Employee Benefits Survey

People are asking...

What is a floor-offset plan?
Answer: A floor-offset plan is a feature of a defined benefit (DB) plan that coordinates benefits from that plan with those of a defined contribution (DC) plan.

The employee's annual benefit in the defined benefit pension-the floor-is offset by the annual annuity value of the contribution plan. (The annual annuity value of a defined contribution plan, such as a deferred profit sharing plan, is the dollar amount available each year if the account balance at retirement were used to purchase an annuity, using standard assumptions for interest rates and life expectancy.) Only employer contributions and the earnings on those contributions are taken into account to determine the DC account value; employee contributions and associated earnings are not included in the floor-offset calculation.

Essentially, a floor-offset feature works in the following way: A guaranteed benefit level is established in the defined benefit plan -based on age, service and/or compensation. If the annuity value of the defined contribution plan is equal to or greater than the guaranteed level of the DB plan, all of the benefit will come from the DC plan. However, if the annuity value of the account balance of the DC plan is less than the guaranteed benefit of the DB plan, the DB plan will make up the difference.

To be part of a floor-offset arrangement, a defined contribution plan must meet certain conditions related to type of plan and plan provisions. The Tax Reform Act of 1986 prohibited a 401(k) plan from being part of a floor-offset arrangement. Congress also passed legislation in 1986 eliminating employee stock ownership plans (ESOPs) as part of a floor-offset arrangement beginning December 18, 1987. Plans established before that date were grandfathered. Most floor offset arrangements involve a deferred profit sharing plan or a money purchase plan. In order for there to be a floor offset plan, the defined benefit plan must be non-contributory since 1994, the DB and DC plans must apply to the same employees, the offset must be applied in the same way to all employees in the DB plan, and the DC plan must offer all employees the same investment options and pre-retirement distribution timing options.

The Pension Benefit Guaranty Corporation (PBGC) is responsible for protecting the participants' pensions in defined benefit plans by providing payment of benefits in the case of terminated plans. Under a floor-offset arrangement, the PBGC would only insure those benefits that are not offset by the DC plan-the guaranteed benefit level under the DB plan. It would not insure the full benefit of the DB plan.

Typical language used to describe floor-offset arrangements

Plan 1-If you receive benefits from another retirement plan, your company's retirement plan benefits will be reduced by an amount equal to the benefits you receive from another retirement plan (except company's 401(k) plan) to which the company has contributed, provided that such plan bases its benefits on the same period of service counted as benefit service by this plan. In no case will the company retirement plan be reduced so that the total benefit amount is less than if you had participated only in this plan.

If both you and the company contributed to the other plan, the reduction in the company's retirement plan benefits will be calculated only on those benefits that represent the company's contributions.

Plan 2-If you are entitled to retirement benefits for the same period of the company's employment under both this plan and another plan to which the company or associated company has contributed, benefits under this plan will be offset by benefits from the other plan.

Plan 3-If you are covered by more than one pension plan that is sponsored or contributed to by the company, benefits under this plan will be reduced by any payments you receive from the other plan for the same period of service.

Plan 4-The formula would be the DB plan minus the actuarial equivalent of the benefits funded by employer contributions determined as of the retirement date under the company's profit sharing plan, including the actuarial equivalent of any distribution made from such plan prior to such date.

For more information on retirement plans, go to http://www.bls.gov/ncs/ebs/.

Last Modified Date: May 9, 2002

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