Corrections and Additions to EA-2B Course Outline and Problems
Spring, 2010
(as of 5/28/2010)

Page 113: The benefit formula in this question technically violates the minimum accrual rules of IRC section 411(b) since it fails to satisfy at least one of the 133⅓% rule, the 3% rule, or the fractional rule. This can be remedied by changing the benefit formula to limit service at the 1.4% level to 15 years (rather than 20 years), allowing the formula to satisfy the 3% rule.

Page 143: When cross testing a defined benefit plan on an allocations basis, only the current year can be used as the measurement period. Therefore, the measurement period should either be defined as the current year, or simply left out of the question completely. Making that change to the solution to question 61 on page 144, the accrual for 2008 is $1,800 (3% of $60,000). The present value of that accrual is $4,844, and the equivalent allocation rate is then 6.055%.

Page 207: The description of the present value of the guaranteed benefit under the limited payments section should be changed to read:

The present value of the maximum guaranteed PBGC benefit (this is the maximum guaranteeable benefit under ERISA section 4022(b)(3)(B) that is in effect on the annuity starting date, not adjusted for phase-in, but adjusted for the participant's age at the annuity starting date), using IRC section 417(e) assumptions (for this purpose, the segment rates published in August of the prior year are used). See PBGC Technical Update 07-4 for a description of the method used to determine the present value.

In addition, it should be assumed in question 83 on page 215 that the $2,050 PBGC maximum guaranteed benefit is equal to the $4,500 PBGC maximum for 2009, adjusted to the actual age that the payment is made to Smith on 7/1/2009.

Page 317: The last bullet point on this page is incorrect, and should be worded as follows:

If the plan was also amended to provide an increase in benefits through a plan amendment adopted during the 60-day period ending on the plan termination date and effective on the plan termination date, then the percentage of excess assets used to provide the amended benefit increases can be used to reduce the 25% transfer requirement to the qualified replacement plan. Note that this is different from the 20% pro-rata benefit increases (allocated to present value of accrued benefit) described on the previous page that was needed to reduce the excise tax from 50% to 20%.

Page 329: The last sentence of the solution to question 134 should read:

> The value of the designated benefit is equal to the plan lump sum, which is $4,880, because it does not exceed $5,000.

Page 339: The second sentence in the second bullet point (under "miscellaneous rules" should be changed to read:

> Premiums can be paid using plan assets, except for the premium surcharge in a distress termination.

Page 345: The following should be added to the end of the first bullet point:

> The ERISA 4010 reporting requirement is waived if the aggregate funding shortfall for all plans within the controlled group does not exceed $15,000,000. This waiver cannot be used should either of the next two conditions apply, however.

> The reference to the 80% AFTAP Gateway Test should read "the 80% FTAP Gateway Test" in the first bullet point.

> The two sub bullet points (regarding determination of funding shortfall) on page 346 under the first bullet point should be included after the first bullet point on page 345.

> The first bullet point under the exempt entity section should read:

> The entity is not a contributing sponsor of a plan (other than a small plan described in the next section) as of the last day of the information year.

Page 346: The following should replace the first sentence on this page:

> An exemption for a "small" plan within the controlled group from the 4010 reporting requirement, only with regard to the actuarial information that is required for the 4010 filing, applies if all of the following requirements are met.

> The second sub bullet point (regarding aggregating the funding shortfall for members of the controlled group) under the first bullet point should be deleted from this section.

Page 349: Remove the statement that the plan has 400 participants, as this is unnecessary.

Page 350: The first part of the solution is incorrect, as an FTAP needs to be determined for each employer separately – since they are maintaining separate plans. See the revised page 350 at the end of this list.

Page 379: Technical Update 09-1 (which is still valid for 2009 years) is updated by Technical Update 09-4 as follows:

This is an extension of technical updates 09-1, extending the rules for determining the UVBs and actuarial value of assets in 2010 for purposes of various reportable events are those used for the determination of the 2009 variable rate premium.

In addition it extends technical update 09-3, with regard to the reportable event requirement for a plan that misses a quarterly contribution due date (and the missed contribution is not due to financial inability to make the contribution), the reporting requirement is:

(1) Waived, if the plan had fewer than 25 participants in the prior year, and
(2) If the plan had at least 25 and fewer than 100 participants in the prior year, then a simplified notice can be filed with the PBGC if it is filed by the due date that the missed quarterly contribution notice would have been required to be filed.

The quarterly contribution reportable event modifications now apply for both the 2009 and 2010 plan years.

Solution to question 140

A 4010 filing for the entire controlled group is avoided if the FTAP is at least 80% for each plan as of 1/1/2010. The FTAP for the plan of each company, without any additional contribution for 2009 is:

Company A: $\dfrac{(6{,}200{,}000 - 300{,}000)}{6{,}000{,}000} = 98.33\%$

Company B: $\dfrac{16{,}000{,}000}{20{,}000{,}000} = 80.00\%$

Company C: $\dfrac{(18{,}000{,}000 - 1{,}000{,}000)}{30{,}000{,}000} = 56.67\%$

In order for the FTAP for Company C to equal 80%, an additional contribution for 2009 of $X could be made on 1/1/2010 such that:

$$\frac{(18{,}000{,}000 - 1{,}000{,}000) + X}{30{,}000{,}000} = 80\%$$

$X = 7{,}000{,}000$

Alternatively, the controlled group would be exempt from a 4010 filing for the year if the net funding shortfall for the three companies does not exceed $15,000,000. The funding shortfall for this purpose is determined without regard to the funding standard carryover and prefunding balances.

Funding shortfall for Company A = 6,000,000 – 6,200,000 = 0
Funding shortfall for Company B = 20,000,000 – 16,000,000 = 4,000,000
Funding shortfall for Company A = 30,000,000 – 18,000,000 = 12,000,000

The total funding shortfall is 16,000,000 (0 + 4,000,000 + 12,000,000). Therefore, if an additional contribution for 2009 of $1,000,000 is made by Company C on 1/1/2010, then the total funding shortfall will be exactly $15,000,000 and the controlled group will be exempt from the ERISA 4010 reporting requirement.

Therefore, the smallest additional contribution needed to avoid an ERISA 4010 filing is $1,000,000.