

(ii) The extension of coverage under the plan to a new group of employees resulting in an increase of 5 percent or more in the plan's liability for accrued benefits;

(iii) A plan merger, consolidation or spinoff that is not *de minimis* pursuant to the regulations under section 414(l) of the Code;

(iv) The shutdown of any facility, plant, store, etc., that creates immediate eligibility for benefits that would not otherwise be immediately payable for participants separating from service;

(v) The offer by the plan for a temporary period to permit participants to retire at benefit levels greater than that to which they would otherwise be entitled;

(vi) A cost-of-living increase for retirees resulting in an increase of 5 percent or more in the plan's liability for accrued benefits; and

(vii) Any other event or trend that results in a material increase in the value of unfunded vested benefits.

[61 FR 34016, July 1, 1996, as amended at 71 FR 31081, June 1, 2006]

#### § 4006.5 Exemptions and special rules.

(a) *Variable-rate premium exemptions.* A plan described in any of paragraphs (a)(1)–(a)(5) of this section is not required to determine its unfunded vested benefits under § 4006.4 and does not owe a variable-rate premium under § 4006.3(b).

(1) *Certain fully funded plans.* A plan is described in this paragraph if the plan had fewer than 500 participants on the last day of the plan year preceding the premium payment year, and as of that date, the plan had no unfunded vested benefits (valued at the interest rate prescribed in § 4006.4(b)(1)).

(2) *Plans without vested benefit liabilities.* A plan is described in this paragraph if it did not have any participants with vested benefits as of the last day of the plan year preceding the premium payment year.

(3) *Section 412(i) plans.* A plan is described in this paragraph if the plan was a plan described in section 412(i) of the Code and the regulations thereunder on the last day of the plan year preceding the premium payment year.

(4) *Plans terminating in standard terminations.* The exemption for a plan described in this paragraph is conditioned upon the plan's making a final distribution of assets in a standard termination. If a plan is ultimately unable to do so, the exemption is revoked and all variable-rate amounts not paid pursuant to this exemption are due retroactive to the applicable due date(s). A plan is described in this paragraph if—

(i) The plan administrator has issued notices of intent to terminate the plan in a standard termination in accordance with section 4041(a)(2) of ERISA; and

(ii) The proposed termination date set forth in the notice of intent to terminate is on or before the last day of the plan year preceding the premium payment year.

(5) *Plans at full funding limit.* A plan is described in this paragraph if, on or before the earlier of the due date for payment of the variable-rate portion of the premium under § 4007.11 or the date that portion is paid, the plan's contributing sponsor or contributing sponsors made contributions to the plan for the plan year preceding the premium payment year in an amount not less than the full funding limitation for such preceding plan year under section 302(c)(7) of ERISA and section 412(c)(7) of the Code (determined in accordance with paragraphs (a)(5)(i) and (a)(5)(ii) of this section).

(i) *Determination of full funding limitation.* The determination of whether contributions for the preceding plan year were in an amount not less than the full funding limitation under section 302(c)(7) of ERISA and section 412(c)(7) of the Code for such preceding plan year shall be based on the methods of computing the full funding limitation, including actuarial assumptions and funding methods, used by the plan (provided such assumptions and methods met all requirements, including the requirements for reasonableness, under section 302 of ERISA and section 412 of the Code) with respect to such preceding plan year. Plan assets shall not be reduced by the amount of any credit balance in the plan's funding standard account.

(ii) *Rounding of de minimis amounts.* Any contribution that is rounded down

to no less than the next lower multiple of one hundred dollars (in the case of full funding limitations up to one hundred thousand dollars) or to no less than the next lower multiple of one thousand dollars (in the case of full funding limitations above one hundred thousand dollars) shall be deemed for purposes of this paragraph to be in an amount equal to the full funding limitation.

(b) *Special rule for determining vested benefits for certain large plans.* With respect to a plan that had 500 or more participants on the last day of the plan year preceding the premium payment year, if an enrolled actuary determines pursuant to § 4006.4(a) that the actuarial value of plan assets equals or exceeds the value of all benefits accrued under the plan (valued at the interest rate prescribed in § 4006.4(b)(1)), the enrolled actuary need not determine the value of the plan's vested benefits, and may instead report the value of the accrued benefits.

(c) *Special rule for determining unfunded vested benefits for plans terminating in distress or involuntary terminations.* A plan described in this paragraph may determine its unfunded vested benefits by using the special alternative calculation method set forth in this paragraph. A plan is described in this paragraph if it has issued notices of intent to terminate in a distress termination in accordance with section 4041(a)(2) of ERISA with a proposed termination date on or before the last day of the plan year preceding the premium payment year, or if the PBGC has instituted proceedings to terminate the plan in accordance with section 4042 of ERISA and has sought a termination date on or before the last day of the plan year preceding the premium payment year. Pursuant to this paragraph, a plan shall determine its unfunded vested benefits in accordance with the alternative calculation method in § 4006.4(c), except that—

(1) The calculation shall be based on the Form 5500, Schedule B, for the plan year which includes (in the case of a distress termination) the proposed termination date or (in the case of an involuntary termination) the termination date sought by the PBGC, or, if no Schedule B is filed for that plan

year, on the Schedule B for the immediately preceding plan year;

(2) All references in § 4006.4(c) and § 4006.4(d) to the first day of the plan year preceding the premium payment year shall be deemed to refer to the first day of the plan year for which the Schedule B was filed;

(3) The value of the sum of the plan's current liability as of the first day of the plan year preceding the premium payment year for vested benefits of active and terminated vested participants not in pay status, computed in accordance with section 302(d)(7) of ERISA and section 412(1)(7) of the Code, shall be adjusted (in lieu of the adjustment required by § 4006.4(c)(1)) by multiplying that value by the sum of 1 plus the product of .07 and the number of years (rounded to the nearest hundredth of a year) between the date of the Schedule B data and (in the case of a distress termination) the proposed termination date or (in the case of an involuntary termination) the termination date sought by the PBGC; and

(4) The exponent, "Y," in the time adjustment formula of § 4006.4(c)(5) shall be deemed to equal the number of years (rounded to the nearest hundredth of a year) between the date of the Schedule B data and the last day of the plan year preceding the premium payment year.

(d) *Special determination date rule for new and newly-covered plans.* In the case of a new plan or a newly-covered plan, all references in §§ 4006.3, 4006.4, and paragraphs (a) and (b) of this section to the last day of the plan year preceding the premium payment year shall be deemed to refer to the first day of the premium payment year or, if later, the date on which the plan became effective for benefit accruals for future service, and for purposes of determining the plan's premium, the number of plan participants, and (for a single-employer plan) the amount of the plan's unfunded vested benefits and the applicability of any exemption or special rule under paragraph (a) or (b) of this section, shall be determined as of such first day or later date.

(e) *Special determination date rule for certain mergers and spinoffs.* (1) With respect to a plan described in paragraph (e)(2) of this section, all references in

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§§ 4006.3, 4006.4, and this section, as applicable, to the last day of the plan year preceding the premium payment year shall be deemed to refer to the first day of the premium payment year.

(2) A plan is described in this paragraph (e)(2) if—

(i) The plan engages in a merger or spinoff that is not *de minimis* pursuant to the regulations under section 414(l) of the Code (in the case of single-employer plans) or pursuant to part 4231 of this chapter (in the case of multiemployer plans), as applicable;

(ii) The merger or spinoff is effective on the first day of the plan's premium payment year; and

(iii) The plan is the transferee plan in the case of a merger or the transferor plan in the case of a spinoff.

(f) *Proration for certain short plan years.* The premium for a plan that has a short plan year as described in this paragraph (f) is prorated by the number of months in the short plan year (treating a part of a month as a month). The proration applies whether or not the short plan year ends by the premium due date for the short plan year. For purposes of this paragraph (f), there is a short plan year in the following circumstances:

(1) *New plan.* A new or newly-covered plan becomes effective for premium purposes on a date other than the first day of its first plan year.

(2) *Change in plan year.* A plan amendment changes the plan year, but only if the plan does not merge into or consolidate with another plan or otherwise cease its independent existence either during the short plan year or at the beginning of the full plan year following the short plan year.

(3) *Distribution of assets.* The plan's assets (other than any excess assets) are distributed pursuant to the plan's termination.

(4) *Appointment of trustee.* The plan is a single-employer plan, and a plan trustee is appointed pursuant to section 4042 of ERISA.

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### § 4006.6 Definition of "participant."

(a) *General rule.* For purposes of this part and part 4007 of this chapter, an

individual is considered to be a participant in a plan on any date if the plan has benefit liabilities with respect to the individual on that date.

(b) *Loss or distribution of benefit.* For purposes of this section, an individual is treated as no longer being a participant—

(1) In the case of an individual with no vested accrued benefit, after—

(i) The individual incurs a one-year break in service under the terms of the plan,

(ii) The individual's entire "zero-dollar" vested accrued benefit is deemed distributed under the terms of the plan, or

(iii) The individual dies; and

(2) In the case of a living individual whose accrued benefit is fully or partially vested, or a deceased individual whose accrued benefit was fully or partially vested at the time of death, after—

(i) An insurer makes an irrevocable commitment to pay all benefit liabilities with respect to the individual, or

(ii) All benefit liabilities with respect to the individual are otherwise distributed.

(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-