Corrections and Modifications to 2018 EA-2F Exam Solutions

Question 14: The final solution should be \$483,900, not \$483,500.

Question 41: The statement is actually false because the rate of return on the market value of assets is used, not the actuarial value of assets.

Question 44: In condition (2) near the beginning of the solution, the reference to "80%" should actually be "70%".

Question 52: The solution states that the ERISA full funding limit has been provided, but actually, the data to determine the ERISA full funding limit is provided, and the full funding limit must be calculated.

The normal cost plus limit adjustment is limited, if necessary, by the full funding limitation (greater of the ERISA full funding limitation or the RPA'94 full funding limitation). The data needed to determine the full funding limitation has been provided. The ERISA full funding limit is equal to the sum of the Entry Age Normal accrued liability and normal cost, and reduced by the smaller of the market or actuarial value of the assets (with that smaller amount reduced by the credit balance in the funding standard account). Those results are then increased with valuation interest (6.5%) to the end of the year.

The ERISA full funding limit is:

$$[\$5{,}000{,}000 + \$600{,}000 - (\$4{,}000{,}000 - \$100{,}000)] \times 1.065 = \$1{,}810{,}500$$

Note that when there are benefit payments during the year, both the liabilities and assets are reduced by those benefit payments. However, since the assets are subtracted from the liabilities, the net result would be the same, and so the benefit payments have been ignored.

The ERISA full funding limit is much larger than the normal cost plus limit adjustment, so the full funding limitation does not apply. Note that there is no need to determine the RPA'94 full funding limitation, as it can only serve to increase the full funding limit, which already has no impact.