

**I N F O R M A T I O N   R E L E A S E**

**Pension Benefit Guaranty Corporation  
Reportable Events**

**January 1998**

It is with great pride that we are enclosing a copy of an article entitled "PBGC Spells Relief" which was written by Jeffrey F. Hartmann, F.S.A., one of our actuarial consultants. The article shows how, by taking a proactive approach with a government agency, Jeff was instrumental in simplifying a burdensome reporting requirement for defined benefit pension plans. Subsequent to the publication of this article, the reporting requirement was eliminated entirely for smaller plans!

The balance of this release describes certain events which must be reported to the Pension Benefit Guaranty Corporation (PBGC) by employers sponsoring defined benefit plans.

**PBGC Reportable Events**

The Pension Benefit Guaranty Corporation insures some benefits provided under certain defined benefit pension plans in much the same way as the FDIC insures bank accounts. In order to accomplish this, the PBGC collects annual premiums from the plan sponsor or plan administrator (the "designated payor").

With some exceptions, most defined benefit pension plans are insured by the PBGC. Two major examples of plans that are not covered are (1) plans whose only participants are more than 10% owners/shareholders, and (2) plans of professional service employers which, at any time, had 25 or fewer active participants. Defined contributions plans are not insured by the PBGC.

The PBGC is required by law to monitor the financial health of insured plans and their sponsors. To be able to detect when a plan and/or its sponsor are in financial difficulty, the law requires the designated payor to notify the PBGC within 30 days after it knows, or has reason to know, that a "reportable event" has occurred.

The reportable events for which the PBGC must be notified are:

	<b>Reportable Event</b>	<b>Remarks</b>
1.	Bankruptcy, insolvency or similar settlement with creditors	Determination to be made by plan sponsor. Please notify Kravitz or other consultant immediately.
2.	Liquidation	See #1, above.
3.	Redemption of 10% or more of stock	See #1, above.
4.	Declaration of extraordinary dividend (5% or more if preferred stock; 10% or more if non-preferred stock)	See #1, above.
5.	Transaction involving change in plan sponsor or controlled group	See #1, above. "Controlled group" is defined by the rules of Section 414 of the Internal Revenue Code. This reportable event will not be triggered unless the plan has at least \$1 million of unfunded vested benefits.
6.	Plan is unable to pay benefits that are due	Determination to be coordinated between the plan sponsor and Kravitz or other consultant. Please submit facts immediately.
7.	Plan fails to make required minimum funding payments or plan obtains funding waiver from IRS	See #6, above. This category also includes failure to make required quarterly contributions. See enclosed article. Reporting by small plans is no longer required.
8.	Plan makes a distribution to a more than 10% owner/shareholder	See #6, above. There are several exceptions to this reportable event.
9.	Transfer of plan benefits to a plan (or other entity) maintained by an employer outside the controlled group	See #6, above. See #5, above for definition of controlled group.
10.	Number of active participants declines by more than 20% during the current plan year, or by more than 25% during the 2-year period ending with the current plan year	See #6, above. There are several variances and exceptions to this reportable event. Kravitz sends an annual data request for clients to complete. If a client believes its demographics have changed significantly, the client should return the completed census as soon as possible.

## **Penalties**

Failure to timely notify the PBGC of a reportable event can result in penalties of up to \$1,000 per day. This penalty will not be excused merely because of a failure to recognize that such an event has occurred.

At Louis Kravitz & Associates, Inc., we only become aware of some of the reportable events when a client so informs us or when we review the annual census data. It is extremely important that clients inform us promptly of significant changes and transactions involving the company and/or the plan.

## **PBGC Notification**

Once a client informs us of a reportable event, we will assemble the forms and materials that must be sent to the PBGC.