

**ERRATA TO
SOLUTIONS FOR THE
2007 EA-2A EXAM**

Question 3: The following should be added to the end of the note after the solution to the question:

It also is not clear whether the given at-risk funding target and target normal cost for IRC section 404 purposes is provided with or without regard to the 20% phase-in under IRC section 430(i)(5), or whether this phase-in even applies to IRC section 404 (there are no regulations regarding this issue, and since the plan actually is not at-risk, the phase-in may not actually apply under IRC section 404). It is assumed in this solution that the phrase “for IRC section 404 purposes” in the data implies that the phase-in has already been included if it is indeed necessary (in spite of exam general condition 47 which states that at-risk funding target and target normal cost is provided without the phase-in). Finally, note that the minimum required contribution can be deducted, if greater than the otherwise deductible limit. There is not enough information to calculate the minimum required contribution in this question, so the minimum can be ignored.

Question 4: Near the middle of the page, it is stated that Smith is assumed to retire exactly 20 years after the valuation date. This should say “10 years” instead of 20 years.

Question 8: The references to IRC section 436 in the first paragraph should be to IRC section 430.

Question 10: The early retirement reduction using the 4.55% per year reduction factor should be 9.1% (not 9%). The early retirement benefit under the plan is:

$$\text{Annual early retirement benefit} = 111,000 \times (1 - .091) = 100,899$$

This also should be reflected in the reduction to the 415 dollar limit using the plan factors. The change has no impact on the ultimate solution to the question.

Question 11: The following note should be added to the end of the solution:

Note that in each case, the actuarial value of the assets must be within 20% of the market value of the assets. This is clearly the case since the market value is 5,000,000.

Question 19: The following note should be added to the end of the solution:

Note that the minimum required contribution under IRC section 430 can be deducted under IRC section 404(o)(1)(B), if larger than the otherwise deductible limit. The minimum required contribution is equal to the sum of the target normal cost and the amortization of the funding shortfall. Under IRC section 430(c)(4), the funding shortfall is equal to the excess (if any) of the funding target over the actuarial value of the plan assets (reduced by any credit balances). The only credit balance that could exist as of 1/1/2008 is a funding standard carryover balance equal to the credit balance remaining from the 12/31/2007 funding standard account.

$$\text{Funding shortfall} = \text{Funding target} - (\text{Actuarial assets} - \text{Funding standard carryover balance}) = \$37,212 - (\$40,000 - \$1,000) = \$0$$

Therefore, the minimum required contribution is equal to the target normal cost of \$4,465 under IRC section 430(a)(1). However, the minimum is limited under IRC section 430(a)(2) when the actuarial value of the assets (reduced by the credit balance items) exceeds the funding target. In this case, the minimum required contribution is equal to the target normal cost less the actuarial value of the assets (reduced by the funding standard carryover balance), making the minimum \$2,677 $((40,000 - 1,000) - 37,212)$. This is clearly smaller than the otherwise deductible limit, and would have no effect on the deductible limit.

Question 25: With regard to statement I, Another IRC section that could make this statement false is IRC section 431(b)(7)(G) which states that if there is a plan amendment providing short term benefits (payable for a period of less than 15 years rather than a life annuity), then the amortization of that plan amendment would be over the shorter period of time that the benefits are to be paid.

Question 43: If Smith dies during the 2007, then the actual PVFB on 1/1/2008 is:

$$50,000 \ddot{a}_{68} = 50,000 \times 8.10 = 405,000$$

Question 45: The full funding limitation should be considered (even though it has no impact in this case). The ERISA full funding limitation is equal to the accrued liability plus normal cost, rolled forward with valuation interest to the end of the year, less the smaller of the actuarial or market value of the assets (reduced by the credit balance), rolled forward with valuation interest to the end of the year.

$$\begin{aligned} \text{ERISA FFL} &= [(270,000 + 22,000) \times 110\% - (250,000 - 3,000)] \times 1.07 \\ &= 79,394 \end{aligned}$$

There is not enough information to determine the RPA'94 full funding limitation, but since the minimum required contribution is less than the ERISA full funding limitation, the RPA'94 full funding limitation will not have any impact.