

Paying and Converting Complex Benefit Forms

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A. Introduction

With the issuance of the Benefit Payments regulation on April 8, 2002, PBGC made a menu of optional annuity forms available to payees in trustee plans. Benefits payable under PBGC's optional forms are actuarially equivalent to benefits provided by the plan. A PBGC optional joint-and-survivor annuity is actuarially equivalent to the plan's automatic form for a married participant, and a PBGC optional single life annuity is actuarially equivalent to the plan's automatic form for an unmarried participant.

Some plans contain complex benefit forms. For example, plans in the steel industry often contain "Free Surviving Spouse Benefits" and "Five-Year Term Certain Benefits." These and other plans may also contain "Temporary Supplements" (Social Security Supplements).

This internal guidance statement supplements Internal Guidance Annuity Benefit Forms by providing guidance for administering complex benefits and converting them to PBGC's optional annuity forms.

With the third edition of this internal guidance statement, PBGC clarifies its rules on paying and converting qualified joint-and-survivor "pop-up" annuities, which increase ("pop up") if the participant's spouse predeceases the participant.

B. Scope and Effective Date

This internal guidance statement applies to payees in PBGC-trusteed plans. It is effective upon issuance.

C. Definitions Unique to this Internal Guidance

1. **Free Surviving Spouse Benefit (FSSB).** A survivor benefit in addition to the QJSA, or benefit elected in lieu of a QJSA, that provides, at no cost (reduction) to the participant and spouse, a 50% survivor annuity until the surviving spouse reaches a specified age, at which time the survivor annuity is substantially reduced based on the spouse's Social Security benefit.
2. **Automatic Five-Year Term Certain Benefit.** A period certain benefit that is paid for the first five years of retirement. Regardless of the annuity form elected at retirement, this benefit is paid in an amount equal to the participant's full accrued benefit computed as a straight life annuity. The participant receives this benefit for five years, and then the benefit is paid in the form that the participant elected at retirement. If the participant dies within five years of retirement, the remainder of the five-year term certain benefit is paid to the participant's beneficiary.

Example 1: A participant has a monthly accrued benefit of \$1,000 payable as a Straight Life Annuity. Assume his Annuity Starting Date is 01/01/2004 and he elects a Joint and 50% Survivor Annuity of \$900 per month (using his age and his spouse's age on 01/01/2004). The participant receives \$1,000 per month from 01/01/2004 through 12/01/2008 and begins receiving \$900 per month on 01/01/2009. If the participant dies on 12/15/2007, he would

have received \$1,000 per month from 01/01/2004 through 12/01/2007. His spouse would also receive \$1,000 per month from 01/01/2008 through 12/01/2008 (the end of the five-year period). On 01/01/2009 she would begin receiving \$450 per month (her 50% survivor annuity).

3. **Temporary Supplement.** A benefit form that provides an additional monthly benefit (often \$400) until the participant becomes eligible for Social Security benefits. Temporary supplements generally are not adjusted based on the age of the participant at retirement or the form of benefit elected.

D. PBGC Internal Guidance

1. General Rule. Calculate and administer annuity benefit forms based on the following rules. Use the method given in Internal Guidance Annuity Benefit Forms for determining actuarial equivalence to convert any plan benefit into one of PBGC's optional annuity forms.

2. Complex Benefit Forms

- a. **FSSB for a Married Participant.** If a married participant who is eligible for a plan benefit that includes an FSSB elects to receive a plan-provided annuity form, the participant's surviving spouse receives the FSSB in addition to any survivor benefits provided in the form chosen. If a married participant who is eligible for a plan benefit that includes an FSSB elects to receive a PBGC optional annuity form, the value of the FSSB is calculated and added to the benefit that the participant receives in the form chosen. The following table contains the specific rules.

Annuity Form Elected	Joint-life Annuitant	Payment of FSSB
Plan's Automatic Annuity Form for Married Participants (QJSA)	Spouse	Pay the FSSB to the surviving spouse according to plan provisions.
Plan's Automatic Annuity Form for Unmarried Participants	N/A	Pay the FSSB to the surviving spouse according to plan provisions.
PBGC Optional J&S	Spouse	Calculate the FSSB that would have been payable under the plan to the participant's spouse. Convert the value of this FSSB into an additional benefit payable in the form of the PBGC optional J&S annuity elected with the spouse as the joint life annuitant.

PBGC Optional J&S	Non-spouse	Calculate the FSSB that would have been payable under the plan to the participant's spouse. Convert the value of this FSSB into an additional benefit payable in the form of the PBGC optional J&S annuity elected with the non-spouse joint life annuitant.
PBGC Optional Single Life Annuity	N/A	Calculate the FSSB that would have been payable under the plan to the participant's spouse. Convert the value of this FSSB into an additional benefit payable in the form of the PBGC optional single-life annuity elected.

- b. **FSSB for an Unmarried Participant.** Some plans provide an FSSB for a participant who is unmarried at the annuity starting date but marries later. If such a participant elects to receive an annuity form provided by the plan, PBGC will pay the FSSB in accordance with plan provisions. If, instead, such a participant elects to receive a benefit in one of PBGC's optional annuity forms, no FSSB is payable by PBGC, and no additional annuity amount will be paid on account of the FSSB because PBGC will value the FSSB at \$0 for form conversion purposes.
- c. **Automatic Five-Year Term Certain Benefit.** PBGC's optional annuity forms are generally level life benefits, even when a plan's automatic annuity forms are not. If a participant eligible for an Automatic Five-Year Term Certain Benefit elects one of PBGC's optional annuity forms, convert this Automatic Five-Year Term Certain Benefit into an equivalent level-life annuity payable in the optional form elected.
- d. **Temporary Supplements.** Unlike the other forms described above, temporary supplements are generally not converted to an additional value for PBGC optional forms. Subject to limitations on guaranteed benefits, they are paid as temporary supplements. However, if the temporary supplement includes a survivor annuity payable for the remainder of the temporary period, PBGC will convert the temporary supplement and survivor benefit to an additional value for PBGC optional forms. If the temporary supplement includes a survivor benefit and is subject to earnings offsets, request guidance by emailing PSDGGuidance@pbgc.gov.
- e. **Joint-and-Survivor "Pop-Up" Annuities.** PBGC will generally pay and convert the "pop-up" component of a plan's qualified joint-and-survivor annuity (QJSA) the same way PBGC pays and converts the "pop-up" component of PBGC's optional joint-and-50% survivor "pop-up" form of annuity. Specifically, if the spouse of a participant whose benefit form is the plan's QJSA with a "pop-up" predeceases the participant, the participant's benefit generally increases ("pops up") on the first of the month following the spouse's death – and converts the benefit to PBGC optional forms accordingly.

If the plan provides that the QJSA payable to the participant will pop up only upon notification to the plan of the spouse's death and/or only after a certain waiting period has elapsed (for example, three months following notification to the plan of the spouse's death), then how PBGC pays and converts the "pop-up" component will depend on whether the spouse died before DOPT (see section D.2.e.1 below) or dies on or after DOPT (see section D.2.e.2 below).

(1) Spouse's Death before DOPT. If the spouse died before DOPT, PBGC will deem the plan to have been notified of the death (if applicable) no later than DOPT and will treat the plan's waiting period (if any) to have elapsed no later than on DOPT.

Example 2: The plan's QJSA is a joint-and-50% survivor "pop-up" annuity. The plan provides that the participant's benefit will increase to the level of the automatic single form three months following notification by the participant of the spouse's death. A participant was in pay status with the plan's automatic married form. The participant's spouse died two months before DOPT, but the plan was not notified of the spouse's death. After DOPT, PBGC discovers that the spouse has predeceased the participant. PBGC will consider the plan to have been notified of the spouse's death on DOPT and will treat the three-month waiting period as having elapsed on DOPT. Thus, PBGC will increase the participant's benefit to the level of the plan's automatic single form on the first of the month following DOPT (or on DOPT if DOPT falls on the first day of the month).

(2) Spouse's Death on or after DOPT. If the spouse dies on or after DOPT, PBGC will disregard the plan's notification and/or waiting period requirement(s) (if applicable) for purposes of paying and converting the "pop-up" component of a QJSA.

Example 3: Same facts as Example 2 above except that the spouse dies two months after DOPT. PBGC will increase the participant's benefit to the level of the plan's automatic single form on the first of the month following the spouse's date of death.

If at DOTR the participant is receiving a plan optional benefit form with a "pop-up" (or similar) component, and the benefit includes a notification and/or waiting period (and/or similar) requirement under the plan, request guidance by emailing PSDGuidance@pbgc.gov.

f. Other Complex Benefit Forms. Request guidance by emailing PSDGuidance@pbgc.gov for determinations regarding conversion of other complex benefit forms.