(3.3864 is 1.05 raised to the 25th power; the 25th power reflects the difference between normal retirement age and attained age (65–40).)

Salary under this method is projected to the age when the receipt of benefits is expected to begin. Therefore, method E meets the requirement of paragraph (c)(4) of this section. Also, the allocation of benefits under method E between past and future years of service meets the requirements of paragraph (c)(3) of this section.

Example 6. Assume that a plan that has two participants and that previously used the unit credit cost method wishes to change the funding method at the beginning of the plan year to funding method F, a modification of the aggregate cost method. The modification involves determining normal cost for each of the two participants under the plan. Therefore, it requires an allocation of assets to each participant for valuation purposes. The actuary proposes to allocate the assets on hand at the beginning of the plan year of the change in funding method in proportion to the accrued liabilities calculated under the unit credit cost method. The relevant results of the calculations are shown below:

<table>
<thead>
<tr>
<th>Employees</th>
<th>Accrued Liabilities (unit credit method):</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollar amount</td>
<td>15,670</td>
</tr>
<tr>
<td></td>
<td>Per cent of total</td>
<td>94.53</td>
</tr>
<tr>
<td>Assets:</td>
<td>Dollar amount</td>
<td>7,835</td>
</tr>
<tr>
<td></td>
<td>per cent of total</td>
<td>94.53</td>
</tr>
</tbody>
</table>

The proposed allocation in proportion to the accrued liabilities under the unit credit cost method satisfies the requirements of paragraph (c)(3) of this section at the beginning of the first plan year for which the new method is used.

Example 7. The facts are the same as in Example 6. However, the actuary proposes to allocate all the assets to employee M, the older employee. Method F, under these facts, is not an acceptable funding method because the allocation is not in proportion to related liabilities as required under paragraph (c)(5) of this section.

due to the change (where both unfunded liabilities are based on the same actuarial assumptions). Such a base must be amortized over 30 years in determining the charges or credits to the funding standard account, unless the Commissioner upon application permits amortization over a shorter period.

(d) Phase-in of additional funding required by new method—(1) In general. A plan that is required to change its funding method to comply with §1.412(c)(3)–1 may elect to charge and credit the funding standard account as provided in this paragraph. An election under this paragraph shall be irrevocable.

(2) Credit in year of change. In the plan year of the change in method the funding standard account may be credited with an amount not in excess of 0.8 multiplied by the excess (if any) of—

(i) The normal cost under the new method plus the amortization charge (or minus the amortization credit) computed as described in §1.412(c)(3)–2(c)(2), over

(ii) The normal cost under the prior method, for the plan year of the change in method.

(3) Credits in the next three years. In the three years following the year of the change the funding standard account may be credited with an amount not in excess of 0.6, 0.4, and 0.2 respectively in the first, second, and third years, multiplied by either of the following amounts, computed as of the last day of the year of credit—

(i) The excess described in §1.412(c)(3)–2(d)(2) multiplied by a fraction (not greater than 1), the numerator of which is the number of participants in the year of the credit and the denominator of which is the number of participants in the year of the change, or, at the option of the plan,

(ii) The excess (if any) in the year of credit of—

(A) The net charge to the funding standard account based on the new method, over

(B) The net charge to the funding standard account based on the prior method.

(4) Computational rules. For purposes of the calculation described in §1.412(c)(3)–2(d)(3)(ii), the net charge is the excess of charges under section 412(b)(2) (A) and (B) over the credits under section 412(b)(3)(B) (including the charge or credit described in §1.412(c)(3)–2(c)) which would be required using the actuarial assumptions and plan benefit structure in effect on the last day of the plan year of change.

(5) Fifteen-year amortization of credits. The funding standard account shall be charged with 15-year amortization of each credit described in §1.412(c)(3)–2(d) (2) and (3) beginning in the year following each such credit.

(6) Manner of election. An election under this paragraph shall be made by the claiming of the credits described in §1.412(c)(3)–2(d) (2) and (3) on Schedule B to Form 5500 and by filing such other information as may be required by the Commissioner.

(e) Effect on shortfall method. The charges and credits described in this section apply in the shortfall method to the annual computation charge described in §1.412(c)(1)–2(d). The amounts described in §1.412(c)(3)–2(d) shall be determined before the application of the shortfall method.


(T.D. 7746, 45 FR 86432, Dec. 31, 1980)