

# AdvantEdge

A LEGISLATIVE & TECHNICAL UPDATE FOR OUR CLIENTS

## Update on July 1, 2008 Actuarial Valuation

The Pension Protection Act of 2006 ("PPA") is here. This edition of AdvantEdge presents Pentegra's timetable for the July 1, 2008 actuarial valuation and reviews key provisions of the PPA that take effect beginning with the 2008-2009 plan year.

## Timetable for the July 1, 2008 Actuarial Valuation

### September 2008

During the week of September 29th, we will send a letter (via email and regular mail) to each plan sponsor regarding quarterly contribution requirements, which will be due by October 15, 2008. The intent of the letter is to present the exact quarterly contribution which is required to be paid no later than October 15, 2008. Note that your required quarterly contribution will not exceed 25% of the amount on Page 10, Line 8 of your July 1, 2007 Actuarial Valuation report.

The letter also will contain details regarding your funding requirements for the 2008-2009 Plan Year, including your Minimum Required and Baseline contributions. In addition, we will include an estimate of the funding requirements for the following Plan Year (July 1, 2009 - June 30, 2010).

### November 2008

We expect to send out the Actuarial Valuation reports in November. The reports will present the actuarial valuation results in detail. Please note, the Actuarial Valuation report will feature a new look, as we incorporate the provisions and procedures of PPA.

### Early 2009

This year you may be required to make several written elections regarding PPA issues. These elections, which center on the treatment of your plan's carryover (credit) balance, will impact your final actuarial valuation results. Early in 2009, we will provide you with Election Forms and guidance regarding these elections.

## Review of Key Provisions of the PPA Effective for the 2008 Plan Year

### Minimum Funding Requirements

Under the PPA, the minimum required contribution is the sum of:

- The Target Normal Cost, which is defined as the present value of the benefits expected to accrue in the current plan year; and
- 7-year amortization of any Funding Shortfall, which occurs when plan assets are lower than plan liabilities.

The Funding Shortfall is defined as the excess of the plan's liabilities over its assets. This ratio is defined as the Funding Target Attainment Percentage ("FTAP"). In determining the funding shortfall, the plan's carryover (credit) balance is subtracted from the plan assets. The Funding Shortfall typically is amortized over seven years. However, in certain instances, an amortization of the Funding Shortfall may not be required immediately. Our Actuarial Valuation letter will provide you with a further explanation specific to your plan.

### Baseline Contribution

Last year's Baseline Contribution was comprised of the Normal Cost plus any required amortization payments. This year's Baseline Contribution will include an amortization of any unfunded amount by ignoring the transition phase-in rules. Similarly, for well funded plans with assets greater than liabilities, the full funding excess will not be taken into consideration in presenting the Baseline Contribution. By paying the Baseline Contribution you will have a better funded plan and you will benefit from some reduction in the volatility of future contributions. We can discuss the advantages of this strategy once you receive the Actuarial Valuation letter.

### Benefit Restrictions for Plans with Low FTAP

It is important to maintain a high FTAP, not only so that your plan is well funded, but to avoid the restrictions that apply if your FTAP falls below 80%. And, keep in mind that your plan participants will receive annual funding notices (see "Disclosure", below); therefore they will be aware of your plan's FTAP.

If your plan's FTAP falls below 60%, then:

- Benefits may not be paid as lump sums; and
- Benefit accruals will not be permitted.

If your plan's FTAP is between 60% and 80% then:

- Lump sums are permitted, but generally only for 50% of the benefit amount (with the remainder paid as an annuity or deferred to a later date); and
- Benefit improvements are not permitted, unless you contribute the lesser of the cost of the improvement or the amount needed to increase the FTAP to 80%.

The FTAP is measured as of July 1<sup>st</sup> each year. However, contributions made to the plan between July 1, 2008 and March 15, 2009 can be used to increase the July 1, 2008 FTAP.

### Disclosure

Beginning with the 2008-2009 Plan Year, Plan sponsors will need to provide annual funding notices to participants, beneficiaries, and the PBGC. The Notice will include information pertaining to the Plan's assets and liabilities, the number of participants, the Plan's funding policy and asset allocation, and other information. The first scheduled notice is due October 28, 2009.

### Lump Sum Interest Rates

Under the PPA, the interest rate basis used for determining lump sums will be modified from the 30-Year Treasury Rate to three-segment Corporate Bond Yield Curve rates. This change is phased-in over five plan years, beginning on July 1, 2008.

Since the Corporate Bond rates are higher than the 30-Year Treasury rates, the lump sums will tend to decrease slightly (1% - 4% per year), all other things being equal. However, the value of a lump sum paid in the future usually will increase due to increases in age, salary and service. Note, for frozen plans and for nonactive participants, the increases due to the salary and service would not apply.

## Conclusion

We will continue to keep you updated on plan costs associated with the 2008-2009 actuarial valuation. In the interim, if you have any questions, please contact Richard Rausser, Vice President, Consulting Services, at rrausser@pentegra.com, or Jeff Kissel, Chief Actuary, at jkissel@pentegra.com, or call us at 800-872-3473.

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