

# *Retirement: A Step – by – Step Guide to the Process #4*

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**O**ur last article dealt with turning 35 and choosing or opting out of the Qualified Pre-Retirement Spousal Annuity (PSA). This article deals with some plan changes as a result of the General Agreement on Tariffs and Trade (GATT) which will come into play in the year 2000. Are you ready for Y2K?

### **What is GATT?**

GATT was approved in early December of 1994. Included in GATT was the Retirement Protection Act (RPA), a bill designed to im-

prove the financial health of the Pension Benefit Guaranty Corporation. The PBGC is the quasi-government organization which oversees the funding of retirement plans. RPA changed some basic assumptions which have been used by retirement plans in the calculations of Maximum Lump Sums and Minimum Lump Sums. The application of RPA changes to the Retirement Income Plan for Pilots of US Airways, Inc. was delayed until January 1, 2000. Here's a brief overview as was presented to ALPA by the Company in 1995:

*“ RPA changed some basic assumptions which have been used by retirement plans in the calculations of Maximum Lump Sums and Minimum Lump Sums. ”*

### **This is an example of how a lump sum retirement paymet is calculated for a US Airways pilot:**

**Sample Pilot: Age 58 with a life annuity of \$7,000 per month (contractual amount without regard to government limits); lump sum payable in May 1995**

$$\text{Lump Sum} = \$7,000 \times 12 = \$84,000 \times 10.5433 = \$885,637$$

(10.5433 factor is based on UP84 Mortality Table and 120% of the PBGC immediate interest rate for May 1995, which is 120% of 5.5% or 6.6%.)

### **Prior to GATT, a lump sum was calculated as follows:**

Bear with us, now, it gets complicated from here:

#### **1. Maximum Qualified Lump Sum before GATT Legislation**

$$\$6,791.67 \times 12 = \$81,500 \times 10.5433 = \$859,279$$

(10.5433 Factor is based on UP84 Mortality Table and 120% of the PBGC immediate interest rate for May 1995, which is 120% of 5.5%, or 6.6%.)



**2. Maximum Lump Sum after GATT Legislation, but before the IRS issued its guidance in the form of Revenue Ruling 95-29:**

$$\$6,849.67 \times 12 = \$82,196 \times 10.9668 = \$901,427$$

(10.9668 Factor is based on 1983 GAM Unisex Table and 7.36% 30-year Treasury Monthly Average Interest rate for April 1995.)

**3. Maximum Lump Sum after GATT Legislation and after Revenue Ruling 95-29:**

$$\$6,849.67 \times 12 = \$82,196 \times (\text{lesser of } 10.9668 \text{ or } 10.5433) = \$866,617$$

(10.9668 Factor is based on 1983 GAM Unisex Table and 7.36% 30-year Treasury Monthly Average Interest rate for April 1995. 10.5433 factor is based on UP84 Mortality Table and 120% of the PBGC immediate interest rate for May 1995, which is 120% of 5.5% or 6.6%.)

As you can see from the above example, Revenue Ruling 95-29 is being interpreted by the Company as a requirement to base the lump sum factor used in determining the maximum lump sum amount payable under the qualified defined benefit plan to the lesser of (1) the Plan's lump sum annuity factor, i.e., UP84 mortality and 120 percent of the PBGC rate, or (2) an annuity factor based on the 30-year Treasury rate and the 83 GAM Table. This guidance requires them to limit the amount of the lump sum payable from qualified plan funds. This results in more monies having to come from unqualified (Top Hat) sources. If you need more explanation of Qualified vs. Non-Qualified sources, see the article in the October, 1998 issue of *US AIRWAVES*.

If you look at the examples, you can see that the end result between (1) and (3), is still an increase over where it was prior to GATT. If you are looking for more information on GATT's impact on retirement, there are a number of Websites including the PBGC's own site at <http://www.PBGC.gov>.

You should have received your annual benefits statement at the end of May. Please check your credited service and personal data care-

fully and report any discrepancies to the Human Resources National Service Center at 800-872-4780.

**Corrections**

There are a couple of corrections to the first and second articles. In the first retirement article, we mentioned that the 50 Percent J & S Annuity is paid to your spouse until she dies or remarries. This is not the case—it is paid until she dies without regard to her marital status. In the second article, the availability of the lump sum is dependent on the T-BOND rate at its close at the end of the year.

Watch for the next installment in the next issue of *US AIRWAVES*. If there are topics regarding retirement that you would like to see addressed in these upcoming articles or you have a comment about this series, call a member of your Retirement & Insurance Committee as listed in the gray pages, or your Benefits Specialist, Karen Browne at the MEC office at 800-872-4763 or ASPEN 2146. We look forward to hearing from you.



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