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

The following is errata for this manual:

Page 24: In question 8, the 2002 compensation should be $50,000.

Page 30: In the solution to question 10, the reference to "110%" in the third line of the second to last paragraph, should read "105%." There is no impact on the numerical result of the solution.

Page 34: The total accrued liability should read "48,536 + 41,182 = 89,718."

Page 38: At the end of the first bullet point, the phrase "whether an employee is an officer" should read "whether an officer is a key employee."

Page 67: The last sentence should be corrected to read as follows: "This means that each plan would individually satisfy both 410(b) – assuming the average benefit percentage test is passed, even if it is not in reality – and nondiscrimination in the amount of contributions and benefits."

Page 88: In the solution to question 28, the chart with the normalization of the joint and 50% survivor annuity at ages 62 through 65 is incorrect as the joint and 50% survivor annuity factors in the normalization factor column at ages 63 through 65 use the annuity factor at age 62 (rather than 63 through 65). This has no impact on the final solution (since the most valuable accrual is still at age 62). However, the chart has been corrected:

Normalized benefit for each possible retirement age:

| Age | Early Ret. Factor | Normalization Factor | Normalized Benefit |
|---|---|---|---|
| 62 | 0.85 | $10.19 \times 1.08^3 \div 8.65 = 1.4840$ | $437.73 \times 0.85 \times 1.4840 = 552.15$ |
| 63 | 0.90 | $10.02 \times 1.08^2 \div 8.65 = 1.3511$ | $437.73 \times 0.90 \times 1.3511 = 532.28$ |
| 64 | 0.95 | $9.85 \times 1.08 \div 8.65 = 1.2298$ | $437.73 \times 0.95 \times 1.2298 = 511.40$ |
| 65 | 1.00 | $9.67 \div 8.65 = 1.1179$ | $437.73 \times 1.00 \times 1.1179 = 489.34$ |

Page 107: In the second paragraph, it should state that the sum of the disparity fractions for the DB and DC plans cannot exceed 1.

Page 135: In the first bullet point, the reference to "substantial owner" should read "majority owner."

Page 138: The flat premium for 2007 is $31 per year for single employer plans. The flat premium did not change for 2007 for multiemployer plans. See 2007 PBGC 1 instructions. In the last bullet point on this page, it is indicated that the PBGC required interest rate (RIR) is equal to 85% of the annual rate of interest on conservative long-term investment grade corporate bonds. PBGC Technical Update 07-1 has been issued indicating that for 2007, the 85% has been increased to 100%. This is reflected in the 2007 PBGC 1 instructions. While technically this should not be tested on the 2007 EA-2B exam since the technical update was issued after the December 31, 2006 cut-off date for law changes, I suggest that anyone taking the 2007 exam understand that this has increased to 100% for 2007.

Page 139: PBGC Technical Update 07-1 also changed the definition of assets used to determine the variable rate premium to market value of assets beginning in 2007. This is a change to the first bullet point on this page. While technically this should not be tested on the 2007 EA-2B exam since the technical update was issued after the December 31, 2006 cut-off date for law changes, I suggest that anyone taking the 2007 exam understand that this has changed from actuarial value for plan years beginning before 2007 to market value for plan years beginning after 2006.

Page 147: Due to the changes in PBGC Technical Update 07-1 mentioned above (see discussion for pages 138 and 139), for years beginning in 2007, the determination of the unfunded vested benefits for purposes of ERISA section 4010 is now always determined using market value of assets. In addition, the liability (value of vested benefits) is determined using the same interest rate as for premiums, so the change in the interest rate for 2007 described above from page 138 also applies to ERISA section 4010 calculations for 2007. While technically this should not be tested on the 2007 EA-2B exam since the technical update was issued after the December 31, 2006 cut-off date for law changes, I suggest that anyone taking the 2007 exam understand these changes for 2007.

Page 162: In the solution to question 55, the references to "1/1/1999" should read "1/1/2005" and the references to "1/1/2001" should read "1/1/2007."

Page 205: Note number 3 should indicate that if a plan is permissively aggregated for 401(a)(4), then it must also be permissively aggregated for BOTH 416 and 410(b). The flow chart should also reflect this.

Page 170: PPA amended IRC section 414(l)(2)(B)(i)(I) to change the method of allocating excess assets in the case of a spinoff to reflect the new funding rules that become effective in 2008. In particular, since the full funding limitation under the old funding rules will no longer exist, the reference in the outline to the full funding limitation liability is replaced under PPA by "the sum of the funding shortfall and the target normal cost" under IRC section 430. Although the new funding rules do not become effective until 2008, it appears that this change to the spinoff rules became effective immediately under PPA (there is no effective date given in section 114 of PPA, where the above amendment to IRC section 414(l) is described, making it effective August 17, 2006). Given that this is such a recent change as well as the past history of the spinoff questions on the exam, it would be expected that if the new method is tested, then the funding shortfall and target normal cost would be items given in the body of the question. I suggest knowing both the new and old rules.

Page 182: PPA amended IRC section 420(e)(2) to change the method of determining the maximum amount that can be transferred to retiree health accounts from the excess pension assets, to reflect the new funding rules that become effective in 2008. In particular, since the full funding limitation under the old funding rules will no longer exist, the reference in the outline to the full funding limitation liability and assets, as well as current liability, has been replaced Although the new funding rules do not become effective until 2008, it appears that this change to the IRC section 420 rules became effective immediately under PPA (there is no effective date given in section 114 of PPA, where the above amendment to IRC section 420 is described, making it effective August 17, 2006). As a result, the fourth bullet point concerning the maximum that can be transferred should read as follows: "The maximum that can be transferred is equal to the lesser of the market value of the plan's assets or the average market value determined under IRC section 430(g)(3)(B), each reduced by the prefunding balance and funding standard carryover balance, minus 125% of the sum of the funding shortfall and the target normal cost under IRC section 430." Given that this is such a recent change as well as the past history of questions on the exam, it would be expected that if the new method is tested, then the prefunding balance, funding standard carryover balance, funding shortfall, target normal cost, and any average value of assets, if applicable, would be items given in the body of the question. I suggest knowing both the new and old rules.