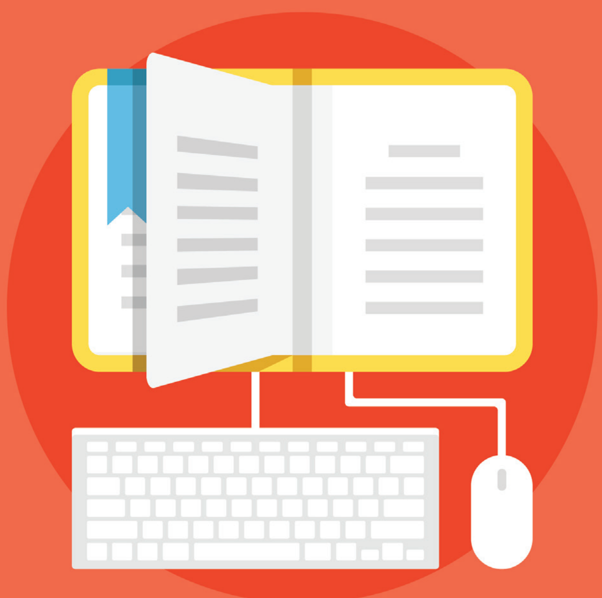
EA-2F Exam

Course Outline & Review Questions



2018 Edition

David B. Farber, A.S.A.

a/s/m
Actuarial Study Materials
Learning Made Easier

TO OUR READERS:

Please check A.S.M.'s web site at **www.studymanuals.com** for errata and updates. If you have any comments or reports of errata, please e-mail us at **mail@studymanuals.com**.

Changes in Funding Methods – Automatic Approvals for Single Employer Plans

- Revenue Procedure 2017-56 describes procedures applicable to changes in funding methods, and gives automatic approvals in certain situations. It is effective for years beginning in 2018 and later, and replaces any impacts of Revenue Procedure 2000-40 for single employer plans, as well as Announcements 2010-3 and 2015-3.
- Certain changes in the funding method are already approved under IRC section 430, such as:
  - A change to a first day valuation when the small plan exception was previously used (allowing for the valuation date to be other than the first day) and the plan had more than 100 participants in the prior year.
  - The funding method has changed but this is the first year that IRC section 430 applies to the plan.
- Automatic approval is provided for a change in the asset valuation method in the following circumstances, as long as the asset valuation method was not changed in any of the last four years.
  - A change to fair market value
  - A change to the average value method described in Revenue Notice 2009-22 and Treasury regulation 1.430(g)-1(c)(2). In no event can the actuarial value of assets be less than 90% or more than 110% of the market value of assets.

    - A change to an average value method that utilizes a phase-in. Under this method, the actuarial value for the first year that the method is used is equal to the market value of assets. In the second year, the actuarial value is equal to the average of the current market value of assets and the adjusted market value from the valuation date of the preceding plan year. In the third year the actuarial value is equal to the average of the current market value of assets and the adjusted market values from the valuation dates of the preceding two plan years. This change can only be used if the dates under the old method used for the adjusted market values was something other than the prior two valuation dates (in other words, this change cannot be made simply to restart a phase-in). In no event can the actuarial value of assets be less than 90% or more than 110% of the market value of assets. For more information about this approved change in method, see Section 3.01(3) of Revenue Procedure 2017-56.
- Automatic approval is provided for a change in the valuation date in the following circumstances, as long as the valuation date was not changed in any of the last four years.
    - A change to the first day of the year.
    - A change to the last day of the year if the plan year is changed and the last day was used as the valuation date in the prior plan year.
- Automatic approval is provided if the benefits are now being funded through insurance contracts provided that no benefits were funded through insurance contracts in the prior year.

- There are special approvals for changes in the method to which the five-year limitation does not apply. (See section 4 of Revenue Procedure 2017-56 for more detail.)
  - A plan with both a change in the enrolled actuary and a change in the actuarial consulting firm is considered to have a change in method. The method under the new actuary and consulting firm must be substantially the same as the old method. In order to have automatic approval, the prior year target normal and funding target (determined using the same assumptions as the prior actuary and the valuation software of the new actuary) are within 3% of the amounts determined by the old actuary for the prior year. The actuarial value of assets for the prior year (using the same method as the prior actuary) must be within 2% of that used by the prior actuary. The target normal cost, funding target and actuarial value of assets must either be those shown on the prior year Schedule SB or the signed valuation report for the prior year. Alternatively, if the prior actuary has issued a signed valuation report for the current year, the comparisons can be based on current year valuation results.
  - A plan for which a change in valuation software is made or a modification to the computations of the existing software is made is generally considered to have a change in method. In order to have automatic approval, for each of the current and prior plan years, the target normal cost, funding target and actuarial value of assets must be within 1% of the amounts under the old software. The 1% is increased to 2% if this approval was not used in the prior year.
  - A change in the data elements used in an actuarial valuation is considered a change in method. An example of a change in a data element would be a change from using annual compensation to a rate of pay. In order to have automatic approval, the target normal cost, funding target and actuarial value of assets using the new data elements must be within 1% of the amounts using the old data elements.

    - A plan terminating within a plan year that is fully funded (the market value of assets without regard to receivable contributions are enough to fully fund all benefits as of the plan termination date) and has timely filed a notice of intent to terminate with the PBGC has the following automatic approvals without restriction:
        - The asset method can be changed to market value.
        - For a plan that is allowed to choose any valuation date during the year (small plan), the valuation date can be changed to either the first day of the year or the plan termination date.
        - If there is a change in both the enrolled actuary and the actuarial consulting firm, the change in method is automatic without regard to the comparisons of target normal cost, funding target, and actuarial value of assets.
        - If there is a change in valuation software, the change in method is automatic without regard to the comparisons of the target normal cost, funding target, and actuarial value of assets.
        - If there is a change in data elements, the change in method is automatic without regard to the comparisons of the target normal cost, funding target, and actuarial value of assets.
- There are special approvals with regard to changes in method in connection with a plan merger (see section 5 of Revenue Procedure 2017-56).

- Restrictions
  - The plan administrator or the plan sponsor must agree to the change. Generally, this is done by indicating on the form 5500 for the year that the plan sponsor agrees to the change in method. However, for changes under sections 4 and 5 of the Revenue Procedure, the plan sponsor must merely been made aware of the change before the schedule SB is filed (which would then satisfy the requirement that the plan sponsor agree to the change).
  - The revenue procedure does not apply if there has been a request for a minimum funding waiver for the current year, or if a prior waiver is being amortized.
  - The revenue procedure does not apply if the plan is currently under audit (or impending audit) for any plan year.
  - The revenue procedure does not apply if the changes are being made with respect to a plan merger (other than the section 5 approved changes) or a plan spin-off.

Question 158

Plan effective date: 1/1/2009

Effective 1/1/2018, the plan sponsor changed the enrolled actuary and actuarial consulting firm providing services to the plan. The new enrolled actuary uses the same assumptions and substantially the same funding method as did the prior actuary.

Selected valuation results:

	Prior Actuary	New Actuary	
Valuation date	1/1/2017	1/1/2017	1/1/2018
Funding Target	$400,000	$X	$440,000
Target normal cost	20,000	20,500	21,000
Actuarial value of assets	300,000	300,000	350,000

The contribution for 2017 deposited on 7/1/2017 was $35,000.

What is the maximum funding target ($X) that could have been determined by the new actuary as of 1/1/2017 in order for the plan to qualify for the automatic approval under Revenue Procedure 2017-56?

Solution to question 158

Under Revenue Procedure 2017-56 (section 4.01), the difference between the target normal costs, and the funding targets determined by the old and new actuaries cannot exceed 3%, and the difference between the actuarial value of assets cannot exceed 2%. Therefore, the maximum funding target as of 1/1/2017 that could have been determined by the new actuary is:

$\$400,000 \times 1.03 = \$412,000$