

The Plain Old Pension Plan (POPP)

The Plain Old Pension Plan (POPP) is a straightforward career-average defined benefit plan that simplifies funding rules and administration while providing employers with an opportunity to vary benefit accruals from year to year without formal plan amendments. POPP also permits employers to provide generous past-service credits, which should make the plan attractive to firms that wish to provide meaningful benefits to employees with long tenures at the time of plan adoption. Though it is available for employers of any size, POPP is designed to be an appealing option for small- and middle-sized firms that want to offer their employees the flexibility of a defined benefit plan.

Key features of POPP:

- **Simplicity:** POPP is a simplified traditional defined benefit plan that provides a modest basic benefit to allay employer concerns about committing to large future pension-funding obligations. The basic benefit is based on a percentage of an employee's career-average pay, which can be as low as one percent, multiplied by the number of years of service, which would be paid to the employee as monthly income starting at the point of retirement.
- **Flexible benefits:** The plan would allow employers to fund "bonus benefits" in any given year, which would raise the final benefit without having the bonus benefits become part of the permanent benefit structure. This means that employers can increase benefits in years they have good financial performance, and provide only the basic benefit in years when the company does not perform as well.
- **Predictable funding and simple administration:** Contributions would be made under conservative actuarial assumptions using government-authorized tables. This would simplify administration and allay employer concerns about the potential volatility of the funding liability.
- **Simplified funding rules:** The plan would be subject to periodic actuarial valuations. Investment experience would be smoothed by using a five-year rolling average of asset valuation. Investment shortfalls would be funded in installments over a seven-year period.
- **Expanded coverage for workers:** POPP covers all workers who meet the plan's minimum service requirement, including part-time employees. Employers would not be required to provide a POPP to seasonal workers but could, if they wish.
- **Rewards for past service:** The plan permits a generous past-service credit at the time of adoption or for future benefit increases. Past-service credit would vest and be funded pro-rata over seven years from the year adopted – an appealing feature for small-business owners.



- **Employee contributions allowable:** An employer can design a POPP that permits employees to make pre-tax salary-reduction contributions to increase their retirement benefit. Benefits would be determined using the same actuarial tables as the employer. This allows the best of both worlds. While it is primarily an employer-funded plan, which is appealing to low-income workers, those who can afford to will be able to contribute more money.
- **401(k) feature option available:** The employer could also offer a separate 401(k) plan with an employer match for employer contributions and profit-sharing contributions that would be invested in the 401(k) plan's investment options.
- **Benefit must be paid out as an annuity:** All benefits from the plan would be paid in the form of a qualified joint and survivor annuity. Lump-sum distributions would not be permitted except when the benefit is worth less than \$5,000.
- **Benefits transferable to PBGC for plan terminations:** To further simplify administration, benefits for terminated employees could be transferred to the Pension Benefit Guaranty Corporation (PBGC) for future payout. Or, they could be held in the plan for distribution at retirement age. Plans could cash out employees with less than \$1,000 in benefits.
- **Lower PBGC insurance premiums:** The plan would be insured by the PBGC and employers would pay a premium of \$5 per participant per year, lower than the cost charged traditional plans.
- **Option to convert to a traditional defined benefit plan:** POPP could be amended at any time to a traditional defined benefit plan. The converted plan would be permitted to use all available nondiscrimination testing methodologies available to defined benefit plans for future benefit accruals.

For more information about POPP, visit www.conversationoncoverage.org or call Karen Friedman at 202-296-3776.