

*Don't Shoot the Messenger:
A 2009 PPA Update*

**Breakout Session
Actuaries Club of Boston Annual Meeting**

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Ground rules

- General issues
 - Introduction
 - Calendar-year plans
 - Beginning of year valuations
 - Plans with more than 500 participants
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Topics

- Timing of funding valuations
 - Discount rate
 - Funding balances
 - AFTAP certifications
 - Other
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Timing of Funding Valuations

- COB/PFB as of the beginning of the current plan year (e.g., 1/1/2009) may not be known until the last day that contributions can be made for the prior plan year (e.g., 9/15/2009); this gives the actuary about a month to:
 - Certify AFTAP
 - Finalize valuation report
 - Prepare 5500/Schedule SB and PBGC filings
 - Obtain PFB election from plan sponsor

Timing of Funding Valuations (continued)

- What can be released prior to the date the valuation report is certified?
 - SFAS No. 35 results
 - PVABs only?
 - Reports marked "preliminary" may be rejected
 - Preliminary funding results
 - Quarterly contribution requirements
 - Estimated cash contribution amounts
 - "Management" of COB/PFB

Discount rate

- Naming convention?
 - For a January 1, 2009 valuation date, are we using the "IRS yield curve for January 2009" or the "IRS yield curve for December 2008 published in January 2009"?
 - Similar for segment rates: the "IRS segment rates applicable for January 2009" are used for January 1, 2009 valuation dates
 - Reflects the 24-month average of the spot segment rates for January 2007 through December 2008, inclusive

Discount rate (continued)

- Initial choices:
 - Default assumption: three segment rates with transition
 - 2/3 of the corporate bond average rate plus 1/3 of the 24-month average segment rates for 2008
 - 1/3 and 2/3, respectively, for 2009
 - Use rates for valuation month, or any of the four months preceding the valuation month
 - Election #1: three segment rates without transition
 - Use rates for valuation month, or any of the four months preceding the valuation month
 - Election #2: full yield curve without 24-month averaging
 - Must use the spot rates for the month preceding the valuation month*

* See next slide

Discount rate (continued)

- Modification from the IRS (March 31, 2009):
 - Same choices, but "funding relief" available:
 - Similar "lookback" is available for sponsors using a yield curve for the plan year 2009 valuation
 - This posed questions:
 - If segment rates were "elected" for the plan year 2008 valuation, could sponsor switch to a yield curve for the plan year 2009 valuation?
 - If the October 2008 yield curve (published in November 2008 ©) was used for the plan year 2009 valuation, does this preclude the use of segment rates for the plan year 2010 valuation?

Discount rate (continued)

- Word on the street?
 - Sponsors can switch back to segment rates for plan year 2010 valuations (if the October 2008 yield curve was used for plan year 2009 valuations)
 - Effectively, this represents a "free-pass" for plan year 2009 valuations
 - Would also make the "alternative method" for PBGC variable rate premiums more attractive?

Funding Balances and Adjusted Assets (continued)

□ When to subtract funding balances from assets (continued):

Purpose	Subtract COB?	Subtract PFB?
Eligibility to use COB/PFB to offset MRC	No	Yes
Quarterly contribution requirement	Yes	Yes
ERISA §4010 filing – 80% test	Yes	Yes
ERISA §4010 filing – \$15M underfunded test	No	No
PBGC variable rate premium	No	No

Source: 2009 EA Meeting, session 402/501, with minor modifications

Funding Balances – Irrevocable Elections

□ 2009 Gray Book Q&A 10:

- “Proposed regulation §1.430(f)-1(f)(1) requires an election to reduce balances to include the “specific amounts” involved in the election with respect to the prefunding balance or carryover balance. That amount of elected reduction cannot be changed later. Note that the reduction election must be for a specific dollar amount. The proposed regulations were not intended to allow for a formula approach.”

Funding Balances – Irrevocable Elections (continued)

□ 2009 Gray Book Q&A 10 (continued):

- “Irrevocable” means that the amount cannot be changed, even in the case of errors and/or unavailable results
- “Specific dollar amount” precludes the use of language such as “an amount necessary to avoid benefit restrictions under §436” or workarounds such as “\$1 billion”
- Final regulations?
- How is “irrevocable” enforced if:
 - No prescribed format (yet) for such elections
 - No requirement (yet) to attach elections to Form 5500

*Funding Balances –
Irrevocable Elections (continued)*

- Can use COB/PFB to satisfy quarterly contributions if:
 - Plan sponsor makes a written election
 - $(\text{Assets} - \text{PFB}) / \text{FT} > 80\%$ for prior year
 - COB/PFB actually exists as of the quarterly due date
 - Contributions must be in the trust and plan sponsor must have elected to create a PFB
 - Beware of “deemed waivers”

*Funding Balances –
Irrevocable Elections (continued)*

- Issues:
 - What happens if amount of quarterly is not known as of the due date?
 - What if final guidance is not available as of the due date?
 - Under what circumstances is it optimal to preserve funding balances?

AFTAP Certifications

- IRC §436 requires them; no definitive guidance on:
 - Format
 - Actuary’s responsibility regarding timing

*AFTAP Certifications
(continued)*

- AAA Pension Committee Practice Note, released August 2009:
 - Q&As 1 and 2: AFTAP certification is a statement of actuarial opinion (SAO) and subject to:
 - ASOP No. 4 (Measuring Pension Obligations)
 - ASOP No. 23 (Data Quality)
 - ASOP No. 27 (Economic Assumptions)
 - ASOP No. 35 (Demographic Assumptions)
 - ASOP No. 44 (Asset Valuation Methods)
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*AFTAP Certifications
(continued)*

- AAA Pension Committee Practice Note, released August 2009 (continued):
 - Q&A 3: "It is generally expected that the actuary would issue an actuarial report providing adequate documentation supporting the AFTAP certification."
 - Q&A 8: "...[Regarding timing], the EA may wish to consult with legal counsel ... [I]n general, it appears that the plan administrator controls the timing of the AFTAP certifications and the EA will follow the plan administrator's instructions."
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*AFTAP Certifications
(continued)*

- Issues persist
 - Who really controls the timing?
 - Required format?
 - When must a certification be revised?
 - 2009 Gray Book Q&A 18: required whenever a change in AFTAP is "material" (what does "material" mean?)
 - Should the AFTAP reported on the Schedule SB match the last-issued certification? (yes)
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Actual return on plan assets?

- Prior to 2009, the "2*1 / (A + B - 1)" rate of return was a "for your information only" entry on the Schedule B
- The "actual" rate of return on plan assets for 2008+ takes on more significance
 - Affects the roll-forwards of the COB and PFB
 - No definitive guidance on this calculation (yet)
 - Although, some would point to Notice 2009-22 as a big hint
 - Proposed reg. §1.430(f)-1(b)(3) indicates that it is based on the fair market value of assets (not actuarial value)
 - Is "evenly distributed" assumption (e.g., benefit payments, expenses, etc.) still ok?
 - What about "other" adjustments (e.g., payables and non-contribution receivables)?
 - How should this calculation be documented?

Discussion

- Final regulations?
- Funding relief?
- Elections (and format)?
- Other?

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