



Highlights of Proposed Rules For Hybrid Plans

Provision Addressed	Highlights of Proposed Rules
Statutory Hybrid Plan	A defined benefit plan that contains a statutory hybrid benefit formula.
Statutory Hybrid Benefit Formula	A benefit formula that is either a: <ul style="list-style-type: none"> • Lump-sum based benefit formula; or • Formula that has an effect similar to a lump-sum based benefit formula because it is reasonably expected to result in a larger annual benefit at normal retirement age for an older participant than for a similarly situated, younger individual.
Lump-Sum Based Benefit Formula	A benefit formula used to determine any part of a participant's accumulated benefit, which provides a benefit that is expressed as the: <ul style="list-style-type: none"> • Balance of a hypothetical account (in a cash balance plan); or • Accumulated percentage of the participant's final average compensation (in a pension equity plan).
Accumulated Benefit	The participant's benefit, as expressed under the terms of the plan accrued to that date. It does not include benefits the participant is entitled to receive in the future but that have not yet been credited (e.g., interest credits to be earned in the future on an existing cash balance account).
3-Year Vesting Requirement	<ul style="list-style-type: none"> • Participant must be 100% vested in his accrued benefit after no more than 3 years of service, even if only a portion of the participant's accrued benefit is determined under a statutory hybrid benefit formula. • Applies on a participant-by-participant basis. • Participant's entire accrued benefit is subject to the 3-year vesting requirement even if his accrued benefit is the larger of two or more benefit amounts, of which just one is a statutory hybrid formula, and the benefit under the statutory hybrid benefit formula is smaller than under the other formula.
Age Discrimination Safe Harbor	<ul style="list-style-type: none"> • Plan will satisfy the safe harbor if the participant's accumulated benefit, as of any date, is not less than any other similarly situated, younger participant. • The safe harbor is available only where a participant's accumulated benefit under the terms of the plan is expressed as: <ul style="list-style-type: none"> • An annuity payable at normal retirement age (or current age, if later); • The balance of a hypothetical account; or • The current value of the accumulated percentage of the employee's final average compensation.



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Similarly Situated Individuals	<p>An individual is “similarly situated” to another individual if the two individuals are identical in every respect (except age) that is relevant in determining a participant’s benefit under the plan, including, but not limited to:</p> <ul style="list-style-type: none"> • Period of service • Compensation • Position • Date of hire • Work history.
Conversion Protection	<p>Plan conversions after June 29, 2005, must provide a benefit that is at least equal to the sum of the benefits:</p> <ul style="list-style-type: none"> • Accrued through the date of conversion; and • Earned after the conversion date. <p>An alternative conversion method requires the plan to establish an opening hypothetical account balance and keep separate track of the:</p> <ul style="list-style-type: none"> • Opening hypothetical account balance and related interest credits; and • Post-conversion hypothetical contributions and related interest credits.
Market Rate of Return	<ul style="list-style-type: none"> • A statutory hybrid plan must use an interest crediting rate that does not exceed the market rate of return. • An interest crediting rate is the rate applied under the terms of the plan to increase a participant’s benefit to the extent the benefit increase is not the result of a participant’s additional service for the employer. • The interest crediting rate must be determined either: <ul style="list-style-type: none"> • Daily; or • In accordance with a specified lookback month and stability period described in IRS regulations. • Interest credits must be made at least annually. <ul style="list-style-type: none"> • If credited more frequently than annually, the credit for the period must be a pro rata portion of the annual interest credit.
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<p><i>Continued from previous page</i></p> <p>Market Rate of Return</p>	<p><i>Continued from previous page</i></p> <ul style="list-style-type: none"> • An interest crediting rate does not exceed a market rate of return if it is based on one of the following indexes: <ul style="list-style-type: none"> • The sum of any of the safe harbor rates and the associated margin for that interest rate described in Notice 96-8 <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">Standard Index</th> <th style="text-align: center;">Associated Margin</th> </tr> </thead> <tbody> <tr> <td>The discount rate on 3-month Treasury Bills</td> <td style="text-align: center;">175 basis points</td> </tr> <tr> <td>The discount rate on 6-month Treasury Bills or 12-month Treasury Bills</td> <td style="text-align: center;">150 basis points</td> </tr> <tr> <td>The yield on 1-year Treasury Constant Maturities</td> <td style="text-align: center;">100 basis points</td> </tr> <tr> <td>The yield on 2-year Treasury Constant Maturities or 3-year Treasury Constant Maturities</td> <td style="text-align: center;">50 basis points</td> </tr> <tr> <td>The yield on 5-year Treasury Constant Maturities or 7-year Treasury Constant Maturities</td> <td style="text-align: center;">25 basis points</td> </tr> <tr> <td>The yield on 10-year Treasury Constant Maturities or any longer period Treasury Constant Maturities</td> <td style="text-align: center;">0 basis points</td> </tr> <tr> <td>Annual rate of change of the Consumer Price Index</td> <td style="text-align: center;">3 percentage points</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The rate of increase with respect to an eligible cost-of-living index described in the minimum required distribution rules, increased by 300 basis points; and • The rate of interest on long-term investment grade corporate bonds prior to PPA for plan years beginning prior to 2008 and the third-segment bond rate under Code section 430 for subsequent plan years. 	Standard Index	Associated Margin	The discount rate on 3-month Treasury Bills	175 basis points	The discount rate on 6-month Treasury Bills or 12-month Treasury Bills	150 basis points	The yield on 1-year Treasury Constant Maturities	100 basis points	The yield on 2-year Treasury Constant Maturities or 3-year Treasury Constant Maturities	50 basis points	The yield on 5-year Treasury Constant Maturities or 7-year Treasury Constant Maturities	25 basis points	The yield on 10-year Treasury Constant Maturities or any longer period Treasury Constant Maturities	0 basis points	Annual rate of change of the Consumer Price Index	3 percentage points
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SOURCES: Proposed Regulations §1.411(a)(13)-1, §1.411(b)(5)-1

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