§ 1.411(b)–1 Accrued benefit requirements.

(a) Accrued benefit requirements—(1) In general. Under section 411(b), for plan years beginning after the applicable effective date of section 411, rules are provided for the determination of the accrued benefit to which a participant is entitled under a plan. The preceding sentence does not apply if the employer, or any entity within the same controlled group as the employer, maintains another defined contribution plan, other than an employee stock ownership plan (as defined in section 4975(e)(7)). In such a case, the participant’s accrued benefit may be transferred without the participant’s consent to the other plan if the participant does not consent to an immediate distribution from the terminating plan. See section 411(d)(6) and the regulations thereunder for other rules applicable to transferee plans and plan terminations.

(2) ESOP dividends. The requirements of this section do not apply to any distribution of dividends which section 404(k) applies.

(3) Other rules. See § 1.401(a)–20 Q&As 14, 17 and 24 for other rules that apply to the section 411(a)(11) requirements.

(1) Medium for notice and consent—(1) Notice. The notice of a participant’s rights described in paragraph (c)(2) of this section or the summary of that notice described in paragraph (c)(2)(iii)(B)(2) of this section must be provided on a written paper document. However, see §1.401(a)–21 of this chapter for rules permitting the use of electronic media to provide applicable notices to recipients with respect to retirement plans.

(2) Consent. The consent described in paragraphs (c)(2) and (3) of this section must be given on a written paper document. However, see §1.401(a)–21 of this chapter for rules permitting the use of electronic media to make participant elections with respect to retirement plans.

Under a defined benefit plan, a participant's accrued benefit is his accrued benefit determined under the plan. A defined benefit plan is not a qualified plan unless the method provided by the plan for determining accrued benefits satisfies at least one of the alternative methods (described in paragraph (b) of this section) for determining accrued benefits with respect to all active participants under the plan. A defined benefit plan may provide that accrued benefits for participants are determined under more than one plan formula. In such a case, the accrued benefits under all such formulas must be aggregated in order to determine whether or not the accrued benefits under the plan for participants satisfy one of the alternative methods. A plan may satisfy different methods with respect to different classifications of employees, or separately satisfy one method with respect to the accrued benefits for each such classification, provided that such classifications are not so structured as to evade the accrued benefit requirements of section 411(b) and this section. (For example, if a plan provides that employees who commence participation at or before age 40 accrue benefits in a manner which satisfies the 3 percent method of determining accrued benefits and employees who commence participation after age 40 accrue benefits in a manner which satisfies the 3 percent method of determining accrued benefits, the plan would be so structured as to evade the requirements of section 411(b).) A defined benefit plan does not satisfy the requirements of section 411(b) and this section merely because the accrued benefit is defined as the "reserve under the plan". Special rules are provided for the first two years of service by a participant, certain insured defined benefit plans, and certain reductions in accrued benefits due to increasing age or service. In addition, a special rule is provided with respect to accruals for service before the effective date of section 411.

(2) Cross references—(1) 3 percent method. For rules relating to the 3 percent method of determining accrued benefits, see paragraph (b)(1) of this section.

(ii) 1331⁄3 percent method. For rules relating to the 1331⁄3 percent method of determining accrued benefits, see paragraph (b)(2) of this section.

(iii) Fractional method. For rules relating to the fractional method of determining accrued benefits, see paragraph (b)(3) of this section.

(iv) Accruals before effective date. For rules relating to accruals for service before the effective date of section 411, see paragraph (c) of this section.

(v) First 2 years of service. For special rules relating to accruals for service for first 2 continuous years of service, see paragraph (d)(1) of this section.

(vi) Certain insured plans. For special rules relating to determination of accrued benefit for first defined benefit plan funded exclusively by insurance contracts, see paragraph (d)(2) of this section.

(vii) Accruals decreased by increasing age or service. For special rules relating to prohibition of decrease in accrued benefit on account of increasing age or service, see paragraph (d)(3) of this section.

(viii) Separate accounting. For rules relating to requirements for separate accounting, see paragraph (e) of this section.

(ix) Year of participation. For definition of "year of participation", see paragraph (f) of this section.

(b) Defined benefit plans. A defined benefit plan satisfies the requirements of section 411(b)(1) and this paragraph for a plan year if it satisfies the requirements of subparagraph (1), (2), or (3) of this paragraph for such year.

(1) 3 percent method—(i) General rule. A defined benefit plan satisfies the requirements of this paragraph for a plan year if, as of the close of the plan year, the accrued benefit to which each participant is entitled, computed as if the participant separated from the service as of the close of such plan year, is not less than 3 percent of the 3 percent method benefit, multiplied by the number of years (not in excess of 33½) of his participation in the plan including years after his normal retirement age. For purposes of this subparagraph, the "3 percent method benefit" is the normal retirement benefit to which the participant would be entitled if he
commenced participation at the earliest possible entry age for any individual who is or could be a participant under the plan and if he served continuously until the earlier of age 65 or the normal retirement age under the plan.

(ii) Special rules—(A) Compensation. In the case of a plan providing a retirement benefit based upon compensation during any period, the normal retirement benefit to which a participant would be entitled is determined as if he continued to earn annually the average rate of compensation which he earned during consecutive years of service, not in excess of 10, for which his compensation was the highest. For purposes of this subdivision (A), the number of consecutive years of service used in computing average compensation shall be the number of years of service specified under the plan (not in excess of 10) for computing normal retirement benefits. (B) Social security, etc. For purposes of this subparagraph, for any plan year, social security benefits and all relevant factors used to compute benefits, e.g., consumer price index, are treated as remaining constant as of the beginning of the current plan year for all subsequent plan years.

(C) Computation in certain cases. In the case of any plan to which the provisions of section 411(b)(1)(D) and paragraph (c) of this section are applicable, for any plan year the accrued benefit of any participant shall not be less than the accrued benefit otherwise determined under this subparagraph, reduced by the excess of the accrued benefit determined under this subparagraph as of the first day of the first plan year to which section 411 applies over the accrued benefit determined under section 411(b)(1)(D) and paragraph (c) of this section and increased by the amount determined under paragraph (c)(2)(v) of this section.

(iii) Examples. The application of this subparagraph is illustrated by the following examples.

Example 1. The M Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 or $4 per month for each year of participation. As a condition of participation, the plan requires that an employee have attained age 25. The normal retirement age specified under the plan is age 65. The plan provides for no limit on the number of years of credited service. A, age 40, is a participant in the M Corporation’s plan.

A has completed 12 years of participation in the plan of the M Corporation as of the close of the plan year. Under subdivision (i) of this subparagraph, the normal retirement benefit commencing at age 65 to which a participant with 25 years of participation would be entitled if he commenced participation at the earliest possible entry age (25) under the plan and served continuously until normal retirement age (65) is an annual benefit of $1,920 (40×$4). Under paragraph (b)(1)(i) of this section, the plan does not satisfy the requirements of this subparagraph unless A has accrued an annual benefit of at least $691 (0.03×$1,920) as of the close of the plan year. Under the M Corporation plan, A is entitled to an accrued benefit of $576 ([12×$4]) as of the close of the plan year. Thus, with respect to A, the accrued benefit provided under the M Corporation plan does not satisfy the requirements of this subparagraph.

Example 2. Assume the same facts as in example (1) except that the M Corporation’s plan provides that only the first 30 years of participation are taken into account. Under subdivision (i) of this subparagraph, the normal retirement benefit commencing at age 65 to which a participant would be entitled if he commenced participation at the earliest possible entry age under the plan (25) and served continuously until normal retirement age (65) is an annual benefit of $1,440 (30×$4). Under paragraph (b)(1)(i) of this section, the plan does not satisfy the requirements of this subparagraph unless A has accrued an annual benefit of at least $518 (0.03×$1,440) as of the close of the plan year. Under the M Corporation plan, A is entitled to an accrued benefit of $576 (12×$4). Thus, with respect to A, the accrued benefit provided under the M Corporation plan satisfies the requirements of this subparagraph.

Example 3. The N Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 of 50 percent of average compensation for the highest 3 consecutive years of compensation for each year of participation not in excess of 25. The plan has no minimum age or service requirement for participation. The normal retirement age specified under the plan is age 65. On December 31, 1990, B, age 40, is a participant in the N Corporation’s plan. B began employment with the N Corporation and became a participant in the N Corporation’s plan on January 1, 1990. Under this subparagraph, the normal retirement benefit to which a participant would be entitled if he commenced participation at the earliest possible entry age (0)
under the plan and served continuously until normal retirement age (65) is 50 percent of average compensation for the highest 3 consecutive years of compensation per year commencing at age 65. Under the plan, B has accrued an annual benefit of at least 16.5 percent of his highest 3 consecutive years of compensation per year commencing at age 65 and 10 percent of average compensation for the highest 3 consecutive years of compensation (§ 1.411(b)–1) as of the close of the plan year. Under the N Corporation plan, B has accrued an annual benefit of at least 16.5 percent of his highest 3 consecutive years of compensation per year commencing at age 65. The appropriate computation period is the calendar year. On January 1, 1990, as of December 31, 1995, the J Corporation plan satisfies the requirements of this subparagraph.

Example 4. The P Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 of 50 percent of average compensation for the 3 consecutive years preceding normal retirement age. The plan has no minimum age or service requirement for participation. The normal retirement age under the plan is age 65. On December 31, 1990, C, age 55, separates from service with the P Corporation. C began employment with the P Corporation and became a participant in the P Corporation’s plan on January 1, 1980. As of December 31, 1990, C’s average compensation for the 3 consecutive years preceding his separation from service is $15,000. Under this subparagraph, the normal retirement benefit to which a participant would be entitled if he commenced participation at the earliest possible entry age (0) under the plan and served continuously until normal retirement age (65) is an annual benefit of 50 percent of average compensation for the 3 consecutive years of compensation from the P Corporation next preceding normal retirement age commencing at age 65. C must have accrued an annual benefit of at least $2,975 (0.050 × $15,000) as of his separation from service with the P Corporation in order for the P Corporation’s plan to satisfy the requirements of this subparagraph with respect to C.

Example 5. On December 31, 1985, the R Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 of $100 for each year of participation, not to exceed 30. As a condition of participation, the plan requires that an employee have attained age 25. The normal retirement age specified under the plan is age 65. The appropriate computation period is the calendar year. On January 1, 1985, the plan is amended to provide an annual retirement benefit commencing at age 65 of $200 for each year of participation (before and after the amendment), not to exceed 30. B, age 40, is a participant in the R Corporation’s plan. B has completed 15 years of participation in the plan of the R Corporation as of December 31, 1990. Under paragraph (b)(1)(i) of this section, the normal retirement benefit commencing at age 65 to which a participant would be entitled if he commenced participation at the earliest possible entry age (25) under the plan and served continuously until normal retirement age (65) is an annual benefit of $6,000 (30 × $200). Under subdivision (i) of this subparagraph, the plan does not satisfy the requirements of this subparagraph unless B has accrued an annual benefit of at least $2,700 (0.03 × $6,000) as of December 31, 1990. Under the R Corporation plan, B is entitled to an accrued benefit of $3,000 ($200×15) as of December 31, 1990. Thus, with respect to B, the accrued benefit provided under the R Corporation plan satisfies the requirements of this subparagraph.

Example 6. On December 31, 1995, the J Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 of $4,800 after 30 years of participation. The normal retirement age specified under the plan is age 65. The appropriate computation period is the calendar year. On January 1, 1996, the plan is amended to provide an annual retirement benefit commencing at age 65 of $6,000. A, age 40, is a participant in the J Corporation’s plan since its adoption on January 1, 1986. Under paragraph (b)(1)(i) of this section, on December 31, 1995, the normal retirement benefit commencing at age 5 to which a participant would be entitled if he commenced participation at the earliest possible entry age (0) under the plan and served continuously until normal retirement age (65) is an annual benefit of $4,800. Under paragraph (b)(1)(i) of this subparagraph, the plan does not satisfy the requirements of this subparagraph unless A has accrued an annual benefit of at least $1,440 ($4,800,.05 = 10) and an accrued benefit on December 31, 1995 of at least $1,440 ($4,800,.05 = 10) and an accrued benefit on January 1, 1996 of at least $1,440 ($6,000,.05 = 10).

Example 7. The X Company’s defined benefit plan provides an annual retirement benefit commencing at age 65 of $4 per month for each year of participation (not to exceed 30). As a condition of participation, the plan requires that an employee have attained age 25. The normal retirement age specified under the plan is age 65. D, age 68, is a participant in the X Company’s plan. D has completed 20 years of participation in the X Company plan as of the close of the plan.
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year. Under paragraph (b)(1)(i) of this section, the normal retirement benefit commencing at age 65 to which a participant would be entitled if he commenced participation at the earliest possible entry age (25) under the plan and served continuously until normal retirement age (65) is an annual benefit, commencing at age 65, of $1,440 \[30 \times \$48\]. Under paragraph (b)(1)(i) of this section, the plan does not satisfy the requirements of this subparagraph unless D has accrued an annual benefit, commencing at age 65, of $864 \[0.03 \times \$1,440 \times 20\] as of the close of the plan year. Under the X Company plan, D has accrued an annual benefit, commencing at age 65, of $960 \[20 \times \$48\]. Thus, with respect to D the accrued benefit provided under the X Company plan satisfies the requirements of this subparagraph.

Example 8. Assume the same facts as in example (7) except that for purposes of determining accrued benefits under the plan the X Company’s plan disregards all years of participation after normal retirement age. Under paragraph (b)(1)(i) of this section, the normal retirement benefit commencing at age 65 to which a participant would be entitled if he commenced participation at the earliest possible entry age (25) under the plan and served continuously until normal retirement age (65) is an annual benefit of $1,440 \[30 \times \$48\]. Under paragraph (b)(1)(i) of this section the plan does not satisfy the requirements of this subparagraph unless D has accrued an annual benefit, commencing at age 65, of $864 \[0.03 \times \$1,440 \times 20\] as of the close of the plan year. Under the X Company’s plan D has accrued an annual benefit, commencing at age 65, of $960 \[20 \times \$48\]. Thus, with respect to D the accrued benefit provided under the X Company plan satisfies the requirements of this subparagraph.

Example 8. Assume the same facts as in example (7) except that for purposes of determining accrued benefits under the plan the X Company’s plan disregards all years of participation after normal retirement age. Under paragraph (b)(1)(i) of this section, the normal retirement benefit commencing at age 65 to which a participant would be entitled if he commenced participation at the earliest possible entry age (25) under the plan and served continuously until normal retirement age (65) is an annual benefit of $1,440 \[30 \times \$48\]. Under paragraph (b)(1)(i) of this section the plan does not satisfy the requirements of this subparagraph unless D has accrued an annual benefit, commencing at age 65, of $864 \[0.03 \times \$1,440 \times 20\] as of the close of the plan year. Under the X Company’s plan D has accrued an annual benefit, commencing at age 65, of $960 \[20 \times \$48\]. Thus, with respect to D the accrued benefit provided under the X Company plan satisfies the requirements of this subparagraph.

(2) 133\%\  rate—(i) General rule. A defined benefit plan satisfies the requirements of this subparagraph for a particular plan year if—

(A) Under the plan the accrued benefit payable at the normal retirement age (determined under the plan) is equal to the normal retirement benefit (determined under the plan), and

(B) The annual rate at which any individual who is or could be a participant can accrue the retirement benefits payable at normal retirement age under the plan for any later plan year cannot be more than 133\%\  of the annual rate at which he can accrue benefits for any plan year beginning on or after such particular plan year and before such later plan year.

(ii) Special rules. For purposes of this subparagraph—

(A) Plan amendments. Any amendment to the plan which is in effect for the current plan year shall be treated as if it were in effect for all other plan years.

(B) Change in accrual rate. Any change in an accrual rate which change does not apply to any individual who is of could be a participant in the plan year is disregarded. Thus, for example, if for its plan year beginning January 1, 1980, a defined benefit plan provides an accrued benefit in plan year 1980 of 2 percent of a participant’s average compensation for his highest 3 years of compensation for each year of service and provides that in plan year 1981 the accrued benefit will be 3 percent of such average compensation, the plan will not be treated as failing to satisfy the requirements of this subparagraph for plan year 1980 because in plan year 1980 the change in the accrual rate does not apply to any individual who is or could be a participant in plan year 1980. However, if, for example, a defined benefit plan provided for an accrued benefit of 1 percent of a participant’s average compensation for his highest 3 years of compensation for each of the first 10 years of service and 1.5 percent of such average compensations for each year of service thereafter, the plan will be treated as failing to satisfy the requirements of this subparagraph for the plan year even though no participant is actually accruing at the 1.5 percent rate because an individual who could be a participant and who had over 10 years of service would accrue at the 1.5 percent rate, which rate exceeds 133\%\  of the 1 percent rate.

(C) Early retirement benefits. The fact that certain benefits under the plan may be payable to certain participants before normal retirement age is disregarded. Thus, the requirements of subdivision (i) of this subparagraph must be satisfied without regard to any benefit payable prior to the normal retirement benefit (such as an early retirement benefit which is not the normal retirement benefit (see §1.411(a)–7(c)).

(D) Social security, etc. For purposes of this paragraph, for any plan year, social security benefits and all relevant factors used to compute benefits, e.g., consumer price index, are treated
as remaining constant as of the beginning of the current plan year for all subsequent plan years.

(E) Postponed retirement. A plan shall not be treated as failing to satisfy the requirements of this subparagraph for a plan year merely because no benefits under the plan accrue to a participant who continues service with the employer after such participant has attained normal retirement age.

(F) Computation of benefit. A plan shall not satisfy the requirements of this subparagraph if the base for the computation of retirement benefits changes solely by reason of an increase in the number of years of participation. Thus, for example, a plan will not satisfy the requirements of this subparagraph if the base for the computation of retirement benefits is the immediately preceding accrual rate, the next 5 years of participation; and 1 7/9 percent for each of the remaining years of participation for which his compensation is the highest. The percentage is 2 percent for each of the first 5 years of participation (or, if less than 10 his total years of participation) and (2) 1 percent of average compensation for a participant’s 3 highest years of participation multiplied by each year of participation subsequent to the 10th year.

(iii) Examples. The application of this subparagraph is illustrated by the following examples:

Example 1. On January 1, 1980, the R Corporation’s defined benefit plan provides for an annual benefit (commencing at age 65) of a percentage of a participant’s average compensation for the period of 5 consecutive years of participation for which his compensation is the highest. The percentage is 2 percent for each of the first 20 years of participation and 1 percent per year thereafter. The appropriate computation period is the calendar year. The R Corporation’s plan satisfies the requirements of this subparagraph because the rate of accrual for all years of participation in excess of 10 (1 ½ percent) exceeds 133 1/3 percent of the rate of accrual for any of the first 5 years of participation (1 percent).

Example 2. On January 1, 1980, the J Corporation’s plan exceeds 133 1/3 percent of the rate of accrual for any of the first 5 years of participation (1 percent). The J Corporation’s plan does not satisfy the requirements of this subparagraph because the rate of accrual for all years of participation in excess of 10 (1 ½ percent) exceeds 133 1/3 percent of the rate of accrual for any of the first 5 years of participation (1 percent).

Example 3. On January 1, 1980, the C Corporation’s defined benefit plan provides for an annual benefit (commencing at age 65) of a percentage of a participant’s average compensation for the period of 3 consecutive years of participation for which his compensation is the highest. The percentage is 2 percent for each of the first 5 years of participation; 1 percent for each of the next 5 years of participation; and 1 ½ percent for each year thereafter. The appropriate computation period is the calendar year. Even though the average rate of accrual under the C Corporation’s plan is not less rapidly than rateably, the C Corporation’s plan does not satisfy the requirements of this subparagraph because the rate of accrual for all years of participation in excess of 10 (1 ½ percent) for any employee who is actually accruing benefits or who could accrue benefits exceeds 133 1/3 percent of the rate of accrual for the sixth through tenth years of participation, respectively (1 percent).

(3) Fractional rule—(i) In general. A defined benefit plan satisfies the requirements of this paragraph if the accrued benefit to which any participant is entitled is not less than the fractional rule benefit multiplied by a fraction (not exceeding 1)—

(A) The numerator of which is his total number of years of participation in the plan, and

(B) The denominator of which is the total number of years he would have participated in the plan if he separated from the service at the normal retirement age under the plan.

(ii) Special rules. For purposes of this subparagraph—

(A) Fractional rule benefit. The “fractional rule benefit” is the annual benefit commencing at the normal retirement age under the plan to which a participant would be entitled if he continued to earn annually until such normal retirement age the same rate of compensation upon which his normal retirement benefit would be computed. Such rate of compensation shall be computed on the basis of compensation taken into account under the plan (but taking into account average compensation for no more than the 10 years of

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The R Corporation’s defined benefit plan provides an annual retirement benefit commencing at age 65 of 30 percent of such compensation multiplied by the number of years of plan participation actually completed by the participant. The plan year of the J Corporation’s plan is the calendar year. B, age 55, is a participant in the J Corporation’s plan on January 1, 1980. As of December 31, 1990, B’s compensation history is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$17,000</td>
</tr>
<tr>
<td>1981</td>
<td>16,000</td>
</tr>
<tr>
<td>1982</td>
<td>20,000</td>
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<tr>
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<td>1984</td>
<td>21,000</td>
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<td>22,000</td>
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<td>1987</td>
<td>25,000</td>
</tr>
<tr>
<td>1988</td>
<td>25,000</td>
</tr>
<tr>
<td>1989</td>
<td>29,000</td>
</tr>
<tr>
<td>1990</td>
<td>32,000</td>
</tr>
</tbody>
</table>

If B separates from service on December 31, 1990, he would be entitled to an annual benefit of $2,530 commencing at age 65. Because the J Corporation’s plan does not limit the number of years of compensation to be taken into account in determining the normal retirement benefit, B’s rate of compensation for purposes of determining his normal retirement benefit is $23,600 ($18,000 + $20,000 + $20,000 + $21,000 + $22,000 + $23,000 + $25,000 + $26,000 + $29,000 + $32,000)/10.

Under this subparagraph, B’s accrued benefit under the J Corporation’s plan as of December 31, 1990 must be not less than $2,561 per year commencing at age 65 (0.01 × ($17,000 + $18,000 + $20,000 + $20,000 + $21,000 + $22,000 + $23,000 + $25,000 + $26,000 + $29,000 + $32,000)/10 × 11/21). Thus, the J Corporation’s plan would not satisfy the requirements of this subparagraph.

(c) Accruals for service before effective date—(1) General rule. For a plan year to which section 411 applies, a defined benefit plan does not satisfy the requirements of section 411(b)(1) and this
section unless, under the plan, the accrued benefit of each participant for plan years beginning before section 411 applies is not less than the greater of—

(i) Such participant’s accrued benefit (as of the day before section 411 applies) determined under the plan as in effect from time to time prior to September 2, 1974 (without regard to any amendment adopted after such date), or

(ii) One-half of the accrued benefit that would be determined with respect to the participant’s accrued benefit were computed for such prior plan years under a method which satisfies the requirements of section 411(b)(1)(A), (B), or (C) and paragraph (b)(1), (2), or (3) of this section. See 29 CFR Part 2530, Department of Labor regulations relating to minimum standards for employee pension benefit plans, for time participation deemed to begin.

(2) Special rules—(i) A plan shall not be deemed to fail to satisfy the requirements of section 411(b) and this section merely because the method for computing the accrued benefit of a participant for years of participation prior to the first plan year for which section 411 is effective with respect to the plan is not the same method for computing the accrued benefit of a participant for years of participation subsequent to such plan year.

(ii) For purposes of paragraph (c)(1)(ii) of this section, section 411(b)(1)(A) and paragraph (b)(1) of this section shall be applied as if the participant separated from service with the employer on the day before the first day of the first plan year to which section 411 applies.

(iii) For purposes of paragraph (c)(1)(ii) of this section, section 411(b)(1)(B) and paragraph (b)(2) of this section shall be applied in the following manner:

(A) Except as provided in (c)(2)(iii)(B) of this section, section 411(b)(1)(B) and paragraph (b)(2) of this section shall be applied as if the participant separated from service with the employer on the day before the first day of the first plan year to which section 411 applies.

(B) In the case that the plan does not satisfy the requirements of section 411(b)(1)(B) and paragraph (b)(2) of this section at any time prior to the day specified in (c)(2)(iii)(A) of this section, the plan shall be deemed revised to the extent necessary to satisfy the requirements of paragraph (c)(2)(iii)(A) of this section for all plan years beginning before the applicable effective date of section 411 and this section. For purposes of the preceding sentence, a plan shall not be deemed revised to the extent necessary to satisfy the requirements of section 411(b)(1)(B) and paragraph (b)(2) of this section for a plan year if the benefit a participant would receive if he were employed until normal retirement age is reduced by such revision or if the revised rate of accrual with respect to such accrued benefit does not otherwise satisfy the requirements of section 411(b)(1)(B) and paragraph (b)(2) of this section.

(iv) For purposes of paragraph (c)(1)(ii) of this section, section 411(b)(1)(C) and paragraph (b)(3) of this section shall be applied as if the participant separated from service on the day before the first day of the first plan year to which section 411 applies.

(v) The excess of the accrued benefit payable at normal retirement age of any participant determined under section 411(b)(1)(C) and paragraph (b)(3) of this section shall be applied as if the participant separated from service with the employer on the day before the first day of the first plan year for which section 411 applies.

(d) Special rules—(1) First 2 years of service. Notwithstanding paragraphs (1), (2), and (3) of paragraph (b) of this section, under section 411(b)(1)(E) and this subparagraph, a plan shall not be treated as failing to satisfy the requirements of paragraph (b) of this section solely because the accrual of benefits under the plan does not become effective until the employee has completed 2 continuous years of service.
For purposes of this subparagraph, continuous years of service are years of service (within the meaning of section 410(a)(3)(A)) which are not separated by a break in service (within the meaning of section 410(a)(5)). For years of service beginning after such 2 years of service, the accrued benefit of an employee shall not be less than that to which the employee would be entitled if section 411(b)(1)(E) and this subparagraph did not apply. Thus, for example, a plan which otherwise satisfies the requirements of paragraph (b) of this section provides for a rate of accrual of 1 percent of average compensation for the highest 3 years of compensation beginning with the third year of service of a participant shall not be treated as satisfying the requirements of paragraph (b) of this section because as of the time the employee completes 3 continuous years of service there is no accrual during the first 2 years of service. In addition, a plan which otherwise satisfies the requirements of paragraph (b)(2) of this section provides for a rate of accrual of 1 percent of average compensation for the highest 3 years of compensation beginning with the third year of service of a participant shall not be treated as satisfying the requirements of paragraph (b)(1) of this section and which requires that an employee must attain age 25 and complete 1 year of service prior to becoming a participant will not satisfy the requirements of this subparagraph if such an employee completes 3 continuous years of service there is no accrual during the first 2 years of service. In addition, a plan which otherwise satisfies the requirements of paragraph (b)(2) of this section which requires separate accounting for the portion of each employee's accrued benefit derived from any voluntary employee contributions permitted under the plan. For purposes of this subparagraph the term "voluntary employee contributions" means all employee contributions which are not mandatory contributions within the meaning of section 411(c)(2)(C) and the regulations thereunder. See §1.411(c)(1)(b)(1) for rules requiring the determination of such an accrued benefit by the use of a separate account.

(2) **Defined contribution plan.** In the case of a defined contribution plan, the requirements of this paragraph are satisfied if the plan requires separate accounting for each employee's accrued benefit. If a plan utilizes the break in service rule of section 411(a)(6)(C), an employee could have different percentages of vesting between pre-break and post-break accrued benefits. In such a case, the requirements of this paragraph are not satisfied unless the plan computes accrued benefits in a manner which takes into account different percentages. A plan which provides separate accounts for pre-break and post-break accrued benefits will be deemed to compute benefits in a reasonable manner.

(3) **Accrued benefit may not decrease on account of increasing age or service.** Notwithstanding paragraphs (b) (1), (2), and (3) of this section and paragraphs (d) (1) and (2) of this section, a defined benefit plan shall be treated as not satisfying the requirements of paragraphs (b) and (d) of this section if the participant's accrued benefit is reduced on account of any increase in his age or years of service. The preceding sentence shall not apply to social security supplements described in §1.411(a)-7(c)(4).

(e) **Separate accounting.** A plan satisfies the requirements of this paragraph if the requirements of paragraph (e) (1) or (2) of this paragraph are met.

(1) **Defined benefit plan.** In the case of a defined benefit plan, the requirements of this paragraph are satisfied if the plan requires separate accounting for the portion of each employee's accrued benefit derived from any voluntary employee contributions permitted under the plan. For purposes of this subparagraph the term "voluntary employee contributions" means all employee contributions which are not mandatory contributions within the meaning of section 411(c)(2)(C) and the regulations thereunder. See §1.411(c)(1)(b)(1) for rules requiring the determination of such an accrued benefit by the use of a separate account.

(2) **Defined contribution plan.** In the case of a defined contribution plan, the requirements of this paragraph are not satisfied unless the plan requires separate accounting for each employee's accrued benefit. If a plan utilizes the break in service rule of section 411(a)(6)(C), an employee could have different percentages of vesting between pre-break and post-break accrued benefits. In such a case, the requirements of this paragraph are not satisfied unless the plan computes accrued benefits in a manner which takes into account different percentages. A plan which provides separate accounts for pre-break and post-break accrued benefits will be deemed to compute benefits in a reasonable manner.

(f) **Year of participation—(1) In general.** This paragraph is inapplicable to a defined benefit plan. For purposes of determining an employee's accrued benefit, a "year of participation" is a
period of service determined under regulations prescribed by the Secretary of Labor in 29 CFR Part 2530, relating to minimum standards for employee pension benefit plans.

(2) Additional rule relating to year of participation. A trust shall not constitute a qualified trust if the plan of which such trust is a part provides for the crediting of a year of participation, or part thereof, and such credit results in the discrimination prohibited by section 401(a)(4).

(g) Additional illustrations. The application of this section may be illustrated by the following example:

Example. (i) The S Corporation established a defined benefit plan on January 1, 1980. The plan provides a minimum age for participation of age 25. The normal retirement age under the plan is age 65. The appropriate computation periods are the calendar year. The plan provides an annual benefit, commencing at age 65, equal to $96 per year of service for the first 25 years of service, and $48 per year of service for each additional year of service.

(ii) The plan of the S Corporation does not satisfy the requirements of section 411(b)(1)(A) and paragraph (b)(1) of this section because the accrued benefit under the plan at some point will be less than the accrued benefit required under section 411(b)(1)(A) and paragraph (b)(1) of this section (i.e., 3 percent x normal retirement benefit x years of participation).

(iii) The plan of the S Corporation does satisfy the requirements of section 411(b)(1)(B) and paragraph (b)(2) of this section because the rate of benefit accrual is equal in each of the first 25 years of service and the rate decreases thereafter.

(iv) The plan of the S Corporation does satisfy the requirements of section 411(b)(1)(C) and paragraph (b)(3) of this section because the accrued benefit under the plan will equal or exceed the normal retirement benefit multiplied by the fraction described in paragraph (b)(3)(i) of this section.

(1) Separate accounts maintained. If a separate account is maintained with respect to an employee’s contributions and all income, expenses, gains, and losses attributable thereto, the accrued benefit determined under this subparagraph as of any applicable date is the balance of such account as of such date.

(2) Separate accounts not maintained. If a separate account is not maintained with respect to an employee’s contributions and the income, expenses, gains, and losses attributable thereto, the accrued benefit determined under this subparagraph is the employee’s total accrued benefit determined under this subparagraph as of any applicable date multiplied by a fraction—

(i) The numerator of which is the total amount of the employee’s contributions under the plan less withdrawals, and

(ii) The denominator of which is the sum of (A) the amount described in paragraph (b)(2)(i) of this section, and (B) the total contributions made under

§ 1.411(c)–1 Allocation of accrued benefits between employer and employee contributions.

(a) Accrued benefit derived from employer contributions. For purposes of section 411 and the regulations thereunder, under section 411(c)(1), an employee’s accrued benefit derived from employer contributions under a plan as of any applicable date is the excess, if any, of—

(1) The total accrued benefit under the plan provided for the employee as of such date, over

(2) The accrued benefit provided for the employee, derived from contributions made by the employee under the plan as of such date.

For computation of accrued benefit derived from employee contributions to a defined contribution plan or from voluntary employee contributions to a defined benefit plan, see paragraph (b) of this section. For computation of accrued benefit derived from mandatory employee contributions to a defined benefit plan, see paragraph (c) of this section.

(b) Accrued benefit derived from employee contribution to defined contribution plan, etc. For purposes of section 411 and the regulations thereunder, under section 411(c)(2)(A) the accrued benefit derived from employee contributions to a defined contribution plan is determined under paragraph (b)(1) or (2) of this section, whichever applies. Under section 411(d)(5), the accrued benefit derived from voluntary employee contributions to a defined benefit plan is determined under paragraph (b)(1) of this section.

(1) Separate accounts maintained. If a separate account is maintained with respect to an employee’s contributions and all income, expenses, gains, and losses attributable thereto, the accrued benefit determined under this subparagraph as of any applicable date is the balance of such account as of such date.

(2) Separate accounts not maintained. If a separate account is not maintained with respect to an employee’s contributions and the income, expenses, gains, and losses attributable thereto, the accrued benefit determined under this subparagraph is the employee’s total accrued benefit determined under this subparagraph as of any applicable date multiplied by a fraction—

(i) The numerator of which is the total amount of the employee’s contributions under the plan less withdrawals, and

(ii) The denominator of which is the sum of (A) the amount described in paragraph (b)(2)(i) of this section, and (B) the total contributions made under