

ERRATA AND ADDITIONS TO EA-2A COURSE OUTLINE AND REVIEW QUESTIONS 2007 EDITION

Note that this errata is in addition to that listed in the errata file posted 9/4/2007.

Page 13: In the third bullet point from the bottom, it states that a transition rule may be elected. Actually, the transition rule is the default – the election would be not to use the transition rule.

Page 30: In the table of annuity values provided in the original errata file, $\ddot{a}_{65:10|}^{(12)}$ should read $\ddot{a}_{10|}^{(12)} + {}_{10|}\ddot{a}_{65}^{(12)}$.

Page 31: In the solution to question 9 provided in the original errata file, the references to $\ddot{a}_{65:10|(4.85\%)}^{(12)}$ should be replaced by $(\ddot{a}_{10|}^{(12)} + {}_{10|}\ddot{a}_{65}^{(12)})$, with each annuity determined at 4.85% interest.

Page 80: The third bullet point from the bottom of the page states that if any contribution is made to the defined contribution plan but does not exceed 6% of compensation, then the rules of IRC section 404(a)(7) apply to the defined benefit plan. There is currently a proposed technical correction changing this provision so that IRC section 404(a)(7) only applies to either plan if the contribution to the defined contribution plan exceeds 6% of compensation. The IRS has recently announced that although this is a proposed correction, they will operate as if it is finalized. Technically, this cannot be tested on the 2007 EA-2A examination since it is a change that is enacted after June 30, 2007. However, at the same time, they cannot test the old incorrect rule either. This bullet point should be ignored for purposes of the 2007 EA-2A examination.

Page 104: The following statement should be added to the question. “There are 50 participants in each plan.”

Page 113: The \$300,000 entry age normal accrued liability is the **unfunded** liability.

Page 131: The amortization of the gain or loss due to a change in actuary or valuation software is 15 years for multiemployer plans (5 years for single employer plans prior to 2008)

Page 133: The valuation results in the table should be as of 1/1/2008 (not 1/1/2007).

Page 137: The \$1,500 loss should be for 2006, not 2007.

Pages 154-155: In adjusting the 415 dollar limit for retirement before age 62 or after age 65, if there is no optional benefit at either age payable in a form of a life annuity, adjustment is made only using the statutory assumptions (5% interest and the applicable mortality table) and the adjustment using actuarial equivalence is ignored. This is new for years beginning after June 30, 2007. It is rare that a question like this has come up on an exam, but question 36 from the 2005 EA-2B exam is an example. In addition, for purposes of the adjustment for a non-417(e)(3) form of benefit, if there is no straight life annuity option available under the terms of the plan, then the adjustment to the dollar limit also uses only the statutory assumptions, not the plan equivalence. Note that question 65 on page 164 is still correct as is, since it takes place in 2003. If the question took place for a benefit payable on 1/1/2008, then plan equivalence would be ignored; however, the same result would be obtained since in this question, the statutory assumptions ended up applying.

Page 174: The last part of the solution to question 69 was left out of the manual. The following is the last part of the solution.

Note that effective for 2008, the compensation limit under IRC section 415(b) must be recalculated by limiting the compensation under IRC section 401(a)(17). The compensation limit as of 1/1/2008 is:

$$\frac{210,000 + 220,000 + 225,000}{3} = 218,333$$

The dollar limit for 2008 also changes since the 2008 dollar limit is \$185,000. Clearly, the overall 415(b) limit for 2008 is equal to the compensation limit of \$218,333, since that is smaller than the dollar limit adjusted to age 70. Normally, the plan benefit of \$262,000 would be limited to the \$218,333 compensation limit. However, IRS regulation 1.415(a)-1(4)(g) provides that the accrued benefit determined without the limitations of IRC section 401(a)(17) as of 12/31/2007 (the end of the limitation year prior to the limitation year beginning after 6/30/2007) can be grandfathered. Therefore, the benefit payable to Smith as of 1/1/2008 remains \$262,000.

Page 186: In part I of the solution to question 75, the minimum reduction is 1/10 (not 1/20).

Page 203: The plan effective date in question 85 should be 1/1/2006 (not 1/1/2000).

Page 211: This is a duplicate of question 42 and can be ignored. Note that the solution to question 90 does not match the question.

Page 235: The salaries used for Smith and Brown have been increased to retirement with the salary scale. Smith is 6 years from retirement, and Brown is 26 years from retirement. The determination of their retirement benefits with the detail of the determination of the salary is:

Retirement benefit for Smith = $108,000 \times 1.04^6 \times .01 \times 15$ years of service = 20,498

Retirement benefit for Brown = $36,000 \times 1.04^{26} \times .01 \times 29$ years of service = 28,945

For purposes of determining annuities in the calculation of the present value of future salary for Smith and Brown, the implicit interest rate j must be used, and is equal to $1.07/1.04 - 1 = .028846$.

Page 236: The years at the bottom of the page regarding the totals for Smith and Brown should be 2007 (not 2004).

Pages 100 – 103: The solutions to questions 36 through 38 have been revised to reflect proposed technical corrections to IRC section 404(a)(7) – see the note about page 80 above – as well as incorporating the additional 6% of compensation that is deductible for a defined contribution plan when deductions are otherwise limited under IRC section 404(a)(7) per Revenue Notice 2007-28, Q&A 8. The revised solutions to these questions follow.

Revised Solution to Question 36, page 100

IRC section 404(a)(7) applies when contributions (other than employee deferrals) are made to both a defined benefit plan and a defined contribution plan with at least one participant in common. If a contribution (other than for employee deferrals) of more than 6% of compensation is made to the defined contribution plan, then IRC section 404(a)(7) applies to both the defined benefit and the defined contribution plan. According to IRC section 404(a)(7)(C)(iii) and Revenue Notice 2007-28, Q&A 8, the first 6% of compensation that is contributed to the defined contribution plan is exempt from deduction limitation under IRC section 404(a)(7).

The deductible limit to the two plans cannot exceed the greater of 25% of compensation (\$500,000) or the defined benefit minimum (\$370,000). This is \$500,000. Since \$120,000 (the first 6% of compensation contributed to the defined contribution plan) is not limited under IRC section 404(a)(7), only the additional \$110,000 of the \$230,000 contributed to the profit sharing plan (other than the employee deferrals which are always deductible under IRC section 404(n)) must be considered. The maximum deductible contribution to the defined benefit plan would be \$390,000 (\$500,000 - \$110,000).

Note that the funding shortfall can be substituted for the minimum funding requirement, making the deductible limit under IRC section 404(a)(7) \$700,000. However, this only applies if the entire deduction is taken from the defined benefit plan. Since a deduction is taken for the defined contribution plan, the funding shortfall option is not available.

Revised Solution to Question 37, page 102

Under IRC section 404(a)(1), the deductible limit for the defined benefit plan is \$40,000. The total contribution made for 2008 is \$40,000. However, \$15,000 of this was deposited after the due date of the corporate tax return (3/15/2009), and is not deductible. Therefore, the deductible contribution for the defined benefit plan under IRC section 404(a)(1) is \$25,000.

Under IRC section 404(a)(3), the deductible limit for the profit sharing plan is \$25,000 (25% of the \$100,000 compensation paid). The contribution to the profit sharing plan is \$23,000, which is deductible under IRC section 404(a)(3).

The total deductible contribution under IRC sections 404(a)(1) and 404(a)(3) is \$48,000 (\$25,000 for the defined benefit plan and \$23,000 for the profit sharing plan).

IRC section 404(a)(7) must be checked to see if this deduction must be limited. According to IRC section 404(a)(7)(C)(iii) and Revenue Notice 2007-28, Q&A 8, the first 6% of compensation that is contributed to the defined contribution plan is exempt from deduction limitation under IRC section 404(a)(7). In this case, the \$23,000 contribution to the defined contribution plan exceeds 6% of compensation, so \$6,000 of the \$23,000 is deductible and not subject to the limitation of IRC section 404(a)(7). Under IRC section 404(a)(7), the deduction is limited to the greater of the defined benefit minimum (\$40,000) or 25% of compensation (\$25,000). This is \$40,000 (but only to the extent that it is contributed to the DB plan). Since only \$25,000 is deductible under IRC section 404(a)(1) for the DB plan, that means that \$25,000 would also be the amount deductible under IRC section 404(a)(7).

Therefore, of the \$48,000 that could otherwise be deducted, \$25,000 is deductible for the defined benefit plan and \$6,000 is deductible for the defined contribution plan. That leaves \$17,000 as nondeductible from the defined contribution plan.

The excise tax of IRC section 4972 on nondeductible contributions is 10%.

Excise tax = 10% of \$17,000 = \$1,700

Note that the \$15,000 contribution made to the defined benefit plan that is also not deductible under IRC section 404(a)(1) is not subject to the excise tax since it was not deposited until after 12/31/2008. If it is not deducted for the 2009 fiscal year, then it will be subject to an excise tax at that time.

Revised Solution to Question 38, page 103

IRC section 404(a)(7) applies when contributions (other than employee deferrals) are made to both a defined benefit plan and a defined contribution plan with at least one participant in common. Under option A, no contribution is made to the profit sharing plan, so IRC section 404(a)(7) does not apply. Therefore, under IRC section 404(a)(1), \$625,000 would be the maximum deductible contribution to the defined benefit plan for 2008.

If a contribution of no more than 6% of compensation is made to the defined contribution plan, then IRC section 404(a)(7)(C)(iii) indicates that the combined limit rules do not apply only to the defined contribution plan, but does limit the contribution to the defined benefit plan. However, there is a proposed technical correction that indicates that the combined limit will not apply to either plan. Therefore, the result under option B is the same as under option A since the contribution of \$50,000 to the defined contribution plan does not exceed 6% of compensation. \$625,000 would be the maximum deductible contribution to the defined benefit plan for 2008.

If a contribution of more than 6% of compensation is made to the defined contribution plan, then IRC section 404(a)(7) applies to both the defined benefit and the defined contribution plan. According to IRC section 404(a)(7)(C)(iii) and Revenue Notice 2007-28, Q&A 8, the first 6% of compensation that is contributed to the defined contribution plan is exempt from deduction limitation under IRC section 404(a)(7). Under option C, the deductible limit to the two plans cannot exceed the greater of 25% of compensation (\$500,000) or the defined benefit minimum (\$370,000). This is \$500,000. Since \$120,000 (the first 6% of compensation contributed to the defined contribution plan) is not limited under IRC section 404(a)(7), only the additional \$180,000 of the \$300,000 contributed must be considered. The maximum deductible contribution to the defined benefit plan would be \$320,000 (\$500,000 - \$180,000).