

(c) *Examples.* The operation of this section is illustrated by the following examples:

Example 1. Participation under a calendar-year plan begins upon commencement of employment, and the only benefit provided by the plan is an accrued benefit (expressed as a life annuity beginning at age 65) of \$30 per month times full years of service. The plan credits a ratable portion of a full year of service for service of at least 1,000 hours but less than 2,000 hours in a service computation period that begins on the date when the participant commences employment and each anniversary of that date. John and Mary both commence employment on July 1, 2000. On December 31, 2000 (the snapshot date for the plan's 2001 premium), John has credit for 988 hours of service and Mary has credit for 1,006 hours of service. For purposes of this section, Mary is considered to have an accrued benefit, and John is considered not to have an accrued benefit. Thus, the plan is considered to have benefit liabilities with respect to Mary, but not John, on December 31, 2000; and Mary, but not John, must be counted as a participant for purposes of computing the plan's 2001 premium.

Example 2. The plan also provides that a participant becomes vested five years after commencing employment and defines a one-year break in service as a service computation period in which less than 500 hours of service is performed. On February 1, 2002, John has an accrued benefit of \$18 per month beginning at age 65 based on credit for 1,200 hours of service in the service computation period that began July 1, 2000. However, John has credit for only 492 hours of service in the service computation period that began July 1, 2001. On February 1, 2002, John terminates his employment. On December 31, 2002 (the snapshot date for the 2003 premium), John has incurred a one-year break in service, and thus is not counted as a participant for purposes of computing the plan's 2003 premium.

Example 3. On January 1, 2004, the plan is amended to provide that if a vested participant whose accrued benefit has a present value of \$5,000 or less leaves employment, the benefit will be immediately cashed out. On December 30, 2005, Jane, who has a vested benefit with a present value of less than \$5,000, leaves employment. Because of reasonable administrative delay in determining the amount of the benefit to be paid, the plan does not pay Jane the value of her benefit until January 9, 2006. Under the provisions of this section, Jane is treated as not having an accrued benefit on December 31, 2005 (the snapshot date for the 2006 premium), because Jane's benefit is treated as having been paid on December 30, 2005. Thus, Jane is not counted as a participant for purposes of computing the plan's 2006 premium.

Example 4. If the plan amendment had instead provided for cashouts as of the first of the month following termination of employment, and the plan paid Jane the value of her benefit on January 1, 2006, Jane would be treated under the provisions of this section as having an accrued benefit on December 31, 2005, and would thus be counted as a participant for purposes of computing the plan's 2006 premium.

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PART 4007—PAYMENT OF PREMIUMS

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AUTHORITY: 29 U.S.C. 1302(b)(3), 1303(a), 1306, 1307.

SOURCE: 61 FR 34020, July 1, 1996, unless otherwise noted.

§ 4007.1 Purpose and scope.

This part, which applies to all plans that are covered by title IV of ERISA, provides procedures for paying the premiums imposed by sections 4006 and 4007 of ERISA. (See part 4006 of this chapter for premium rates and computational rules.)

§ 4007.2 Definitions.

(a) The following terms are defined in § 4001.2 of this chapter: Code, contributing sponsor, ERISA, insurer, IRS, multiemployer plan, notice of intent to terminate, PBGC, plan, plan administrator, plan year, and single-employer plan.

(b) For purposes of this part, the following terms are defined in § 4006.2 of this chapter: new plan, newly covered plan, participant, premium payment year, and short plan year.