



Pension Benefit Guaranty Corporation  
1200 K Street, N.W., Washington, D.C. 20005-4026

March 19, 2010



Re:  Case 197454; Special Metals Corporation Salaried  
Employees Pension Plan (the "SMC Plan" or the "Plan")

Dear

This Appeals Board decision responds to your appeal regarding PBGC's October 15, 2008 determination of your benefit under the Plan. As we explain below, we found that your appeal did not provide a sufficient basis for changing PBGC's determination. We must, therefore, deny your appeal.

*PBGC's Benefit Determination and Your Appeal*

PBGC's October 15, 2008 determination letter stated that, as of the date of that letter, you were entitled to a monthly PBGC benefit of \$6,525.55, payable in multiple forms. The letter stated further that:

Your Plan Benefit is paid in the form of Option A (Joint and Survivor Annuity). The Option A form of benefit provides you with a monthly benefit for the rest of your life. Thereafter, your surviving beneficiary will receive a portion of your benefit for the rest of your beneficiary's life.

A portion of your benefit is paid from funds rolled over from the Security Reserve Plan to this Plan. The Rollover Benefit is paid in the form of a 19 and 18 Year Certain and Continuous Annuity. The 19 and 18 Year Certain and Continuous Annuity provide you with a monthly benefit for the rest of your life. If you die within 19 years of your actual retirement date (01/01/1995), and 18 years of your actual retirement date (01/01/1996), any remaining payments not issued will be paid to your designated beneficiary.

Additionally, you are also receiving a benefit paid in the form of a 16 Year Escalator Annuity with a 34% Joint Survivor Annuity. Upon your death, your beneficiary will receive the survivor portion of your benefit for the rest of your beneficiary's lifetime.

The Escalator Annuity is scheduled to increase by \$188.03 each July 1 through July 1, 2014.

The enclosed Benefit Statement explains how we calculated your benefit. Please be advised that your benefit is offset by the Cigna (now Prudential) [benefit.]

Although your determination letter was relatively long and detailed, your November 10, 2008 appeal letter did not directly address the letter. Instead, your appeal referred directly to line numbers on the Benefit Statement. For reference, we have included a copy of your October 15, 2008 Benefit Statement at **Enclosure 1**.

Your appeal letter stated as follows:

First your item 1 of Benefit Calculation indicates that the portion of my total monthly pension due to my annuity purchases was \$4,028.99. Assuming this was as of May 1, 2004 that is correct.

Your item two refers to Benefit Due to Rollovers, not including plan subsidies, implying that the pension plan subsidized my annuities. This is NOT correct. The COMPANY matched each of my three annuity purchases with a subsidy of 25%. These subsidies were contributed to me as an incentive to purchase annuities. The company did NOT contribute these subsidies to the pension plan and should be considered as part of my Benefit Rollover as opposed to a Pension Plan payment and therefore not subject to the pension maximum. Enclosed is a copy of all three annuity contracts indicating that the company match was for increasing my annuity purchases and NOT a contribution to the pension plan. Correcting this difference would add \$378.58 to my monthly pension.

If my appeal re company subsidies is denied I appeal your item 2, which indicates that \$2,817.26 of the \$4,028.99 annuity payment, or 69.92%, was due to my, non subsidized, funds. My contribution, in each case was 75%, see enclosed, so the non subsidized amount should be \$3,021.74. Correcting this difference would add \$204.48 to my monthly pension.

Your item 8, there is no indication as to how the amount of \$188.03 was calculated. My original contract was for \$194.74. I assume amount would change depending on outcome of appeal re Rollovers.

In addition to the above I request a written explanation of the length of time I will receive benefits (IE lifetime) as well as to what benefits my survivor will receive and for how long. Pending your response I reserve the right to appeal your position on these issues.

In summary, my position is that none of my annuity income is subject to the PBGC maximum. None of this income comes out of pension plan funds as it is all paid by annuities purchased from third parties. Pension plan funds were not used to purchase the annuities and the Pension Plan was only the administrator.

Lastly I appeal the amount of lump sum payment previously received and reserve the right to appeal the lump sum payment mentioned in your October 15, 2008 letter but cannot provide details pending resolution of above.

With your appeal, you included copies of the documents by which you transferred partial account balances from your account under the Inco Security Reserve Plan (the "ISRP"), an individual-account plan, to the Retirement Plan of Inco Limited and Subsidiaries (the "Inco DB Plan). You claim that these documents show that Inco

Limited agreed to pay an additional 25% to provide you with larger benefit for each of the transfers.

### Legal and Factual Background

PBGC provides pension insurance in accordance with the Employee Retirement Income Security Act of 1974, *as amended* ("ERISA"). If a plan sponsor is unable to support its qualified defined-benefit pension plan, PBGC becomes trustee of the plan and pays benefits as defined in the plan, subject to the limitations and requirements set by Congress under ERISA.

Records available to the Appeals Board show that the Inco DB Plan, to which you transferred your account balances, changed its name to the Retirement Plan of Inco Alloys International, Inc. in 1997 [for simplicity, we will continue to refer to that plan as the "Inco DB Plan"], and later merged into the SMC Plan. Thus, benefits that were previously payable under the Inco DB Plan became payable under the SMC Plan after the merger.

As you rolled over your own money from the ISRP, PBGC applied ERISA's Maximum Guaranteed Benefit ("MGB") limit only to the portion of your SMC Plan benefit that was above the annuity value of your rolled-over account balances. In other words, PBGC is (1) fully paying you any monthly benefits directly attributable to the account balances that you transferred from the ISRP to the Inco DB Plan; (2) determining the monthly benefits directly attributable to those account balances based on the standard PBGC definition of actuarial equivalence in effect on the date of each transfer; and (3) subjecting to ERISA's MGB limit only the amounts of your monthly benefits over and above the amounts that are directly attributable to your account balances.

### Discussion

#### 1. Whether the Transfers of Your ISRP Account Balances Were Subsidized by Inco Limited or by the Inco DB Plan

Section 9.8 of the 1997 Restatement of the Inco DB Plan describes the funding of pensions payable from the Inco DB Plan. See **Enclosure 2** for selected pages of the 1997 Restatement. Section 9.8A states in pertinent part as follows:

A supplemental benefit shall be payable under this Section 9.8A at the time benefits commence (and shall be contingent until such time as a final irrevocable payment election is in effect for benefits accrued under the Security Reserve Plan) equal to 25% of the actuarially equivalent annual benefit, . . . -

Based on the above section of the Inco DB Plan, we have concluded that the 25% additional annuity payment is a subsidy provided by the Inco DB Plan. Whether Inco Limited paid an additional amount into the Inco DB Plan's trust at the time of the

transfer or later does not affect its character. The 25% additional annuity is an employer-provided benefit payable under the Inco DB Plan.

Similarly, when you rolled over a part of your ISRP balance to select an Escalator Annuity, your balance was not even enough to fund the first 16 years of the Escalator Annuity. The portion of the Escalator Annuity after the 16th year was payable in accordance with section 9.8B of the Inco DB Plan. Section 9.8B is set out starting at the bottom of the third page of Enclosure 2.

PBGC also determined that your balances were not sufficient to provide 75% of the annuity amounts specified in the transfer documents you signed. Thus, the portion the annuity amounts stated in your transfer documents that are higher than the amounts that your balances would have purchased on the annuity market at the time of your transfers are annuity amounts that are subsidized by the Inco DB Plan's trust fund.

Please note that while the documents that you signed when you rolled over your balances from the ISRP state that you elected to transfer your funds "to obtain an annuity," they do not state that an annuity would be purchased for you from a third party, and, in fact, no third-party annuities were ever purchased for you. The entirety of your monthly benefit has always been paid directly from the Inco DB Plan's funds.

## 2. The Annuity Value of Your Three Roll-Over Balances

You had three separate Rollovers, which we have labeled A, B, and C in the table below. For each Rollover, PBGC calculated the amount of the monthly annuity that could have been purchased on the private annuity market. As in other cases where balances from individual-account plans have been transferred to the trust fund of a PBGC-trusted defined-benefit plan, PBGC used its standard valuation assumptions that were in effect at the time of each transfer as a proxy for the private annuity market rates. These amounts so calculated are considered the participant-funded portion of the Rollover benefits. The results of these calculations are shown in the following table.

Rollover	Date of Transfer	Amount of Transfer	Annuity Start Date	Benefit Form	Total Plan Rollover Benefit	Participant-Funded Portion	Plan-Funded Portion	Plan Funded Percent
A	1993	\$312,000	01/01/1995	19-Year Certain and Continuous	\$3,053.99	\$2,188.42	\$865.57	28.34%
B	1993	\$40,000	01/01/1996	18-Year Certain and Continuous	\$390.78	\$273.16	\$117.62	30.10%
C	1993	\$80,000	07/01/2001	Escalator	\$194.74 <sup>1</sup>	\$118.56 <sup>1</sup>	\$76.18 <sup>1</sup>	39.12%

<sup>1</sup> Initial benefit amount increases by the same amount each year for 13 years.

Using PBGC's standard annuity valuation assumptions for March 31, 1993<sup>2</sup> and September 30, 1993<sup>3</sup>, the Appeals Board's actuarial consultants (Bolton Partners of Washington, DC) matched the above Participant-Funded Portion amounts exactly for Rollovers A & B and matched the Rollover C amount within \$4, which we have concluded was due to rounding or a slightly different calculation algorithm. Therefore, we have accepted PBGC's calculations of the participant-funded portions of your rollover benefits.

3. Total PBGC Benefits Payable to You and Your Spouse

Enclosure 3 is the more detailed Benefit Statement that you requested in your appeal letter. Based on the detailed calculations at Enclosure 3, the following tables show the PBGC benefits payable to you and your spouse.

Dates Payable	Plan Benefit	Rollover A	Rollover B	Rollover C	Participant's Total PBGC Benefit
11/01/2003 – 06/30/2004	\$1,663.15	\$2,977.21	\$380.90	\$564.09	\$5,585.40
07/01/2004 – 06/30/2005	\$1,663.15	\$2,977.21	\$380.90	\$752.12	\$5,773.43
07/01/2005 – 06/30/2006	\$1,663.15	\$2,977.21	\$380.90	\$940.15	\$5,961.46
07/01/2006 – 06/30/2007	\$1,663.15	\$2,977.21	\$380.90	\$1,128.18	\$6,149.49
07/01/2007 – 06/30/2008	\$1,663.15	\$2,977.21	\$380.90	\$1,316.21	\$6,337.52
07/01/2008 – 06/30/2009	\$1,663.15	\$2,977.21	\$380.90	\$1,504.24	\$6,525.55
07/01/2009 – 06/30/2010	\$1,663.15	\$2,977.21	\$380.90	\$1,692.27	\$6,713.58
07/01/2010 – 06/30/2011	\$1,663.15	\$2,977.21	\$380.90	\$1,880.30	\$6,901.61
07/01/2011 – 06/30/2012	\$1,663.15	\$2,977.21	\$380.90	\$2,068.33	\$7,089.64
07/01/2012 – 06/30/2013	\$1,663.15	\$2,977.21	\$380.90	\$2,256.36	\$7,277.67
07/01/2013 – 06/30/2014	\$1,663.15	\$2,977.21	\$380.90	\$2,444.39	\$7,465.70
07/01/2014 and after	\$1,663.15	\$2,977.21	\$380.90	\$2,632.42	\$7,653.73

If you were to die first, your wife would have received or will receive the following benefit amounts.

<sup>2</sup> PBGC's valuation assumptions on March 31, 1993 were a 5.25% immediate interest rate and a 4.5% interest rate for the first 7 years of any deferral period and 4% for any remaining deferral periods, with UP84P1 mortality for males and UP84M4 for females.

<sup>3</sup> PBGC's valuation assumptions on September 30, 1993 were a 4.75% immediate interest rate and a 4.0% interest rate for any pre-retirement deferral period, with UP84P1 mortality for males and UP84M4 for females.

Dates Payable	Plan Benefit	Rollover A	Rollover B	Rollover C	Beneficiary's Total PBGC Benefit
11/01/2003 – 06/30/2004	\$831.58	\$2,977.21	\$380.90	\$564.09	\$4,753.78
07/01/2004 – 06/30/2005	\$831.58	\$2,977.21	\$380.90	\$752.12	\$4,941.81
07/01/2005 – 06/30/2006	\$831.58	\$2,977.21	\$380.90	\$940.15	\$5,129.84
07/01/2006 – 06/30/2007	\$831.58	\$2,977.21	\$380.90	\$1,128.18	\$5,317.87
07/01/2007 – 06/30/2008	\$831.58	\$2,977.21	\$380.90	\$1,316.21	\$5,505.90
07/01/2008 – 06/30/2009	\$831.58	\$2,977.21	\$380.90	\$1,504.24	\$5,693.93
07/01/2009 – 06/30/2010	\$831.58	\$2,977.21	\$380.90	\$1,692.27	\$5,881.96
07/01/2010 – 06/30/2011	\$831.58	\$2,977.21	\$380.90	\$1,880.30	\$6,069.99
07/01/2011 – 06/30/2012	\$831.58	\$2,977.21	\$380.90	\$2,068.33	\$6,258.02
07/01/2012 – 06/30/2013	\$831.58	\$2,977.21	\$380.90	\$2,256.36	\$6,446.05
07/01/2013 – 12/31/2013	\$831.58	\$2,977.21	\$380.90	\$2,444.39	\$6,634.08
01/01/2014 – 06/30/2014	\$831.58	\$0.00	\$0.00	\$2,444.39	\$3,275.97
07/01/2014 – 06/30/2017	\$831.58	\$0.00	\$0.00	\$2,632.42	\$3,464.00
07/01/2017 and After	\$831.58	\$0.00	\$0.00	\$895.02	\$1,726.60

4. Your Lump-Sum Backpayments

PBGC paid you a lump sum of \$83,318.71 on October 1, 2007. This payment consisted of \$77,063.64 in underpayments plus \$6,255.07 in interest. PBGC calculated the underpayments based on your PBGC Estimated Monthly Benefit. At the time of your benefit determination letter, PBGC determined that your PBGC Final Monthly Benefit was larger than your Estimated Monthly Benefit and, therefore, you were due an additional payment of \$10,531.28, consisting of \$9,536.78 in underpayments and \$994.50 in interest. Please see the tables below for details on your backpayments:

First Lump-Sum Payment			
Date	Actual Payment	PBGC Estimated Payment	Underpayment
11/01/2003	\$5,963.98	\$5,445.71	(\$518.27)
12/01/2003	\$5,963.98	\$5,445.71	(\$518.27)
01/01/2004	\$5,963.98	\$5,445.71	(\$518.27)
02/01/2004	\$5,963.98	\$5,445.71	(\$518.27)
03/01/2004	\$5,963.98	\$5,445.71	(\$518.27)
04/01/2004	\$5,963.98	\$5,445.71	(\$518.27)

First Lump-Sum Payment			
Date	Actual Payment	PBGC Estimated Payment	Underpayment
05/01/2004	\$3,118.37	\$5,445.71	\$2,327.34
06/01/2004	\$3,118.37	\$5,445.71	\$2,327.34
07/01/2004	\$3,118.37	\$5,627.90	\$2,509.53
08/01/2004	\$3,118.37	\$5,627.90	\$2,509.53
09/01/2004	\$4,421.33	\$5,627.90	\$1,206.57
10/01/2004	\$4,421.33	\$5,627.90	\$1,206.57
11/01/2004	\$4,421.33	\$5,627.90	\$1,206.57
12/01/2004	\$4,421.33	\$5,627.90	\$1,206.57
01/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
02/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
03/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
04/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
05/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
06/01/2005	\$4,421.33	\$5,627.90	\$1,206.57
07/01/2005	\$4,421.33	\$5,810.09	\$1,388.76
08/01/2005	\$4,421.33	\$5,810.09	\$1,388.76
09/01/2005	\$3,118.37	\$5,810.09	\$2,691.72
10/01/2005	\$3,118.37	\$5,810.09	\$2,691.72
11/01/2005	\$3,118.37	\$5,810.09	\$2,691.72
12/01/2005	\$3,118.37	\$5,810.09	\$2,691.72
01/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
02/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
03/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
04/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
05/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
06/01/2006	\$3,118.37	\$5,810.09	\$2,691.72
07/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
08/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
09/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
10/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
11/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
12/01/2006	\$3,118.37	\$5,992.28	\$2,873.91
01/01/2007	\$3,118.37	\$5,992.28	\$2,873.91
02/01/2007	\$3,118.37	\$5,992.28	\$2,873.91
03/01/2007	\$3,118.37	\$5,992.28	\$2,873.91
04/01/2007	\$3,118.37	\$5,992.28	\$2,873.91
05/01/2007	\$5,992.28	\$5,992.28	\$0.00
06/01/2007	\$5,992.28	\$5,992.28	\$0.00
07/01/2007	\$6,174.47	\$6,174.47	\$0.00
08/01/2007	\$6,174.47	\$6,174.47	\$0.00
09/01/2007	\$6,174.47	\$6,174.47	\$0.00

Total: \$77,063.64

Second Lump-Sum Payment			
Date	PBGC Estimated Payment	PBGC Final Payment	Underpayment
11/01/2003	\$5,445.71	\$5,585.40	\$139.69
12/01/2003	\$5,445.71	\$5,585.40	\$139.69
01/01/2004	\$5,445.71	\$5,585.40	\$139.69
02/01/2004	\$5,445.71	\$5,585.40	\$139.69
03/01/2004	\$5,445.71	\$5,585.40	\$139.69
04/01/2004	\$5,445.71	\$5,585.40	\$139.69
05/01/2004	\$5,445.71	\$5,585.40	\$139.69
06/01/2004	\$5,445.71	\$5,585.40	\$139.69
07/01/2004	\$5,627.90	\$5,773.43	\$145.53
08/01/2004	\$5,627.90	\$5,773.43	\$145.53
09/01/2004	\$5,627.90	\$5,773.43	\$145.53
10/01/2004	\$5,627.90	\$5,773.43	\$145.53
11/01/2004	\$5,627.90	\$5,773.43	\$145.53
12/01/2004	\$5,627.90	\$5,773.43	\$145.53
01/01/2005	\$5,627.90	\$5,773.43	\$145.53
02/01/2005	\$5,627.90	\$5,773.43	\$145.53
03/01/2005	\$5,627.90	\$5,773.43	\$145.53
04/01/2005	\$5,627.90	\$5,773.43	\$145.53
05/01/2005	\$5,627.90	\$5,773.43	\$145.53
06/01/2005	\$5,627.90	\$5,773.43	\$145.53
07/01/2005	\$5,810.09	\$5,961.46	\$151.37
08/01/2005	\$5,810.09	\$5,961.46	\$151.37
09/01/2005	\$5,810.09	\$5,961.46	\$151.37
10/01/2005	\$5,810.09	\$5,961.46	\$151.37
11/01/2005	\$5,810.09	\$5,961.46	\$151.37
12/01/2005	\$5,810.09	\$5,961.46	\$151.37
01/01/2006	\$5,810.09	\$5,961.46	\$151.37
02/01/2006	\$5,810.09	\$5,961.46	\$151.37
03/01/2006	\$5,810.09	\$5,961.46	\$151.37
04/01/2006	\$5,810.09	\$5,961.46	\$151.37
05/01/2006	\$5,810.09	\$5,961.46	\$151.37
06/01/2006	\$5,810.09	\$5,961.46	\$151.37
07/01/2006	\$5,992.28	\$6,149.49	\$157.21
08/01/2006	\$5,992.28	\$6,149.49	\$157.21
09/01/2006	\$5,992.28	\$6,149.49	\$157.21
10/01/2006	\$5,992.28	\$6,149.49	\$157.21
11/01/2006	\$5,992.28	\$6,149.49	\$157.21
12/01/2006	\$5,992.28	\$6,149.49	\$157.21
01/01/2007	\$5,992.28	\$6,149.49	\$157.21
02/01/2007	\$5,992.28	\$6,149.49	\$157.21
03/01/2007	\$5,992.28	\$6,149.49	\$157.21
04/01/2007	\$5,992.28	\$6,149.49	\$157.21
05/01/2007	\$5,992.28	\$6,149.49	\$157.21
06/01/2007	\$5,992.28	\$6,149.49	\$157.21



Second Lump-Sum Payment			
Date	PBGC Estimated Payment	PBGC Final Payment	Underpayment
07/01/2007	\$6,174.47	\$6,337.52	\$163.05
08/01/2007	\$6,174.47	\$6,337.52	\$163.05
09/01/2007	\$6,174.47	\$6,337.52	\$163.05
10/01/2007	\$6,174.47	\$6,337.52	\$163.05
11/01/2007	\$6,174.47	\$6,337.52	\$163.05
12/01/2007	\$6,174.47	\$6,337.52	\$163.05
01/01/2008	\$6,174.47	\$6,337.52	\$163.05
02/01/2008	\$6,174.47	\$6,337.52	\$163.05
03/01/2008	\$6,174.47	\$6,337.52	\$163.05
04/01/2008	\$6,174.47	\$6,337.52	\$163.05
05/01/2008	\$6,174.47	\$6,337.52	\$163.05
06/01/2008	\$6,174.47	\$6,337.52	\$163.05
07/01/2008	\$6,356.66	\$6,525.55	\$168.89
08/01/2008	\$6,356.66	\$6,525.55	\$168.89
09/01/2008	\$6,356.66	\$6,525.55	\$168.89
10/01/2008	\$6,356.66	\$6,525.55	\$168.89
11/01/2008	\$6,356.66	\$6,525.55	\$168.89
12/01/2008	\$6,356.66	\$6,525.55	\$168.89
Total:			\$9,536.78

Decision

Having applied Plan provisions and the law to the facts of your case, we found that your appeal did not provide a sufficient basis for changing PBGC's determination. We must, therefore, deny your appeal. This decision is PBGC's final action regarding PBGC's October 15, 2008 determination. If you wish, you may seek review of this decision in an appropriate federal district court.

We regret the delay in responding to your appeal and appreciate your patience while we completed our review. If you have other questions about your PBGC benefits, you may call PBGC's Customer Contact Center at 1-800-400-7242 and ask to speak to the authorized representative assigned to the SMC Plan (Case 197454).

Sincerely,



Michel Louis  
Appeals Board Member

Enclosures (3)