

## Corrections and Modifications to 2023 EA-2L Exam Solutions

Question 44: The solution is modified to read as follows:

Smith's annual accrued benefit as of 1/1/2022 is given as \$248,000. This is payable as a life annuity (general conditions of the exam state that the normal form of benefit is a life annuity). This benefit must be potentially limited by IRC section 415. Exam general condition number 30 states that "benefits do not exceed IRC section 415 limits unless specific information to apply the limits is provided."

The benefit payable to a participant is limited under IRC section 415(b) to the smaller of the IRC section 415 dollar limit or the IRC section 415 compensation limit. The IRC section 415 compensation limit is equal to 100% of the high consecutive 3-year average compensation (reduced pro-rata for years of service less than 10). No salary history has been provided for Smith, so the IRC section 415 compensation limit cannot be determined. The 2022 IRC section 415 dollar limit is \$245,000 (given in a table provided with the exam). It is not clear whether the Joint Board considers knowing the dollar limit is considered sufficient information to determine the 415 limit (without knowing compensation history). However, at the very least, the plan benefit of \$248,000 must be limited to \$245,000. (Note that the dollar limit is reduced for years of plan participation less than 10, but without a plan effective date provided, it is not possible to know whether Smith has less than 10 years of plan participation. It may be that Smith's benefit is further limited below \$245,000, but without sufficient data to make that determination, a benefit of \$245,000 will be used in this solution.) Ultimately, without enough information to accurately determine the IRC section 415 limit for Smith (no plan effective date, no salary history), it makes the most sense to ignore the IRC section 415 limit, per general condition number 30, other than realizing that in no event can the benefit exceed \$245,000.

Smith's plan benefit of \$248,000 must be converted to an equivalent 50% joint and survivor benefit and an equivalent 10-year certain and life benefit. Using the plan equivalence factors:

$$\begin{aligned}\text{Plan QJSA} &= \$248,000 \times 0.942 = \$233,616 \\ \text{Plan 10C\&C} &= \$248,000 \times 0.920 = \$228,160\end{aligned}$$

Under the rules of IRC section 415, when an optional form is anything other than a life annuity or a qualified joint and survivor annuity (QJSA), the equivalence factor must be equal to the smaller of the plan equivalence factor or the factor using 5% interest and the applicable mortality table. The 50% joint and survivor annuity is the plan's QJSA, so the assumed 415 limit of \$245,000 is not adjusted.

The plan QJSA of \$233,616 is smaller than the assumed 415 limit of \$245,000, so

$$\$X = \$233,616$$

The smaller of the plan equivalence or the 5% equivalence factor for the 10-year certain and life benefit is the plan factor of 0.92.

$$\text{Assumed IRC 415 limit payable as a 10C\&C} = \$245,000 \times 0.92 = \$225,400$$

This is less than the plan 10C&C of \$228,160, so  $\$Y = \$225,400$

$$|X - Y| = |\$233,616 - \$225,400| = \$8,216$$

Answer is E.

Alternative solution:

If general condition number 30 is taken literally, then since there is not enough information to accurately determine the IRC section 415 limit, instead of using \$245,000 (assuming that Smith has at least 10 years of plan participation and a high consecutive 3-year average salary of more than \$245,000) as a 415 limit, ignore the 415 limit completely. In that case, the plan 10C&C benefit of \$228,160 will not be limited, and  $Y = \$228,160$ .

$$|X - Y| = |\$233,616 - \$228,160| = \$5,452$$

Answer is E.