Caterpillar Tractor Co. v. Commissioner, 72 T. C. 1088 (1979)

A pension plan must fully vest an employee's accrued benefits upon reaching normal retirement age, even if the employee does not meet a service requirement.

Summary

Caterpillar Tractor Co. 's noncontributory pension plan required employees to have 10 years of service to receive retirement benefits at age 65. The U. S. Tax Court held that this plan did not qualify under IRC section 401(a) because it violated section 411(a)'s requirement that benefits be nonforfeitable at normal retirement age. The court reasoned that ERISA's legislative history indicated full vesting at retirement, regardless of service, was necessary to prevent loss of pension rights, and prior administrative practices allowing service requirements at retirement were superseded by ERISA.

Facts

Caterpillar Tractor Co. amended its noncontributory pension plan on December 17, 1976, to set the normal retirement age at 65 and mandatory retirement at 66. Employees needed at least 10 years of credited service to receive any retirement benefits. This meant employees hired after age 56 could never receive benefits. The IRS initially approved the plan but later issued an adverse determination after reviewing employee complaints, stating the plan violated IRC section 411(a).

Procedural History

Caterpillar sought a declaratory judgment from the U. S. Tax Court that its plan qualified under IRC section 401(a). The IRS issued a favorable determination in November 1977, but reversed this after receiving complaints from employees. The IRS's final adverse determination in October 1978 led to Caterpillar's appeal to the Tax Court.

Issue(s)

1. Whether Caterpillar's pension plan, which required 10 years of service for benefit eligibility at normal retirement age, met the nonforfeitability requirement of IRC section 411(a).

Holding

1. No, because the plan's 10-year service requirement at normal retirement age violated section 411(a)'s mandate that an employee's right to normal retirement benefits be nonforfeitable upon reaching normal retirement age.

Court's Reasoning

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The court interpreted the legislative history of ERISA to mean that an employee's accrued benefits must be fully vested at normal retirement age, regardless of service requirements. The court cited the Conference Committee's addition of the clause requiring nonforfeitability at normal retirement age and the Joint Explanatory Statement's emphasis on 100% vesting at retirement. The court rejected Caterpillar's argument that setting the benefit at zero for employees with less than 10 years of service was permissible, noting that ERISA aimed to prevent loss of pension rights due to service requirements. The court also acknowledged prior IRS rulings allowing service requirements at retirement but found these were superseded by ERISA. The court did not need to address the IRS's alternative argument regarding section 410(a)(2) since the plan failed under section 411(a).

Practical Implications

This decision clarified that pension plans must fully vest employees' accrued benefits at normal retirement age, even if they do not meet service requirements. This ruling likely led employers to amend their plans to comply with this interpretation of ERISA, ensuring that all employees receive vested benefits at retirement. The decision may have discouraged the hiring of older workers, as employers could not avoid vesting obligations by imposing service requirements. Subsequent cases and regulations have likely followed this precedent, reinforcing the requirement for full vesting at retirement age.

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