Corrections and Additions to EA-2F Course Outline and Problems
Fall, 2018
(as of 10/9/2018)

Page 62: The last sentence in the first paragraph should be replaced as follows:

> This is done using plan equivalence assumptions (5% interest and the applicable mortality table). Smith is 37 as of the 1/1/2018 valuation date. For purposes of determining the target normal cost, the segment interest rate(s) used to convert the account balance at retirement age and the life annuity is the segment 3 rate of 7% (Smith's payments will all be made more than 20 years from the valuation date, regardless of whether they are in the form of a lump sum or a life annuity).

Page 501: The last bullet item should be revised to read as follows:

> For single employer funding purposes (determining the target normal cost and funding target), where there is an assumed lump sum benefit option, the applicable mortality table is used post-retirement, the PPA single employer funding mortality table is used pre-retirement (if pre-retirement decrements are assumed), and the IRC section 430 segment rates are generally used both pre-retirement and post-retirement. However, if the plan provides that the lump sum is determined using an interest rate other than the applicable interest rate, then the post-retirement interest rate for funding is either the IRC segment rate applicable to the lump sum or the plan interest rate used to determine the lump sum benefit, whichever provides for a greater present value.

Page 501: The following text should be added to the end of this page:

- Bifurcated benefit option
  - If a plan allows a participant to split their accrued benefit between an annuity and a lump sum, only the lump sum portion of the benefit is subject to the minimum benefit requirements of IRC section 417(e).

- One way the plan can accomplish the bifurcation (the explicit method) would be to allow the participant to specify either a dollar amount or a percentage of the accrued benefit to be paid as an annuity, with the balance as a lump sum. For example, if a participant has a monthly accrued benefit of $3,000, they could elect to receive $2,000 per month as a life annuity, and the actuarial equivalent of the additional $1,000 as a lump sum. Only the actuarial equivalent of the $1,000 would be subject to the rules of IRC section 417(e).
- A second method (the implicit method) provides that if the plan wants to provide a specific lump sum amount and pay the balance of the accrued benefit as an annuity, then the actuarially equivalent annuity in the normal form of the plan is determined from the lump sum, using the applicable interest rate and mortality table. The difference between that actuarially equivalent annuity and the total annuity in the normal form is the portion of the benefit to be paid as an annuity.
- More detail can be found in Treasury regulation 1.417(e)(3) -1(d)(6).

Page 567: Revenue Notice 2017-44 was added to the final syllabus for the 2018 exam.

This notice provides model amendment language for plans that offer a bifurcated benefit option (as allowed under Treasury regulation 1.417(e)-1(d)(6)), where part of the accrued benefit is paid as an annuity and the balance of the benefit as a lump sum (or some other 417(e)(3) form of benefit).