ERRATA AND ADDITIONS TO
EA-2A COURSE OUTLINE AND REVIEW QUESTIONS
2008 EDITION

The final syllabus, effective July 1, 2008, for the EA-2A exam includes a general condition that excludes the effect of the quarterly contribution liquidity shortfall requirements on minimum funding standards from the 2008 EA-2A exam (exam general condition number 44). As a result, it would appear that the material on pages 96 through 107 of the manual can be ignored (including question numbers 33 through 37).

The suggested reading list also has kept intact all of the Revenue Rulings, Notices, Procedures and Announcements that were previously listed. It should be noted that many of these items are outdated, and others now apply only to multiemployer plans. The following Revenue Rulings listed on pages 397 through 402 apply only to multiemployer plans: 77-2, 78-48, 81-13, 81-213, 81-214, 82-125, 85-131, 95-28, 96-7, 2000-20, 2003-83. Revenue Notice 90-11 described on page 403 currently applies only to multiemployer plans. Most of Revenue Procedure 2000-40 described on page 405 now applies only to multiemployer plans. Note that the comments in the outline suggesting that some of these items are obsolete still are true. It is not likely that most of these items would be tested.

Although the proposed regulations concerning minimum funding for single employer plans cannot directly be tested, it may be of value to review these regulations (especially the examples) to better understand the rules. These proposed regulations are:

1.430(a)-1	Determination of minimum required contribution
1.430(d)-1	Determination of funding target and target normal cost
1.430(f)-1	Prefunding and funding standard carryover balances
1.430(g)-1	Valuation of plan assets
1.430(h)(2)-1	Determination of interest rates
1.430(i)-1	At-risk plans
54.4971(c)-1	Excise tax on failure to satisfy minimum funding standards

One new Revenue Ruling has been added to the recommended reading list. The following is a summary of that ruling.

2007-67: This ruling deals with the determination of the applicable interest rate and mortality table used for purposes of distributions subject to IRC section 417(e)(3) – generally lump sum distributions – under the Pension Protection Act. For distributions that occur after 2007 (or after the last plan year beginning in 2007, for non-calendar year plans), the applicable interest rate will be determined based upon the segmented interest rates, and the applicable mortality table will be the designated mortality table for IRC section 417(e) purposes (the 2008 applicable mortality table for the 2008 year). In addition, the change in interest rate and mortality table from the pre-PPA rules will not constitute a prohibited reduction in benefit under IRC section 411(d)(6).

IRS regulation 1.417(e)-1 has been added to the recommended reading list. This regulation, like Revenue Ruling 2007-67, concerns distributions (primarily lump sum distributions) under IRC section 417(e)(3). It is not likely that detailed questions would be asked concerning this regulation, since it applies more with respect to the EA-2B syllabus rather than EA-2A. The following is an outline of key points from this regulation.

- The lump sum value of an accrued benefit cannot be less than the value determined using the applicable interest rate and the applicable mortality table (see IRC section 417(e)(3)). Note that prior to 2000, the minimum lump sum value under IRC section 417(e)(3) was based upon PBGC interest rates and plan actuarial equivalence mortality. All references to the PBGC interest rates should be ignored.
    - The applicable interest rate is re-determined for each stability period. A stability period can be one calendar month, one plan quarter, one calendar quarter, one plan year, or one calendar year.
    - The applicable interest rate is the rate in effect for any of the five full calendar months preceding the beginning of the stability period. This is the look-back period. The interest rate used to determine the minimum lump sum value can use an average of any two or more of the interest rates from these 5 months.
    - If the look-back period is changed by plan amendment, the lump sum value under the old look-back month definition must be protected for one year from the effective date of the amendment (or the adoption date, if later) in order to avoid a violation of the anti-cutback rules of IRC section 411(d)(6).

The following is a listing of the known errata and additional comments as of 8/18/2008:

Page 6: In the data for question 2, the following sentence should be added:

The plan was amended to cease benefit accruals on 1/1/2008.

This will ensure that the target normal cost (which is not pro-rated) is $0, and the entire minimum required contribution would then be pro-rated, as the solution suggests.

Page 22: In the first bullet point under "changes in actuarial assumptions" the word "any" should be replaced by "all."

Page 41: The proposed regulation dealing with the amortization of a 2007 waived funding deficiency is unclear about which interest rate is to be used to amortize it, as well as the determination of the 1/1/2008 outstanding balance. The problem is that the 2007 waived deficiency is first amortized in 2008, so no interest rate was set to amortize it in 2007. It is not expected that a question such as this one would appear on the 2008 exam due to the lack of clarity. However, it would make the most sense, given the wording of the regulation, that the present value of the 2007 waived deficiency as of 1/1/2008 would be determined using the 2008 segmented interest rates, to be consistent with all other amortization bases under PPA. Since the first payment towards the deficiency is to be made on 1/1/2008 and the last payment on 1/1/2012, each payment is discounted using the first segment interest rate of 5.5% (all payments are within 5 years of the valuation date of 1/1/2008).

Outstanding balance of 2007 waived deficiency = $\$6,689 \times \ddot{a}_{\overline{5}|.055}$
$= \$30,135$

Based upon the revised outstanding balance, the excess of the funding shortfall over the outstanding balance of the waiver amortization base is:

$20,000 - $30,135 = ($10,135)

This will still result in a net negative amortization charge for all of the shortfall bases, and the final answer to the question is unchanged.

Page 48: The reference to IRC section 430(f)(6) should read 430(f)(5).

Page 66: The determination of the target normal cost in part c of this question if the plan was not at-risk would have been recalculated since the equivalence factor of the optional form has changed to 85%. The last two paragraphs of the solution to question 18 at the bottom of page 66 should be replaced as follows:

However, the at-risk target normal cost cannot be less than the target normal cost without the at-risk assumptions. This must be revised from part a, since the adjustment factor for electing the optional form has changed (changing the optional benefit to \$850). The revised not at-risk target normal cost is:

$$\begin{aligned}\text{Target normal cost} &= (1{,}000 \times \ddot{a}^{(12)}_{65(4.85\%)} \times v^{27}_{.0485} \times 70\%) \\ &\quad + (850 \times (\ddot{a}^{(12)}_{\overline{10}|.0485} + {}_{10|}\ddot{a}^{(12)}_{65@4.85\%}) \times v^{27}_{.0485} \times 30\%) \\ &= (1{,}000 \times 9.131 \times 0.27839 \times 70\%) \\ &\quad + (850 \times 10.353 \times 0.27839 \times 30\%) = 2{,}514\end{aligned}$$

The target normal cost for the plan if it is not at-risk is less than the at-risk target normal cost, so the target normal cost would be 2,542. Note that had the 5-year phase-in applied, it would be applied to the at-risk target normal cost before comparison to the not-at-risk target normal cost.

Page 69: Note that although the plan is at-risk for 2008 (meaning that the funding target attainment percentage from 2007 must have been less than 65% -- the transition percentage used for determination of at-risk status for 2008), that does not necessarily mean that the plan was not at least 80% funded for purposes of the ability of the plan sponsor to elect to use the funding standard carryover balance in 2008. Recall that for this purpose, the funding standard carryover balance is not subtracted from the actuarial value of the assets, to the funded percentage would be larger than the funding target attainment percentage used to determine the at-risk status of the plan.

Page 74: It is unclear in this question whether the funding standard carryover balance is to be applied before or after the contribution for 2008. As a result, the following sentence should be added to the data for question 22:

The plan sponsor elects to apply only the portion of the funding standard carryover balance required to avoid a funding deficiency for 2008 after the contribution for 2008 is taken into account.

Page 93: In the data for question 31, the \$160,000 contribution deposited on 12/31/2010 is a contribution for 2010 (not 2009).

Page 169: A flaw has been pointed out concerning question 58 with regard to IRC section 415. Since there is no past service, and the contribution exceeds the earned income for Smith, the "salary" for Smith for 2008 is $0, making his 415 compensation $0. The $10,000 de minimis benefit would then apply, making his maximum monthly benefit after 1 year of service under IRC section 415 $10,000/12 x 1/10 = 83.33, which is less than the $500 per month given as the plan benefit formula and used to determine the target normal cost. In order to avoid this problem (and allow the solution to remain unchanged), the following changes are made to the data:

Date of hire for Smith: 1/1/2004
Earned income for Smith for each year prior to 2008: $30,000
Plan benefit formula is based upon years of plan participation rather than years of service.

Page 171: In the last bullet point, the reference to the "ERISA" full funding limit should be replaced simply with the full funding limit. The actual exemption from the excise tax for nondeductible contributions is on any contributions that do not exceed the full funding limitation, not specifically the ERISA limitation.

Page 178: The references to the "ERISA" full funding limit should be replaced simply with the full funding limit.

Page 199: This question was updated from a prior version of the outline to reflect the fact that is applies only to multiemployer plans beginning in 2008. However, one issue that was not updated was the fact that experience gains and losses for multiemployer plans are amortized over 15 years (they were amortized over 5 years for single employer plans). The solution to the question is correct; however, there is another way to solve this question, using the balance equation to determine the 1/1/2008 expected unfunded liability rather than simply adding the unamortized balances. Unfortunately, since the solution was not updated to reflect the 15 year amortization period for the $50,000 experience loss from 2006, using the balance equation does not produce the same result as simply adding the unamortized balances. This will be corrected for next year's edition of the outline; a quick fix would be to change the unamortized balance of as of 1/1/2008 of the $50,000 base from 40,880 to 47,561. This change will result in a 2007 gain of 19,561 (rather than 12,880). The value of M is then 9 (rather than 8), and the combined base period becomes 8.68, which is still rounded up to 9. The combined base is still $380,000, so that final answer is unchanged

Page 228: The references to "QJSA" in the middle of the page should be "QPSA."

Page 263: Note that this question differs from question 90 in that there is not enough information to determine the 12/31/2007 benefit that might be grandfathered due to the implementation in 2008 of the 401(a)(17) compensation limit. The data for the question does not provide either the exact salary history for the participant, or the plan benefit formula. On exam questions, if there is insufficient information to make the type of grandfathering determination as was performed in question 90, assume that there is no grandfathered accrued benefit.

Page 282: Brown is also a 1% owner earning more than $150,000.

Page 296: In the determination of the 5-year average compensation for Smith in the solution to question 113, the 2003 and 2004 compensation must be limited to the IRC section 401(a)(17) limit of $200,000 and $205,000, respectively. Compensation for years after 2004 does not exceed the IRC section 401(a)(17) limits for those years.

Page 302: The reference to a 5-year amortization in the first bullet point should be a 15 year amortization, since this now only applies to multiemployer plans.

Page 311: The reference to a 5-year amortization in the last bullet point should be a 15 year amortization, since this now only applies to multiemployer plans

Page 328: The temporary annuity for amortizing the PVFNC can be determined by taking the ratio of the PVFNC to the normal cost, before the proposed amendment and change in actuarial assumptions.

Temporary annuity = 55,000/5,000 = 11

Page 339: Towards the bottom of the page, the line that reads "The total unfunded liability" should be ignored.

Page 399: With regard to the summary of Revenue Ruling 81-213, this ruling now only applies to multiemployer plans. As a result of that, the second sentence in the summary should be deleted (regarding the 5-year amortization), and the reference to a 5-year amortization in the last sentence should be a 15-year amortization.