the prohibitions in paragraph (b) of this section will apply in accordance with § 4041.49(e).

§ 4041.43 Notice of intent to terminate.

(a) *General rules.* (1) At least 60 days and (except with PBGC approval) no more than 90 days before the proposed termination date, the plan administrator must issue a written notice of intent to terminate to each person who is an affected party as of the proposed termination date.

(2) The plan administrator must issue the notice of intent to terminate to all affected parties other than the PBGC at or before the time he or she files the notice with the PBGC.

(3) The notice to affected parties other than the PBGC must contain all of the information specified in paragraph (b) of this section.

(4) The notice to the PBGC must be filed on PBGC Form 600, Distress Termination, Notice of Intent to Terminate, completed in accordance with the instructions thereto.

(5) In the case of a beneficiary of a deceased participant or an alternate payee, the plan administrator must issue a notice of intent to terminate promptly to any person that becomes an affected party after the proposed termination date and on or before the date a trustee is appointed for the plan pursuant to section 4042(c) of ERISA (or, in the case of a plan that distributes assets pursuant to § 4041.50, the distribution date).

(b) *Contents of notice to affected parties other than the PBGC.* The plan administrator must include in the notice of intent to terminate to each affected party other than the PBGC all of the following information:

(1) The name of the plan and of the contributing sponsor;

(2) The EIN of the contributing sponsor and the PN; if there is no EIN or PN, the notice must so state;

(3) The name, address, and telephone number of the person who may be contacted by an affected party with questions concerning the plan's termination;

(4) A statement that the plan administrator expects to terminate the plan in a distress termination on a specified proposed termination date;

(5) The cessation of accruals information in § 4041.23(b)(4);

(6) A statement as to how an affected party entitled to receive the latest updated summary plan description under section 104(b) of ERISA can obtain it;

(7) A statement of whether plan assets are sufficient to pay all guaranteed benefits or all benefit liabilities;

(8) A brief description of what benefits are guaranteed by the PBGC (e.g., if only a portion of the benefits are guaranteed because of the phase-in rule, this should be explained), and a statement that participants and beneficiaries also may receive a portion of the benefits to which each is entitled under the terms of the plan in excess of guaranteed benefits; and

(9) A statement, if applicable, that benefits may be subject to reduction because of the limitations on the amounts guaranteed by the PBGC or

because plan assets are insufficient to pay for full benefits (pursuant to part 4022, subparts B and D, of this chapter) and that payments in excess of the amount guaranteed by the PBGC may be recouped by the PBGC (pursuant to part 4022, subpart E, of this chapter).

(c) *Spin-off/termination transactions.* In the case of a spin-off/termination transaction (as described in § 4041.23(c)), the plan administrator must provide all participants and beneficiaries in the original plan who are also participants or beneficiaries in the ongoing plan (as of the proposed termination date) with a notice describing the transaction no later than the date on which the plan administrator completes the issuance of notices of intent to terminate under this section.

§ 4041.44 PBGC review of notice of intent to terminate.

(a) *General.* When a notice of intent to terminate is filed with it, the PBGC—

(1) Will determine whether the notice was issued in compliance with § 4041.43; and

(2) Will advise the plan administrator of its determination, in accordance with paragraph (b) or (c) of this section, no later than the proposed termination date specified in the notice.

(b) *Tentative finding of compliance.* If the PBGC determines that the issuance of the notice of intent to terminate appears to be in compliance with § 4041.43, it will notify the plan administrator in writing that—

(1) The PBGC has made a tentative determination of compliance;

(2) The distress termination proceeding may continue; and

(3) After reviewing the distress termination notice filed pursuant to § 4041.45, the PBGC will make final, or reverse, this tentative determination.

(c) *Finding of noncompliance.* If the PBGC determines that the issuance of the notice of intent to terminate was not in compliance with § 4041.43 (except for requirements that the PBGC elects to waive under § 4041.41(b)(2)(i) with respect to the notice filed with the PBGC), the PBGC will notify the plan administrator in writing—

(1) That the PBGC has determined that the notice of intent to terminate was not properly issued; and

(2) That the proposed distress termination is null and void and the plan is an ongoing plan.

(d) *Information on need to institute section 4042 proceedings.* The PBGC may require the plan administrator to submit, within 20 days after the plan administrator's receipt of the PBGC's written request (or such other period as

may be specified in such written request), any information that the PBGC determines it needs in order to decide whether to institute termination or trusteeship proceedings pursuant to section 4042 of ERISA, whenever—

(1) A notice of intent to terminate indicates that benefits currently in pay status (or that should be in pay status) are not being paid or that this is likely to occur within the 180-day period following the issuance of the notice of intent to terminate;

(2) The PBGC issues a determination under paragraph (c) of this section; or

(3) The PBGC has any reason to believe that it may be necessary or appropriate to institute proceedings under section 4042 of ERISA.

(e) *Reconsideration of finding of noncompliance.* A plan administrator may request reconsideration of the PBGC's determination of noncompliance under paragraph (c) of this section in accordance with the rules prescribed in part 4003, subpart C, of this chapter. Any request for reconsideration automatically stays the effectiveness of the determination until the PBGC issues its decision on reconsideration, but does not stay the time period within which information must be submitted to the PBGC in response to a request under paragraph (d) of this section.

(f) *Notice to affected parties.* Upon a decision by the PBGC affirming a finding of noncompliance or upon the expiration of the period within which the plan administrator may request reconsideration of a finding of noncompliance (or, if earlier, upon the plan administrator's decision not to request reconsideration), the plan administrator must notify the affected parties (and any persons who were provided notice under § 4041.43(e)) in writing that the plan is not going to terminate or, if applicable, that the termination is invalid but that a new notice of intent to terminate is being issued.

§ 4041.45 Distress termination notice.

(a) *General rule.* The plan administrator must file with the PBGC a PBGC Form 601, Distress Termination Notice, Single-Employer Plan Termination, with Schedule EA-D, Distress Termination Enrolled Actuary Certification, that has been completed in accordance with the instructions thereto, on or before the 120th day after the proposed termination date.

(b) *Participant and benefit information.* (1) *Plan insufficient for guaranteed benefits.* Unless the enrolled actuary certifies, in the Schedule EA-D filed in accordance with paragraph (a) of

this section, that the plan is sufficient either for guaranteed benefits or for benefit liabilities, the plan administrator must file with the PBGC the participant and benefit information described in PBGC Form 601 and the instructions thereto by the later of—

(i) 120 days after the proposed termination date, or

(ii) 30 days after receipt of the PBGC's determination, pursuant to § 4041.46(b), that the requirements for a distress termination have been satisfied.

(2) *Plan sufficient for guaranteed benefits or benefit liabilities.* If the enrolled actuary certifies that the plan is sufficient either for guaranteed benefits or for benefit liabilities, the plan administrator need not submit the participant and benefit information described in PBGC Form 601 and the instructions thereto unless requested to do so pursuant to paragraph (c) of this section.

(3) *Effect of failure to provide information.* The PBGC may void the distress termination if the plan administrator fails to provide complete participant and benefit information in accordance with this section.

(c) *Additional information.* The PBGC may in any case require the submission of any additional information that it needs to make the determinations that it is required to make under this part or to pay benefits pursuant to section 4061 or 4022(c) of ERISA. The plan administrator must submit any information requested under this paragraph within 30 days after receiving the PBGC's written request (or such other period as may be specified in such written request).

§ 4041.46 PBGC determination of compliance with requirements for distress termination.

(a) *General.* Based on the information contained and submitted with the PBGC Form 600 and the PBGC Form 601, with Schedule EA-D, and on any information submitted by an affected party or otherwise obtained by the PBGC, the PBGC will determine whether the requirements for a distress termination set forth in § 4041.41(c) have been met and will notify the plan administrator in writing of its determination, in accordance with paragraph (b) or (c) of this section.

(b) *Qualifying termination.* If the PBGC determines that all of the requirements of § 4041.41(c) have been satisfied, it will so advise the plan administrator and will also advise the plan administrator of whether participant and benefit information must be submitted in accordance with § 4041.45(b).

(c) *Non-qualifying termination.* (1) Except as provided in paragraph (c)(2) of this section, if the PBGC determines that any of the requirements of § 4041.41 have not been met, it will notify the plan administrator of its determination, the basis therefor, and the effect thereof (as provided in § 4041.41(b)).

(2) If the only basis for the PBGC's determination described in paragraph (c)(1) of this section is that the distress termination notice is incomplete, the PBGC will advise the plan administrator of the missing item(s) of information and that the information must be filed with the PBGC no later than the 120th day after the proposed termination date or the 30th day after the date of the PBGC's notice of its determination, whichever is later.

(d) *Reconsideration of determination of non-qualification.* A plan administrator may request reconsideration of the PBGC's determination under paragraph (c)(1) of this section in accordance with the rules prescribed in part 4003, subpart C, of this chapter. The filing of a request for reconsideration automatically stays the effectiveness of the determination until the PBGC issues its decision on reconsideration.

(e) *Notice to affected parties.* Upon a decision by the PBGC affirming a determination of non-qualification or upon the expiration of the period within which the plan administrator may request reconsideration of a determination of non-qualification (or, if earlier, upon the plan administrator's decision not to request reconsideration), the plan administrator must notify the affected parties (and any persons who were provided notice under § 4041.43(e)) in writing that the plan is not going to terminate or, if applicable, that the termination is invalid but that a new notice of intent to terminate is being issued.

§ 4041.47 PBGC determination of plan sufficiency/insufficiency.

(a) *General.* Upon receipt of participant and benefit information filed pursuant to § 4041.45 (b)(1) or (c), the PBGC will determine the degree to which the plan is sufficient and notify the plan administrator in writing of its determination in accordance with paragraph (b) or (c) of this section.

(b) *Insufficiency for guaranteed benefits.* If the PBGC finds that it is unable to determine that a plan is sufficient for guaranteed benefits, it will issue a "notice of inability to determine sufficiency" notifying the plan administrator of this finding and advising the plan administrator that—

(1) The plan administrator must continue to administer the plan under the restrictions imposed by § 4041.42; and

(2) The termination will be completed under section 4042 of ERISA.

(c) *Sufficiency for guaranteed benefits or benefit liabilities.* If the PBGC determines that a plan is sufficient for guaranteed benefits but not for benefit liabilities or is sufficient for benefit liabilities, the PBGC will issue to the plan administrator a distribution notice advising the plan administrator—

(1) To issue notices of benefit distribution in accordance with § 4041.48;

(2) To close out the plan in accordance with § 4041.50;

(3) To file a timely post-distribution certification with the PBGC in accordance with § 4041.50(b); and

(4) That either the plan administrator or the contributing sponsor must preserve and maintain plan records in accordance with § 4041.5.

(d) *Alternative treatment of majority owner's benefit.* A majority owner may elect to forgo receipt of all or part of his or her plan benefits in connection with a distress termination. Any such alternative treatment—

(1) Is valid only if the conditions in § 4041.21(b)(2) (i) through (iv) are met (except that, in the case of a plan that does not distribute assets pursuant to § 4041.50, the majority owner may make the election and the spouse may consent any time on or after the date of issuance of the first notice of intent to terminate); and—

(2) Is subject to the PBGC's approval if the election—

(i) Is made after the termination date; and

(ii) Would result in the PBGC determining that the plan is sufficient for guaranteed benefits under paragraph (c).

§ 4041.48 Sufficient plans; notice requirements.

(a) *Notices of benefit distribution.*

When a distribution notice is issued by the PBGC pursuant to § 4041.47, the plan administrator must issue notices of benefit distribution in accordance with the rules regarding notices of plan benefits in § 4041.24, except that—

(1) The deadline for issuing the notices of benefit distribution is the 60th day after receipt of the distribution notice; and

(2) With respect to the information described in § 4041.24 (b) through (e), the term "plan benefits" is replaced with "title IV benefits" and the term "proposed termination date" is replaced with "termination date".

(b) *Certification to PBGC.* No later than 15 days after the date on which the plan administrator completes the issuance of the notices of benefit distribution, the plan administrator must file with the PBGC a certification that the notices were so issued in accordance with the requirements of this section.

(c) *Notice of annuity information.* (1) *In general.* Unless all title IV benefits will be distributed in the form of nonconsensual lump sums, the plan administrator must provide a notice of annuity information to each affected party other than—

(i) An affected party whose title IV benefits will be distributed in the form of a nonconsensual lump sum; and

(ii) The PBGC.

(2) *Spin-off/termination transactions.* The plan administrator must provide the information in paragraph (c)(4) of this section to a person entitled to notice under § 4041.43(c), at the same time and in the same manner as required for an affected party described in paragraph (c)(1) of this section.

(3) *Selection of different insurer.* A plan administrator that decides to select a different insurer after having previously notified the affected party of the identity of insurer(s) under this paragraph must provide another notice of annuity information.

(4) *Content of notice.* The notice must include—

(i) The identity-of-insurer information in § 4041.27(b)(1);

(ii) The information regarding change in identity of insurer(s) in § 4041.27(b)(2); and

(iii) Unless the state guaranty coverage information in § 4041.27(b)(3) was previously provided to the affected party, such information and the extinguishment-of-guaranty information in § 4041.23(b)(9) (replacing the term "plan benefits" with "title IV benefits").

(5) *Deadline for notice.* The plan administrator must issue the notice of annuity information to each affected party by the deadline in § 4041.27(d)(1).

(d) *Request for IRS determination letter.* To qualify for the distribution deadline in § 4041.28(a)(1)(ii) (as modified and made applicable by § 4041.50(c)), the plan administrator must submit to the IRS a valid request for a determination of the plan's qualification status upon termination ("determination letter") by the day on which the plan administrator completes the issuance of the notices of benefit distribution.

§ 4041.49 Verification of plan sufficiency prior to closeout.

(a) *General rule.* Before distributing plan assets pursuant to a closeout under

§ 4041.50, the plan administrator must verify whether the plan's assets are still sufficient to provide for benefits at the level determined by the PBGC, *i.e.*, guaranteed benefits or benefit liabilities. If the plan administrator finds that the plan is no longer able to provide for benefits at the level determined by the PBGC, then paragraph (b) or (c) of this section, as appropriate, will apply.

(b) *Subsequent insufficiency for guaranteed benefits.* When a plan administrator finds that a plan is no longer sufficient for guaranteed benefits, the plan administrator must promptly notify the PBGC in writing of that fact and may take no further action to implement the plan termination, pending the PBGC's determination and notice pursuant to paragraph (b)(1) or (b)(2) of this section.

(1) *PBGC concurrence with finding.* If the PBGC concurs with the plan administrator's finding, the distribution notice will be void, and the PBGC will—

(i) Issue the plan administrator a notice of inability to determine sufficiency in accordance with § 4041.47(b); and

(ii) Require the plan administrator to submit a new valuation, certified to by an enrolled actuary, of the benefit liabilities and guaranteed benefits under the plan, valued in accordance with §§ 4044.41 through 4044.57 of this chapter as of the date of the plan administrator's notice to the PBGC.

(2) *PBGC non-concurrence with finding.* If the PBGC does not concur with the plan administrator's finding, it will so notify the plan administrator in writing, and the distribution notice will remain in effect.

(c) *Subsequent insufficiency for benefit liabilities.* When a plan administrator finds that a plan is sufficient for guaranteed benefits but is no longer sufficient for benefit liabilities, the plan administrator must immediately notify the PBGC in writing of this fact, but must continue with the distribution of assets in accordance with § 4041.50.

(d) *Finding by PBGC of subsequent insufficiency.* In any case in which the PBGC finds on its own initiative that a subsequent insufficiency for guaranteed benefits has occurred, paragraph (b)(1) of this section will apply, except that the guaranteed benefits must be revalued as of the date of the PBGC's finding.

(e) *Restrictions upon finding of subsequent insufficiency.* When the plan administrator makes the finding described in paragraph (b) of this section or receives notice that the PBGC has made the finding described in paragraph (d) of this section, the plan

administrator is (except to the extent the PBGC otherwise directs) subject to the prohibitions in § 4041.42.

§ 4041.50 Closeout of plan.

If a plan administrator receives a distribution notice from the PBGC pursuant to § 4041.47 and neither the plan administrator nor the PBGC makes the finding described in § 4041.49(b) or (d), the plan administrator must distribute plan assets in accordance with § 4041.28 and file a post-distribution certification in accordance with § 4041.29, except that—

(a) The term "plan benefits" is replaced with "title IV benefits";

(b) For purposes of applying the distribution deadline in § 4041.28(a)(1)(i), the phrase "after the expiration of the PBGC's 60-day (or extended) review period under § 4041.26(a)" is replaced with "the day on which the plan administrator completes the issuance of the notices of benefit distribution pursuant to § 4041.48(a)"; and

(c) For purposes of applying the distribution deadline in § 4041.28(a)(1)(ii), the phrase "the requirements of § 4041.25(c)" is replaced with "the requirements of § 4041.48(d)".

8. Part 4050 is revised to read as follows:

PART 4050—MISSING PARTICIPANTS

Sec.

4050.1 Purpose and scope.

4050.2 Definitions.

4050.3 Method of distribution for missing participants.

4050.4 Diligent search.

4050.5 Designated benefit.

4050.6 Payment and required documentation.

4050.7 Benefits of missing participants—in general.

4050.8 Automatic lump sum.

4050.9 Annuity or elective lump sum—living missing participant.

4050.10 Annuity or elective lump sum—beneficiary of deceased missing participant.

4050.11 Limitations.

4050.12 Special rules.

Appendix A to part 4050—Examples of designated benefit determinations for missing participants under § 4050.5

Appendix B to part 4050—Examples of benefit payments for missing participants under §§ 4050.8 through 4050.10

Authority: 29 U.S.C. 1302(b)(3), 1350.

§ 4050.1 Purpose and scope.

This part prescribes rules for distributing benefits under a terminating single-employer plan for an individual whom the plan administrator has not located when distributing benefits

under § 4041.28 of this chapter. This part applies to a plan if the plan's deemed distribution date (or the date of a payment made in accordance with § 4050.12) is in a plan year beginning on or after January 1, 1996.

§ 4050.2 Definitions.

The following terms are defined in § 4001.2 of this chapter: annuity, Code, ERISA, insurer, irrevocable commitment, mandatory employee contributions, normal retirement age, PBGC, person, plan, plan administrator, plan year and title IV benefit.

In addition, for purposes of this part:

Deemed distribution date means—

(1) The last day of the period in which distribution may be made under part 4041 of this chapter; or

(2) If the plan administrator selects an earlier date that is no earlier than the date when all benefit distributions have been made under the plan except for distributions to missing participants whose designated benefits are paid to the PBGC, such earlier date.

Designated benefit means the amount payable to the PBGC for a missing participant pursuant to § 4050.5.

Designated benefit interest rate means the rate of interest applicable to underpayments of guaranteed benefits by the PBGC under § 4022.81(d) of this chapter.

Guaranteed benefit form means, with respect to a benefit, the form in which the PBGC would pay a guaranteed benefit to a participant or beneficiary in the PBGC's program for trustee plans under subparts A and B of part 4022 of this chapter (treating the deemed distribution date as the termination date for this purpose).

Missing participant means a participant or beneficiary entitled to a distribution under a terminating plan whom the plan administrator has not located as of the date when the plan administrator pays the individual's designated benefit to the PBGC (or distributes the individual's benefit by purchasing an irrevocable commitment from an insurer). In the absence of proof of death, individuals not located are presumed living.

Missing participant annuity assumptions means the interest rate assumptions and actuarial methods (using the interest rates for annuity valuations in Table I of appendix B to part 4044 of this chapter) for valuing a benefit to be paid by the PBGC as an annuity under subpart B of part 4044, applied—

(1) As if the deemed distribution date were the termination date;

(2) Using unisex mortality rates that are a fixed blend of 50 percent of the

male mortality rates and 50 percent of the female mortality rates from the 1983 Group Annuity Mortality Table as prescribed in Rev. Rul. 95-6, 1995-1 C.B. 80 (Cumulative Bulletins are available from the Superintendent of Documents, Government Printing Office, Washington, DC 20402);

(3) Without using the expected retirement age assumptions in §§ 4044.55 through 4044.57 of this chapter;

(4) Without making the adjustment for expenses provided for in § 4044.52(a)(5) of this chapter; and

(5) By adding \$300, as an adjustment (loading) for expenses, for each missing participant whose designated benefit without such adjustment would be greater than \$3,500.

Missing participant forms and instructions means PBGC Forms 501 and 602, Schedule MP thereto, and related forms, and their instructions.

Missing participant lump sum assumptions means the interest rate assumptions and actuarial methods (using the interest rates for lump sum valuations in Table II of appendix B to part 4044 of this chapter) for valuing a benefit to be paid by the PBGC as a lump sum under subpart B of part 4044 of this chapter, applied—

(1) As if the deemed distribution date were the termination date;

(2) Using mortality assumptions from Table 3 of appendix A to part 4044 of this chapter; and

(3) Without using the expected retirement age assumptions in §§ 4044.55 through 4044.57 of this chapter.

Pay status means, with respect to a benefit under a plan, that the plan administrator has made or (except for administrative delay or a waiting period) would have made one or more benefit payments.

Post-distribution certification means the post-distribution certification required by § 4041.29 or § 4041.50 of this chapter.

Unloaded designated benefit means the designated benefit reduced by \$300; except that the reduction does not apply in the case of a designated benefit determined using the missing participant annuity assumptions without adding the \$300 load described in paragraph (5) of the definition of "missing participant annuity assumptions."

§ 4050.3 Method of distribution for missing participants.

The plan administrator of a terminating plan must distribute benefits for each missing participant by—

(a) Purchasing from an insurer an irrevocable commitment that satisfies the requirements of § 4041.28(c) or § 4041.50 of this chapter (whichever is applicable); or

(b) Paying the PBGC a designated benefit in accordance with §§ 4050.4 through 4050.6 (subject to the special rules in § 4050.12).

§ 4050.4 Diligent search.

(a) *Search required.* A diligent search must be made for each missing participant before information about the missing participant or payment is submitted to the PBGC pursuant to § 4050.6.

(b) *Diligence.* A search is a diligent search only if the search —

(1) Begins not more than 6 months before notices of intent to terminate are issued and is carried on in such a manner that if the individual is found, distribution to the individual can reasonably be expected to be made on or before the deemed distribution date;

(2) Includes inquiry of any plan beneficiaries (including alternate payees) of the missing participant whose names and addresses are known to the plan administrator; and

(3) Includes use of a commercial locator service to search for the missing participant (without charge to the missing participant or reduction of the missing participant's plan benefit).

§ 4050.5 Designated benefit.

(a) *Amount of designated benefit.* The amount of the designated benefit is the amount determined under paragraph (a)(1), (a)(2), (a)(3), or (a)(4) of this section (whichever is applicable) or, if less, the maximum amount that could be provided under the plan to the missing participant in the form of a single sum in accordance with section 415 of the Code.

(1) *Mandatory lump sum.* The designated benefit of a missing participant required under a plan to receive a mandatory lump sum as of the deemed distribution date is the lump sum payment that the plan administrator would have distributed to the missing participant as of the deemed distribution date.

(2) *De minimis lump sum.* The designated benefit of a missing participant not described in paragraph (a)(1) of this section whose benefit is not in pay status as of the deemed distribution date and whose benefit has a *de minimis* actuarial present value (\$3,500 or less) as of the deemed distribution date under the missing participant lump sum assumptions is such value.

(3) *No lump sum.* The designated benefit of a missing participant not described in paragraph (a)(1) or (a)(2) of this section who, as of the deemed distribution date, cannot elect an immediate lump sum under the plan is the actuarial present value of the missing participant's benefit as of the deemed distribution date under the missing participant annuity assumptions.

(4) *Elective lump sum.* The designated benefit of a missing participant not described in paragraph (a)(1), (a)(2), or (a)(3) of this section is the greater of the amounts determined under the methodologies of paragraph (a)(1) or (a)(3) of this section.

(b) *Assumptions.* When the plan administrator uses the missing participant annuity assumptions or the missing participant lump sum assumptions for purposes of determining the designated benefit under paragraph (a) of this section, the plan administrator must value the most valuable benefit, as determined under paragraph (b)(1) of this section, using the assumptions described in paragraph (b)(2) or (b)(3) of this section (whichever is applicable).

(1) *Most valuable benefit.* For a missing participant whose benefit is in pay status as of the deemed distribution date, the most valuable benefit is the pay status benefit. For a missing participant whose benefit is not in pay status as of the deemed distribution date, the most valuable benefit is the benefit payable at the age on or after the deemed distribution date (beginning with the participant's earliest early retirement age and ending with the participant's normal retirement age) for which the present value as of the deemed distribution date is the greatest. The present value as of the deemed distribution date with respect to any age is determined by multiplying:

(i) The monthly (or other periodic) benefit payable under the plan; by

(ii) The present value (determined as of the deemed distribution date using the missing participant annuity assumptions) of a \$1 monthly (or other periodic) annuity beginning at the applicable age.

(2) *Participant.* A missing participant who is a participant, and whose benefit is not in pay status as of the deemed distribution date, is assumed to be married to a spouse the same age, and the form of benefit that must be valued is the qualified joint and survivor annuity benefit that would be payable under the plan. If the participant's benefit is in pay status as of the deemed distribution date, the form and beneficiary of the participant's benefit

are the form of benefit and beneficiary of the pay status benefit.

(3) *Beneficiary.* A missing participant who is a beneficiary, and whose benefit is not in pay status as of the deemed distribution date, is assumed not to be married, and the form of benefit that must be valued is the survivor benefit that would be payable under the plan. If the beneficiary's benefit is in pay status as of the deemed distribution date, the form and beneficiary of the beneficiary's benefit are the form of benefit and beneficiary of the pay status benefit.

(4) *Examples.* See Appendix A to this part for examples illustrating the provisions of this section.

(c) *Missed payments.* In determining the designated benefit, the plan administrator must include the value of any payments that were due before the deemed distribution date but that were not made.

(d) *Payment of designated benefits.* Payment of designated benefits must be made in accordance with § 4050.6 and will be deemed made on the deemed distribution date.

§ 4050.6 Payment and required documentation.

(a) *Time of payment and filing.* The plan administrator must pay designated benefits, and file the information and certifications (of the plan administrator and the plan's enrolled actuary) specified in the missing participant forms and instructions, by the time the post-distribution certification is due. Except as otherwise provided in the missing participant forms and instructions, the plan administrator must submit the designated benefits, information, and certifications with the post-distribution certification.

(b) *Late charges.* (1) *Interest on late payments.* Except as provided in paragraph (b)(2) of this section, if the plan administrator does not pay a designated benefit by the time specified in paragraph (a) of this section, the plan administrator must pay interest as assessed by the PBGC for the period beginning on the deemed distribution date and ending on the date when the payment is received by the PBGC. Interest will be assessed at the rate provided for late premium payments in § 4007.7 of this chapter. Interest assessed under this paragraph will be deemed paid in full if payment of the amount assessed is received by the PBGC within 30 days after the date of a PBGC bill for such amount.

(2) *Assessment of interest and penalties.* The PBGC will assess interest for late payment of a designated benefit or a penalty for late filing of information

only to the extent paid or filed beyond the time provided in § 4041.29(b).

(c) *Supplemental information.* Within 30 days after the date of a written request from the PBGC, a plan administrator required to provide the information and certifications described in paragraph (a) of this section must file supplemental information, as requested, for the purpose of verifying designated benefits, determining benefits to be paid by the PBGC under this part, and substantiating diligent searches.

(d) *Filing with the PBGC.* The rules described in § 4041.3(b) of this chapter apply to filings with the PBGC under this part.

§ 4050.7 Benefits of missing participants—in general.

(a) *If annuity purchased.* If a plan administrator distributes a missing participant's benefit by purchasing an irrevocable commitment from an insurer, and the missing participant (or his or her beneficiary or estate) later contacts the PBGC, the PBGC will inform the person of the identity of the insurer, the relevant policy number, and (to the extent known) the amount or value of the benefit.

(b) *If designated benefit paid.* If the PBGC locates or is contacted by a missing participant (or his or her beneficiary or estate) for whom a plan administrator paid a designated benefit to the PBGC, the PBGC will pay benefits in accordance with §§ 4050.8 through 4050.10 (subject to the limitations and special rules in §§ 4050.11 and 4050.12).

(c) *Examples.* See Appendix B to this part for examples illustrating the provisions of §§ 4050.8 through 4050.10.

§ 4050.8 Automatic lump sum.

This section applies to a missing participant whose designated benefit was determined under § 4050.5(a)(1) (mandatory lump sum) or § 4050.5(a)(2) (*de minimis* lump sum).

(a) *General rule.* (1) *Benefit paid.* The PBGC will pay a single sum benefit equal to the designated benefit plus interest at the designated benefit interest rate from the deemed distribution date to the date on which the PBGC pays the benefit.

(2) *Payee.* Payment will be made—

- (i) To the missing participant, if located;
- (ii) If the missing participant died before the deemed distribution date, and if the plan so provides, to the missing participant's beneficiary or estate; or
- (iii) If the missing participant dies on or after the deemed distribution date, to the missing participant's estate.

(b) *De minimis annuity alternative.* If the guaranteed benefit form for a

missing participant whose designated benefit was determined under § 4050.5(a)(2) (*de minimis* lump sum) (or the guaranteed benefit form for a beneficiary of such a missing participant) would provide for the election of an annuity, the missing participant (or the beneficiary) may elect to receive an annuity. If such an election is made —

(1) The PBGC will pay the benefit in the elected guaranteed benefit form, beginning on the annuity starting date elected by the missing participant (or the beneficiary), which may not be before the later of the date of the election or the earliest date on which the missing participant (or the beneficiary) could have begun receiving benefits under the plan; and

(2) The benefit paid will be actuarially equivalent to the designated benefit, *i.e.*, each monthly (or other periodic) benefit payment will equal the designated benefit divided by the present value (determined as of the deemed distribution date under the missing participant lump sum assumptions) of a \$1 monthly (or other periodic) annuity beginning on the annuity starting date.

§ 4050.9 Annuity or elective lump sum—living missing participant.

This section applies to a missing participant whose designated benefit was determined under § 4050.5(a)(3) (no lump sum) or § 4050.5(a)(4) (elective lump sum) and who is living on the date as of which the PBGC begins paying benefits.

(a) *Missing participant whose benefit was not in pay status as of the deemed distribution date.* The PBGC will pay the benefit of a missing participant whose benefit was not in pay status as of the deemed distribution date as follows.

(1) *Time and form of benefit.* The PBGC will pay the missing participant's benefit in the guaranteed benefit form, beginning on the annuity starting date elected by the missing participant (which may not be before the later of the date of the election or the earliest date on which the missing participant could have begun receiving benefits under the plan).

(2) *Amount of benefit.* The PBGC will pay a benefit that is actuarially equivalent to the unloaded designated benefit, *i.e.*, each monthly (or other periodic) benefit payment will equal the unloaded designated benefit divided by the present value (determined as of the deemed distribution date under the missing participant annuity assumptions) of a \$1 monthly (or other periodic) annuity beginning on the annuity starting date.

(b) *Missing participant whose benefit was in pay status as of the deemed distribution date.* The PBGC will pay the benefit of a missing participant whose benefit was in pay status as of the deemed distribution date as follows.

(1) *Time and form of benefit.* The PBGC will pay the benefit in the form that was in pay status, beginning when the missing participant is located.

(2) *Amount of benefit.* The PBGC will pay the monthly (or other periodic) amount of the pay status benefit, plus a lump sum equal to the payments the missing participant would have received under the plan, plus interest on the missed payments (at the plan rate up to the deemed distribution date and thereafter at the designated benefit interest rate) to the date as of which the PBGC pays the lump sum.

(c) *Payment of lump sum.* If a missing participant whose designated benefit was determined under § 4050.5(a)(4) (elective lump sum) so elects, the PBGC will pay his or her benefit in the form of a single sum. This election is not effective unless the missing participant's spouse consents (if such consent would be required under section 205 of ERISA). The single sum equals the designated benefit plus interest (at the designated benefit interest rate) from the deemed distribution date to the date as of which the PBGC pays the benefit.

§ 4050.10 Annuity or elective lump sum—beneficiary of deceased missing participant.

This section applies to a beneficiary of a deceased missing participant whose designated benefit was determined under § 4050.5(a)(3) (no lump sum) or § 4050.5(a)(4) (elective lump sum) and whose benefit is not payable under § 4050.9.

(a) *If deceased missing participant's benefit was not in pay status as of the deemed distribution date.* The PBGC will pay a benefit with respect to a deceased missing participant whose benefit was not in pay status as of the deemed distribution date as follows.

(1) *General rule.* (i) *Beneficiary.* The PBGC will pay a benefit to the surviving spouse of a missing participant who was a participant (unless the surviving spouse has properly waived a benefit in accordance with section 205 of ERISA).

(ii) *Form and amount of benefit.* The PBGC will pay the survivor benefit in the form of a single life annuity. Each monthly (or other periodic) benefit payment will equal 50 percent of the quotient that results when the unloaded designated benefit is divided by the present value (determined as of the deemed distribution date under the

missing participant annuity assumptions, and assuming that the missing participant survived to the deemed distribution date) of a \$1 monthly (or other periodic) joint and 50 percent survivor annuity beginning on the annuity starting date, under which reduced payments (at the 50 percent level) are made only after the death of the missing participant during the life of the spouse (and not after the death of the spouse during the missing participant's life).

(iii) *Time of benefit.* The PBGC will pay the survivor benefit beginning at the time elected by the surviving spouse (which may not be before the later of the date of the election or the earliest date on which the surviving spouse could have begun receiving benefits under the plan).

(2) *If missing participant died before deemed distribution date.* Notwithstanding the provisions of paragraph (a)(1) of this section, if a beneficiary of a missing participant who died before the deemed distribution date establishes to the PBGC's satisfaction that he or she is the proper beneficiary or would have received benefits under the plan in a form, at a time, or in an amount different from the benefit paid under paragraph (a)(1)(ii) or (a)(1)(iii) of this section, the PBGC will make payments in accordance with the facts so established, but only in the guaranteed benefit form.

(3) *Elective lump sum.* Notwithstanding the provisions of paragraphs (a)(1) and (a)(2) of this section, if the beneficiary of a missing participant whose designated benefit was determined under § 4050.5(a)(4) (elective lump sum) so elects, the PBGC will pay his or her benefit in the form of a single sum. The single sum will be equal to the actuarial present value (determined as of the deemed distribution date under the missing participant annuity assumptions) of the death benefit payable on the annuity starting date, plus interest (at the designated benefit interest rate) from the deemed distribution date to the date as of which the PBGC pays the benefit.

(b) *If deceased missing participant's benefit was in pay status as of the deemed distribution date.* The PBGC will pay a benefit with respect to a deceased missing participant whose benefit was in pay status as of the deemed distribution date as follows.

(1) *Beneficiary.* The PBGC will pay a benefit to the beneficiary (if any) of the benefit that was in pay status as of the deemed distribution date.

(2) *Form and amount of benefit.* The PBGC will pay a monthly (or other periodic) amount equal to the monthly

(or other periodic) amount, if any, that the beneficiary would have received under the form of payment in effect, plus a lump sum payment equal to the payments the beneficiary would have received under the plan after the missing participant's death and before the date as of which the benefit is paid under paragraph (b)(4) of this section, plus interest on the missed payments (at the plan rate up to the deemed distribution date and thereafter at the designated benefit interest rate) to the date as of which the benefit is paid under paragraph (b)(4) of this section.

(3) *Lump sum payment to estate.* The PBGC will make a lump sum payment to the missing participant's estate equal to the payments that the missing participant would have received under the plan for the period before the missing participant's death, plus interest on the missed payments (at the plan rate up to the deemed distribution date and thereafter at the designated benefit interest rate) to the date when the lump sum is paid. Notwithstanding the preceding sentence, if a beneficiary of a missing participant other than the estate establishes to the PBGC's satisfaction that the beneficiary is entitled to the lump sum payment, the PBGC will pay the lump sum to such beneficiary.

(4) *Time of benefit.* The PBGC will pay the survivor benefit beginning when the beneficiary is located.

(5) *Spouse deceased.* If the PBGC locates the estate of the deceased missing participant's spouse under circumstances where a benefit would have been paid under this paragraph (b) if the spouse had been located while alive, the PBGC will pay to the spouse's estate a lump sum payment computed in the same manner as provided for in paragraph (b)(2) of this section based on the period from the missing participant's death to the death of the spouse.

§ 4050.11 Limitations.

(a) *Exclusive benefit.* The benefits provided for under this part will be the only benefits payable by the PBGC to missing participants or to beneficiaries based on the benefits of deceased missing participants.

(b) *Limitation on benefit value.* The total actuarial present value of all benefits paid with respect to a missing participant under §§ 4050.8 through 4050.10, determined as of the deemed distribution date, will not exceed the missing participant's designated benefit.

(c) *Guaranteed benefit.* If a missing participant or his or her beneficiary establishes to the PBGC's satisfaction that the benefit under §§ 4050.8 through

4050.10 (based on the designated benefit actually paid to the PBGC) is less than the minimum benefit in this paragraph (c), the PBGC will instead pay the minimum benefit. The minimum benefit is the lesser of:

(1) The benefit as determined under the PBGC's rules for paying guaranteed benefits in trustee plans under subparts A and B of part 4022 of this chapter (treating the deemed distribution date as the termination date for this purpose); or

(2) The benefit based on the designated benefit that should have been paid under § 4050.5.

(d) *Limitation on annuity starting date.* A missing participant (or his or her survivor) may not elect an annuity starting date after the later of—

(1) The required beginning date under section 401(a)(9) of the Code; or

(2) The date when the missing participant (or the survivor) is notified of his or her right to a benefit.

§ 4050.12 Special rules.

(a) *Missing participants located quickly.* Notwithstanding the provisions of §§ 4050.8 through 4050.10, if the PBGC or the plan administrator locates a missing participant within 30 days after the PBGC receives the missing participant's designated benefit, the PBGC may in its discretion return the missing participant's designated benefit to the plan administrator, and the plan administrator must make distribution to the individual in such manner as the PBGC will direct.

(b) *Qualified domestic relations orders.* Plan administrators must and the PBGC will take the provisions of qualified domestic relations orders (QDROs) under section 206(d)(3) of ERISA or section 414(p) of the Code into account in determining designated benefits and benefit payments by the PBGC, including treating an alternate payee under an applicable QDRO as a missing participant or as a beneficiary of a missing participant, as appropriate, in accordance with the terms of the QDRO. For purposes of calculating the amount of the designated benefit of an alternate payee, the plan administrator must use the assumptions for a missing participant who is a beneficiary under § 4050.5(b).

(c) *Employee contributions.* (1) *Mandatory employee contributions.* Notwithstanding the provisions of § 4050.5, if a missing participant made mandatory contributions (within the meaning of section 4044(a)(2) of ERISA), the missing participant's designated benefit may not be less than the sum of the missing participant's mandatory contributions and interest to the deemed

distribution date at the plan's rate or the rate under section 204(c) of ERISA (whichever produces the greater amount).

(2) *Voluntary employee contributions.*

(i) *Applicability.* This paragraph (c)(2) applies to any employee contributions that were not mandatory (within the meaning of section 4044(a)(2) of ERISA) to which a missing participant is entitled in connection with the termination of a defined benefit plan.

(ii) *Payment to PBGC.* A plan administrator, in accordance with the missing participant forms and instructions, must pay the employee contributions described in paragraph (c)(2)(i) of this section (together with any earnings thereon) to the PBGC, and must file Schedule MP with the PBGC, by the time the designated benefit is due under § 4050.6. Any such amount must be in addition to the designated benefit and must be separately identified.

(iii) *Payment by PBGC.* In addition to any other amounts paid by the PBGC under §§ 4050.8 through 4050.10, the PBGC will pay any amount paid to it under paragraph (c)(2)(ii) of this section, with interest at the designated benefit interest rate from the date of receipt by the PBGC to the date of payment by the PBGC, in the same manner as described in § 4050.8 (automatic lump sums), except that if the missing participant died before the deemed distribution date and there is no beneficiary, payment will be made to the missing participant's estate.

(d) *Residual assets.* The PBGC will determine, in a manner consistent with the purposes of this part and section 4050 of ERISA, how the provisions of this part apply to any distribution (to participants and beneficiaries who cannot be located) of residual assets remaining after the satisfaction of plan benefits (as defined in § 4041.2 of this chapter) in connection with the termination of a defined benefit plan. Unless the PBGC otherwise determines, the payment of residual assets for a participant or beneficiary who cannot be located, and the submission to the PBGC of the related Schedule MP (or amended Schedule MP), must be made no earlier than the date when the post-distribution certification is filed with the PBGC, and no later than the later of—

(1) The 30th day after the date on which all residual assets have been distributed to all participants and beneficiaries other than those who cannot be located and for whom payment of residual assets is made to the PBGC, and

(2) The date when the post-distribution certification is filed with the PBGC.

(e) *Sufficient distress terminations.* In the case of a plan undergoing a distress termination (under section 4041(c) of ERISA) that is sufficient for at least all guaranteed benefits and that distributes its assets in the manner described in section 4041(b)(3) of ERISA, the benefit assumed to be payable by the plan for purposes of determining the amount of the designated benefit under § 4050.5 is limited to the title IV benefit plus any benefit to which funds under section 4022(c) of ERISA have been allocated.

(f) *Similar rules for later payments.* If the PBGC determines that one or more persons should receive benefits (which may be in addition to benefits already provided) in order for a plan termination to be valid (e.g., upon audit of the termination), and one or more of such individuals cannot be located, the PBGC will determine, in a manner consistent with the purposes of this part and section 4050 of ERISA, how the provisions of this part apply to such benefits.

(g) *Discretionary extensions.* Any deadline under this part may be extended in accordance with the rules described in § 4041.30 of this chapter.

(h) *Payments beginning after required beginning date.* If the PBGC begins paying an annuity under § 4050.9(a) or 4050.10(a) to a participant or a participant's spouse after the required beginning date under section 401(a)(9)(C) of the Code, the PBGC will pay to the participant or the spouse (or their respective estates) or both, as appropriate, the lump sum equivalent of the past annuity payments the participant and spouse would have received if the PBGC had begun making payments on the required beginning date. The PBGC will also pay lump sum equivalents under this paragraph (g) if the PBGC locates the estate of the participant or spouse after both are deceased. (Nothing in this paragraph (g) will increase the total value of the benefits payable with respect to a missing participant.)

Appendix A to Part 4050—Examples of Designated Benefit Determinations for Missing Participants Under § 4050.5

The calculation of the designated benefit under § 4050.5 is illustrated by the following examples.

Example 1. Plan A provides that any participant whose benefit has a value at distribution of \$1,750 or less will be paid a lump sum, and that no other lump sums will be paid. P, Q, and R are missing participants.

(1) As of the deemed distribution date, the value of P's benefit is \$1,700 under plan A's assumptions. Under § 4050.5(a)(1), the plan administrator pays the PBGC \$1,700 as P's designated benefit.

(2) As of the deemed distribution date, the value of Q's benefit is \$3,700 under plan A's assumptions and \$3,200 under the missing participant lump sum assumptions. Under § 4050.5(a)(2), the plan administrator pays the PBGC \$3,200 as Q's designated benefit.

(3) As of the deemed distribution date, the value of R's benefit is \$3,400 under plan A's assumptions, \$3,600 under the missing participant lump sum assumptions, and \$3,450 under the missing participant annuity assumptions. Under § 4050.5(a)(3), the plan administrator pays the PBGC \$3,450 as R's designated benefit.

Example 2. Plan B provides for a normal retirement age of 65 and permits early commencement of benefits at any age between 60 and 65, with benefits reduced by 5 percent for each year before age 65 that the benefit begins. The qualified joint and 50 percent survivor annuity payable under the terms of the plan requires in all cases a 16 percent reduction in the benefit otherwise payable. The plan does not provide for elective lump sums.

(1) M is a missing participant who separated from service under plan B with a deferred vested benefit. M is age 50 at the deemed distribution date, and has a normal retirement benefit of \$1,000 per month payable at age 65 in the form of a single life annuity. M's benefit as of the deemed distribution date has a value greater than \$3,500 using either plan assumptions or the missing participant lump sum assumptions. Accordingly, M's designated benefit is to be determined under § 4050.5(a)(3).

(2) For purposes of determining M's designated benefit, M is assumed to be married to a spouse who is also age 50 on the deemed distribution date. M's monthly benefit in the form of the qualified joint and survivor annuity under the plan varies from \$840 at age 65 (the normal retirement age) ($\$1,000 \times (1-.16)$) to \$630 at age 60 (the earliest retirement age) ($\$1,000 \times (1-5 \times (.05)) \times (1-.16)$).

(3) Under § 4050.5(a)(3), M's benefit is to be valued using the missing participant annuity assumptions. The select and ultimate interest rates on Plan B's deemed distribution date are 7.50 percent for the first 20 years and 5.75 percent thereafter. Using these rates and the blended mortality table described in paragraph (2) of the definition of "missing

participant annuity assumptions" in § 4050.2, the plan administrator determines that the benefit commencing at age 60 is the most valuable benefit (*i.e.*, the benefit at age 60 is more valuable than the benefit at ages 61, 62, 63, 64 or 65). The present value as of the deemed distribution date of each dollar of annual benefit (payable monthly as a joint and 50 percent survivor annuity) is \$5.4307 if the benefit begins at age 60. (Because a new spouse may succeed to the survivor benefit, the mortality of the spouse during the deferral period is ignored.) Thus, without adjustment (loading) for expenses, the value of the benefit beginning at age 60 is \$41,056 ($12 \times \630×5.4307). The designated benefit is equal to this value plus an expense adjustment of \$300, or a total of \$41,356.

Appendix B to Part 4050—Examples of Benefit Payments for Missing Participants Under §§ 4050.8 Through 4050.10

The provisions of §§ 4050.8 through 4050.10 are illustrated by the following examples.

Example 1. Participant M from Plan B (see Example 2 in Appendix A of this part) is located. M's spouse is ten years younger than M. M elects to receive benefits in the form of a joint and 50 percent survivor annuity commencing at age 62.

(1) M's designated benefit was \$41,356. The unloaded designated benefit was \$41,056. As of Plan B's deemed distribution date (and using the missing participant annuity assumptions), the present value per dollar of annual benefit (payable monthly as a joint and 50 percent survivor annuity commencing at age 62 and reflecting the *actual* age of M's spouse) is \$4,7405. Thus, the monthly benefit to M at age 62 is \$722 ($\$41,056 / (4.7405 \times 12)$). M's spouse will receive \$361 (50 percent of \$722) per month for life after the death of M.

(2) If M had instead been found to have died on or after the deemed distribution date, and M's spouse wanted benefits to commence when M would have attained age 62, the same calculation would be performed to arrive at a monthly benefit of \$361 to M's spouse.

Example 2. Participant P is a missing participant from Plan C, a plan that allows

elective lump sums upon plan termination. Plan C's administrator pays a designated benefit of \$10,000 to the PBGC on behalf of P, who was age 30 on the deemed distribution date.

(1) P's spouse, S, is located and has a death certificate showing that P died on or after the deemed distribution date with S as spouse. S is the same age as P, and would like survivor benefits to commence immediately, at age 55 (as permitted by the plan). S's benefit is the survivor's share of the joint and 50 percent survivor annuity which is actuarially equivalent, as of the deemed distribution date, to \$9,700 (the unloaded designated benefit).

(2) The select and ultimate interest rates on Plan C's deemed distribution date were 7.50 percent for the first 20 years and 5.75 percent thereafter. Using these rates and the blended mortality table described in paragraph (2) of the definition of "missing participant annuity assumptions" in § 4050.2, the present value as of the deemed distribution date of each dollar of annual benefit (payable monthly as a joint and 50 percent survivor annuity) is \$2.4048 if the benefit begins when S and P would have been age 55. Thus, the monthly benefit to S commencing at age 55 is \$168 (50 percent of $\$9,700 / (2.4048 \times 12)$). Since P could have elected a lump sum upon plan termination, S may elect a lump sum. S's lump sum is the present value as of the deemed distribution date (using the missing participant annuity assumptions) of the monthly benefit of \$168, accumulated with interest at the designated benefit interest rate to the date paid.

Issued in Washington, DC, this 3rd day of November, 1997.

Alexis M. Herman,
Chairman, Board of Directors, Pension Benefit Guaranty Corporation.

Issued on the date set forth above pursuant to a resolution of the Board of Directors authorizing its Chairman to issue this final rule.

James J. Keightley,
Secretary, Board of Directors, Pension Benefit Guaranty Corporation.

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