

Credit the New Math of 401(k)

ONE OF THE JEWELS EMBEDDED IN THE NEW TAX ACT (EGTRRA) IS A TAX CREDIT FOR EMPLOYEE CONTRIBUTIONS TO RETIREMENT PLANS. THE CREDIT IS IN ADDITION TO THE EXISTING TAX SAVINGS STEMMING FROM AN EMPLOYEE'S REDUCTION IN TAXABLE INCOME FOR A 401(k) CONTRIBUTION. THE CREDIT DRAMATICALLY CHANGES THE MATH FOR 401(k). CURRENTLY COMPANIES TRY TO DRUM UP PARTICIPATION BY POINTING OUT THAT THE COMPANY MATCH IS LIKE GETTING, SAY, A 50% "RETURN" ON YOUR MONEY. BUT STARTING JANUARY 2002, THE MATH FOR MANY EMPLOYEES WILL BE MORE THAN A 300% "RETURN" ON THEIR COST OF CONTRIBUTING.

The credit will work on a sliding scale based on adjusted gross income as illustrated on page 18. The first \$2,000 of the contribution can receive up to a 50% tax credit. The credit applies to employee deferrals under a 401(k), 403(b), or 457 plan, as well as voluntary after-tax contributions and IRA contributions. The credit is universally available to all employees who are age 18 and over, provided they are not full-time students or claimed as a dependent by someone else. The amount of contribution eligible for the credit is reduced by most taxable distributions received by an employee during a testing pe-

riod that begins two years prior to the year for which the credit is claimed and ends on the due date for filing the employee's tax return for that year. There are no plan amendments required and no extra administrative burdens for the employer to enable the employee to claim the credit.

Here's the new math for 401(k). An employee filing jointly with a gross income of \$32,000, who contributes \$2,000 to his/her 401(k), reduces federal income tax for the year by a whopping \$1,300 - \$300 from

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WASHINGTON UPDATE

Don't Do the LAPP Dance!

by Brian H. Graff, Esq.

DO I HAVE YOUR ATTENTION? LAST YEAR, IN THE MIDST OF PENSION REFORM AND ENRON, LIFE INSURANCE COMPANIES, LED BY THE AMERICAN COUNCIL OF LIFE INSURERS (ACLI), THEIR PRINCIPAL TRADE ASSOCIATION, WERE SCURRYING ALL OVER CAPITOL HILL SEEKING CONGRESSIONAL APPROVAL OF THEIR "LIFETIME ANNUITY PAYOUT PROPOSAL," OR LAPP. TO DATE, THEY HAVE FOUND ONLY A HANDFUL OF TAKERS - NO ONE IN THE SENATE HAS AGREED TO INTRODUCE THE LAPP PROPOSAL. IN THE HOUSE, ON NOVEMBER 16, 2001, WAYS & MEANS COMMITTEE MEMBER REP. PHIL ENGLISH (R-PA) INTRODUCED LAPP IN H.R.3320. TWO OF HIS COLLEAGUES, REPS. NANCY JOHNSON (R-CT) AND KAREN THURMAN (D-FL), WERE ORIGINAL COSPONSORS; NO ONE ELSE HAS COSPONSORED THE BILL.

Generally, LAPP would grant capital gains tax treatment to life contingent payouts from deferred annuities. No one is quarreling with the goal of LAPP to encourage people to take lifetime payouts from their retirement nest eggs. ASPA, along with key Congressional pension leaders like Reps. Rob Portman (R-OH) and Earl Pomeroy (D-ND), believe that lifetime payout options from all qualified retirement plans should also qualify for preferential tax treatment.

BACKGROUND

Under current law, post-retirement pension payments and annuity payments are taxed as ordinary income. Distributions from both annuities and retirement plans are derived from a combination of contributions (usually after-tax in the case of annuities and generally pre-tax in the case of retirement plans) and tax-deferred accumulation of earnings

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Share Accounting vs. Unit Accounting

by Carol J. Ringwald

TYPICALLY, DAILY-VALUED PLANS USE EITHER SHARE ACCOUNTING OR UNIT ACCOUNTING METHODS. OFTEN TIMES THE TERMS “SHARE ACCOUNTING” AND “UNIT ACCOUNTING” ARE USED INTERCHANGEABLY, WHICH CAN CAUSE CONFUSION AMONGST PLAN SPONSORS, TRUSTEES, AND PARTICIPANTS. LET’S TAKE A LOOK AT A COMPARISON OF THESE TWO ACCOUNTING METHODS.

SHARE ACCOUNTING

Mutual funds are typically valued using “share accounting.” A net asset value (NAV) is calculated for a mutual fund as of 4:00 p.m. eastern time on any given day the stock market is open. A shareholder in a mutual fund can take the calculated NAV and multiply it by the number of shares that they own and determine their individual “equity position” in the fund. “Equity position” is the value of the account stated in dollars.

Example 1: A mutual fund reports that the NAV for a fund on 3/31/2002 is \$20.00. A shareholder holds 50 shares of that mutual fund. The shareholder’s “equity position” in that fund as of 3/31/2002 is \$1,000 (*i.e.*, \$20 x 50).

The mutual fund may also report any dividends or capital gains paid by the funds on any given market day. Therefore, the mutual fund may *potentially* report three different numbers on a market day – the NAV (daily), dividends (usually quarterly), and capital gains (usually annually). Dividends and capital gains distributions made by the fund companies do not represent a gain to the shareholder of the fund. The distributions simply mean that a previously “unrealized” gain has now been “realized.”

In Example 1, the shareholder of the fund owns 50 shares at \$20.00 per share, which equals \$1,000 as of 3/31/2002. Let’s say that the fund declares a dividend/capital gain distribution of \$1.00 per share on the next day. Let’s also assume no other gains or losses in the fund’s equity value took place on that day (*i.e.*, all the underlying stocks and bonds that make up the fund closed unchanged from the previous day). When the \$1.00 per share dividend/capital gain is paid, the owner “realizes” a gain of \$50. Now the shareholder actually owns 52.631 shares of stock at \$19 per share (*i.e.*, \$20.00 - \$1.00). In a retirement plan, any realized gains are reinvested into the fund. Therefore, an additional 2.631 shares are added to the account, at a value equal to \$19 per share. These additional 2.631 shares plus the original 50 shares, multiplied by \$19 per share, equals \$1,000 – the exact value that the shareholder owned the day before. On any given day where a dividend or capital gain is paid by the mutual fund, the NAV decreases and the number of shares owned increases. *However, the net*

worth of the shareholder’s account does not change. The shareholder’s “equity position” in the account in our example is still \$1,000.

In most daily-valued plans, plan sponsors who invest in mutual funds establish accounts that are registered in the name of the trustees of the plan. As a result, a participant does not directly own the mutual fund shares of the funds he/she chooses to invest in. The participant owns an interest in an “aggregated” account that is owned by the trust (as established by the plan), and the trust actually owns the shares. Shares are bought and sold as needed from participants’ investment elections regarding contributions and transfer or distribution requests. Any dividends or capital gains that are paid by a mutual fund are paid to this “aggregated” account. The plan document indicates how those capital gains or dividends will be allocated to each participant who has selected a particular mutual fund. Therefore, if the document indicates that earnings (*i.e.*, capital gains/dividends) are allocated based on last valuation date, any capital gains or dividends that are allocated to a participant’s account can be allocated using the previous business day’s value, which is the last valuation date for a daily-valued plan.

UNIT ACCOUNTING

“Unit accounting” is often used for valuing company stock, GIC contracts, non-publicly traded securities, group annuity contracts, or any investment vehicle with settlement dates greater than one or two days. We will limit our unit accounting discussion to group annuity contracts, which are commonly offered via bundled insurance providers. Group annuity contracts use “units” to value accounts instead of using NAVs and shares.

A group annuity contract that contains equity investments offered by bundled insurance providers is established as a “separate account” in the name of the insurance provider. The separate account invests in investment vehicles that are established in the name of the insurance company. Plan trustees who elect to invest in the group annuity contract are actually investing in the separate account of the insurance company, not directly in the underlying

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FROM THE EDITOR

ASP
in Motion

by Chris L. Stroud, MSPA

ASP
IS LIKE A FAST-MOVING TRAIN, WITH A LONG LIST OF DESTINATIONS AND A COMPLEX NETWORK OF SCHEDULES AND ITINERARIES. DID YOU EVER STOP TO WONDER WHO'S STEERING THAT TRAIN, WHAT KEEPS IT ON TRACK, WHO MANAGES ITS SCHEDULES, AND WHAT KIND OF FUEL IT USES? WHAT KEEPS ASP
IN MOTION?

In February, I had the privilege of participating in my first SPIT meeting. (Contrary to what the name might suggest, SPIT was *not* a contest for world-renown tobacco chewers.) SPIT, one of ASPA's many acronyms – is the abbreviation for Strategic Planning and Implementation Team. The first SPIT meeting took place in 1999, and since then, SPIT members have worked together to implement the plans and visions of ASPA's Board of Directors. Each year, the SPIT "Team" consists of the current ASPA President, the President-Elect, the chairs of many ASPA committees, the Executive Director, and the Managing Director. The creativity and forward thinking that prevailed during this two-day intense SPIT meeting made it easy to see why ASPA, as an organization, continues to flourish, grow, and do great things. (See page 25.) This was truly "ASP
in motion!" I think the words of Marissa Pietschker, QPA, Continuing Education Chair and also a SPIT "first-timer," summed it up the best: "I am in awe of the passion and dedication that the members of this Team have shown over the last two days. It's so inspiring!"

The SPIT meeting is just one of many activities that your ASPA leaders and volunteers are involved in, working hard to make ASPA an even better organization and to keep our profession and the private pension system safe and secure. How can *you* help? Hop on the train! Get to know the ASPA organization, understand its many facets, identify a niche that interests you – and volunteer! It's that easy. Here are a few suggestions to get you started:

- Learn ASPA's acronyms. Read the "Alphabet Soup" article in this issue of *The ASPA Journal*.
- Read the "Focus on..." articles in each issue of *The ASPA Journal*, which feature various committees and their activities.

- Take a good look at your *2002 ASPA Yearbook* when it arrives. Carefully review the summary of ASPA committees and member benefits.
- Attend ASPA conferences or local ABC meetings. Talk to other ASPA members who participate in ASPA activities and committees.
- Fill out an online ASPA Volunteer Survey and get involved! Login at <https://router.aspa.org> and find the survey under Members Only.

I have been an ASPA member for almost 20 years, and as my involvement in ASPA has increased, I have become more informed about all of ASPA's committees and their functions. I am now better able to recognize the impact that ASPA and its many centers of influence have had on my own professional career and on the entire retirement planning industry. I fully appreciate and treasure the personal rewards I've reaped, measured by the many friendships I've formed over the years with ASPA members and staff who I've had the pleasure of seeing time and again at various ASPA activities.

It is a great feeling to see a powerful organization like ASPA in motion and to have a sense that you, in some small way, are helping to keep it moving. So, how does the ASPA train work? The Board of Directors and SPIT are the *engineers* who keep it steered in the right direction. The ASPA committees and ASPA staff are the *crew*, keeping it on track and managing its many schedules and itineraries. The ASPA train is *fueled* by the energy of the volunteers. Without that fuel, the train would not move. Think about it.

All Aboard! ▲

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The purpose of ASPA is to educate pension actuaries, consultants, administrators, and other benefits professionals, and to preserve and enhance the private pension system as part of the development of a cohesive and coherent national retirement income policy.

ASP
A members are retirement plan professionals in a highly diversified, technical, and regulated industry. ASPA is made up of individuals who have chosen to be among the most dedicated practicing in the profession, and who view retirement plan work as a career.

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Letters to the Editor

WHAT'S IN A NAME?

I enjoyed reading your article in the JOURNAL. I wonder how much debate was involved in making the change [from *The Pension Actuary* to *The ASPA Journal*]?

In 1998, the other actuarial organizations were requesting that ASPA change its name, since our membership included non-actuaries. With a good deal of foresight, they invited us to join the council of presidents, even without the name change. Now, the time may be right for ASPA to consider such a change.

Since The American Society of Pension Actuaries is known as ASPA, the simple approach is to change the last "A".

Try these: • Activists • Advocates • Advisors
• Actualists • Analysts

Our Statement of Purpose and our Identity Statement will pull us thru a name change.

83.7% of our designated members are non-actuaries. I assume that they are happy joining an "actuarial" organization – since it services their needs. But, I have to wonder as to their response to a client's question, "WHAT'S AN ACTUARY?"

I write this to start the required discussion on the subject!

Warmest Personal Regards,

Eric Kranke, FSPA, CPC, 1988 ASPA President

OK members, let's hear your opinions! – Chris

RAISING THE BAR

Re: the Jan/Feb '02 newsletter, it continues to be very well done!

One big problem that I have, though, is the bar graph on page 16. As any actuary would know, graphs that have a non-zero base are meaningless, and are usually used when the designer is trying to enhance a point. Why not use a base of 3350 (instead of 3200) and show an increase of infinity %?!

Isn't this really your agenda here? In the numbers shown underneath, you report an aggregate increase of perhaps 50% over the years, yet your graphs show over 20 times that.

Actuaries, of all people, should not lie with statistics – I expect more from your publication.

Pls. let me know if you, or your editors, have any questions on this e-mail

thx

David Lipkin, FSA, MSPA

Thanks for your compliment on our continued improvements to The ASPA Journal and also for noting your concern with the membership graph. It was certainly not our intent to mislead – as we clearly stated the exact numbers of member increases and percentages under the graph. Since we were not trying to "sell" something, we did not think of it as misrepresenting the facts in this case. However, we appreciate the point you made that the graph was misleading. Sometimes, in the interest of space and graphic appeal – we lose site of other important issues. We will try to be more astute next time and portray our graphs in more meaningful scales.

Thanks for taking the time to point this out. We are always trying to improve quality, as well as content. – Chris

FROM THE EDITOR

Thanks to all of you who took the time to call or write us and let us know that you liked our new look. We'll continue to take your suggestions to heart in our efforts to make The ASPA Journal even better. In the past, we've received suggestions to add a little humor to the publication (Let's face it – sometimes retirement planning can be a little dry!) – so we hope you'll enjoy our new FUN-da-MENTALs regular feature, along with a few other "surprises" along the way. Keep those letters coming! – Chris

Correction to Last Issue

"New Rollover Opportunities: Be Cautious," rollover chart, page 13

I noticed an omission on my rollover chart, which was published in the Jan-Feb ASPA newsletter. It appears a footnote was omitted from the original spreadsheet that my office forwarded to ASPA. Specifically, distributions from SIMPLE IRAs made after 2001 were not footnoted with regard to the two years of participation requirement applicable to distributions, under Code Section 72(t)(6). The omission may create some confusion. The following rollovers (in 2002) from SIMPLE IRAs should have footnote #2:

- Roth IRA
- SEP
- Governmental 457
- Safe Harbor 401(k)
- 403(b)

Please let me know if you have additional questions.

Thank you,

Michael C. Greenberg, Technical Answer Group, Inc.



ERISA Investment Issues

by David R. Levin, APM

IN THE WAKE OF THE ENRON DEBACLE, THERE IS RENEWED FOCUS ON INVESTMENTS IN EMPLOYER SECURITIES AND PARTICIPANT-DIRECTED INVESTMENTS. EMPLOYEE BENEFIT PLAN FIDUCIARIES HAVE CONTINUING DUTIES: (1) TO BE PRUDENT, (2) TO ACT SOLELY IN THE INTEREST OF PLAN PARTICIPANTS, (3) TO DIVERSIFY PLAN INVESTMENTS TO MINIMIZE THE RISK OF LARGE LOSSES, AND (4) TO COMPLY WITH A PLAN'S GOVERNING DOCUMENTS AND INSTRUMENTS. EVEN UNINTENTIONAL VIOLATIONS OF THE LIMITATIONS ON INVESTMENTS IN EMPLOYER SECURITIES MAY RESULT IN THE IMPOSITION OF PENALTIES AND PERSONAL LIABILITY ON PLAN FIDUCIARIES.

THE MEASURE OF A FIDUCIARY'S DUTY IS NOT BASED ON HINDSIGHT

ERISA does not impose a duty of clairvoyance on fiduciaries. Whether a fiduciary has acted properly in making a decision about investments depends upon the circumstances at the time when the decision was made and not upon subsequent events.

The courts consistently hold that hindsight cannot play a role in determining whether a fiduciary's actions were prudent, and that ERISA's prudence standard "is not concerned with results; rather, it is a test of how the fiduciary acted viewed 'from the perspective of the time of the [challenged] decision' rather than from the 'vantage point of hindsight.'" Hindsight makes any losing investment look like a poor decision. As a court recently explained: "Only with the benefits of 20/20 hindsight could [a participant] have hoped to fare so well. And the law does not entitle [a participant] to the benefit of hindsight." *Lucente v. International Business Machines*.

Participants alone are responsible for losses if: (1) the participants are responsible for their investment choices, and (2) the participants "affirmatively elected to stay with [an investment] in the face of abundant ongoing public information" regarding the likely outcome of the investment. *In re Unisys Savings Plan Litigation*. Or, to put it another way, the participant alone is responsible if the participant's "control was a cause-in-fact, as well as a substantial contributing factor in bringing about the loss incurred." *In re Unisys Savings Plan Litigation*.

Appropriate disclosure is critical: Participants in a plan that permits self-directed investments have no basis for alleging fiduciary breach if the participants "had all the information they needed to make informed choices about their investments." *In re Unisys Savings Plan Litigation*.

INVESTING PLAN ASSETS IN EMPLOYER SECURITIES

Employee benefit plan assets can be invested in employer securities, but the investments must comply with strict statutory limitations. There are limitations on:

- the kinds of employer securities in which plan assets can be invested;
- the percentage of plan assets that can be invested in employer securities; and
- the percentage of plan assets that can be invested in a class of employer securities.

Employees may choose to invest more than ten percent of their salary deferrals in their employer's securities as long as they are given a choice of investments. In addition, employers may continue to invest their matching contributions in their own securities. ▲

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For a detailed series of questions and answers about investing plan assets in employer securities, please refer to the supplemental information contributed by David that has been posted on the ASPA Web site accessible by going to <https://router.aspa.org>. Once logged in, go to Members Only>Newsletter and look under Special Supplements near the bottom of the page.

David R. Levin, APM, is a partner in the law firm of Wiley Rein & Fielding, where his practice includes employee benefits counseling and litigation for single-employer and multiemployer pension and welfare plans. He litigates in federal and state courts and he also defends employers and plans before the Department of Labor, the Internal Revenue Service, and the Pension Benefit Guaranty Corporation. Before going into private practice, David was special counsel in the Office of the General Counsel of the PBGC. He is co-chairman of the American Bar Association's Employee Benefits Committee of the Section of Labor and Employment Law, a Charter Fellow of the American College of Employee Benefits Counsel, and a senior editor and columnist for the Journal of Pension Benefits. David is co-author of Panel Publisher's ERISA Fiduciary Answer Book and has written numerous articles on diverse ERISA issues, as well as A Handbook for Retirement Plan Trustees.

Washington Update

on those contributions until distributed. In the case of both annuities and retirement plans, earnings virtually always result from investments in capital assets.

Purchasers of deferred annuities may (except in the case of qualified annuities) invest an unlimited amount in their annuities. There are no rules restricting the method, type, or level of contribution to an annuity. Further, annuities are not subject to any nondiscrimination rules.

By contrast, contributions to retirement plans, as you know, are generally governed by a set of complex laws that significantly restrict the amount of contributions that can be made by both employer and employee. Retirement plan contributions are often further limited by application of nondiscrimination rules, compensation limits, and other plan qualification requirements.

ASPA's CONCERNS

ASPA points out to lawmakers that employers may abandon their retirement plans unless lifetime payouts from retirement plans are given equal treatment. Annuities will have a significant economic

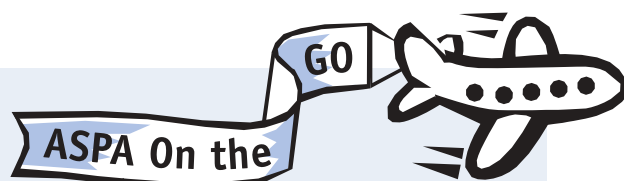
advantage over retirement plans if only annuities are given special capital gains or other preferential tax treatment. This would adversely affect rank-and-file workers, especially those employed by America's small businesses, the fastest-growing segment of the US economy.

Small business owners would naturally view the back-loaded tax advantages of annuities (capital gains tax treatment on lifetime payout, after a tax-deferred accumulation period) as very attractive when compared to the contribution limits, nondiscrimination rules, and administrative requirements of qualified retirement plans. Thus, annuities would become so much more attractive that many small business owners would forego establishment of employer-sponsored retirement plans. Instead, they would invest their retirement money in the now "extra" tax-advantaged annuity, where they would not confront contribution limits, administrative rules, and nondiscrimination requirements to contribute on behalf of employees in order to get the benefit for themselves.

A typical real-life example clearly demonstrates how this would occur. Assume a small business



"Remember, Crenshaw, credits and debits are in the eye of the manipulator."



On March 5, 2002, ASPA President **Craig Hoffman**, APM, testified before Congress during the House Committee on Ways & Means, Oversight Subcommittee hearing on Employee and Employer Views on Retirement Security.

From February 27-March 1, 2002, ASPA President **Craig Hoffman**, APM, and Executive Director **Brian Graff**, Esq., represented ASPA and served as delegates to the 2002 National Summit on Retirement Savings, which was attended by President Bush and numerous members of Congress.

On February 27, 2002, ASPA Board member and GAC Co-Chair **Brad Huss**, APM, testified before Congress during the Senate Finance Committee hearing on Retirement Security: Picking up the Enron Pieces.

On February 14, 2002, ASPA's **Fred Reish**, APM, appeared on CNBC and spoke on issues regarding the Enron case.

with two owners and thirteen employees. In order for both of the owners to save \$35,000 each in their retirement plan, they must contribute \$30,000 on behalf of their employees in order to satisfy the non-discrimination rules. Assume further annual plan administrative costs of \$2,000 for a total retirement plan cost of \$102,000. If the owners, both age 50, continue their retirement plan, their current \$35,000 contribution will each yield an after tax amount of \$66,616 at age 65, assuming an 8 percent annual return and a 40 percent tax rate. Instead, let's assume the owners take the entire \$102,000 for themselves and each purchase \$30,600 individual annuities on an after-tax basis (again assuming a 40 percent tax rate). At age 65, assuming a 20 percent capital gains tax rate, each of the owners would have an after tax amount of \$83,775.

In many cases, small business owners would not be able to pass up the clear economic advantage afforded individual annuities. Consequently, fewer workers in America's small businesses would benefit from employer-sponsored pension plans. These workers are most often middle class, lower-paid employees whose opportunities for significant savings for retirement are limited. Diminution of the employer-based system, especially among small businesses, can have no effect but to substantially lower the overall retirement savings rate among small business' rank-and-file workers.

ASPA'S POSITION

It is essential that a capital gains tax advantage accorded to *any* form of retirement savings be granted to *all* similar forms of retirement savings. Making all forms of lifetime payout options from retirement savings vehicles equally qualified for capital gains tax treatment would avoid tilting the competitive balance away from employer-sponsored plans, especially in the case of small businesses. It is crucial to avoid such a tilt in order to avoid hurting rank-and-file workers whose principal source of retirement income is typically derived from a combination of Social Security and employer-provided pension benefits.

Capital gains tax treatment of lifetime payments from qualified retirement plans and annuities would be an effective incentive that would increase retirement savings, especially among rank-and-file American workers. ASPA will continue its ongoing effort to persuade lawmakers to accord favorable tax treatment to all lifetime retirement savings and to resist an annuity-only proposal that can only hurt qualified plans. ▲

Brian H. Graff, Esq., is Executive Director of ASPA. Before joining ASPA, Brian was legislation counsel to the US Congress Joint Committee on Taxation.

ASPA BUSINESS LEADERSHIP CONFERENCE

Hyatt Lake Tahoe, Incline Village, Nevada
Saturday through Tuesday
May 4-7, 2002

The Business Leadership Conference (BLC) is the perfect opportunity for business leaders to convene. During the conference, attendees will address business issues and share their expertise with other decision-makers.

WHO SHOULD ATTEND

The BLC is designed for retirement plan and pension professionals who are the primary decision-makers in their organizations. These professionals include presidents, principals, owners, vice presidents, and key managers. The BLC will provide programs designed to help all types of ASPA firms – small or large, traditional consulting or daily recordkeeping.

OVERVIEW OF THE CONFERENCE

- New Saturday through Tuesday schedule
- Breakout sessions, general sessions, and peer networking groups
- Ample opportunity for networking during several social events
- Presentations by successful business managers in our industry
- Award-winning motivational speaker
- Opportunity to visit one-on-one with our conference sponsors
- In-depth learning about leadership from a nationally known performance consulting firm
- Breakout sessions tailored to the various types of firms attending

A complete brochure has been mailed. To find out more, visit our Web site at www.aspa.org or contact the ASPA Meetings Department at (703) 516-9300.

The ASPA Journal Accepting Ads!

ASPA is now accepting advertisements in this publication. Don't miss this opportunity to display your company's products and services to the nearly 5,000 readers of *The ASPA Journal*. You will have direct access to influential pension and retirement plan professionals, many of which are decision-makers in their companies.

For inaugural advertising rates, electronic submission requirements, specifications, and a complete schedule of publishing dates, contact Jonathan Watson, Exhibits and Advertising Sales Manager at (703) 516-9300 or at jwatson@aspa.org.



PBGC Meeting

by Kurt F. Piper, MSPA

REPRESENTATIVES OF ASPA'S GOVERNMENT AFFAIRS COMMITTEE MET ON OCTOBER 30, 2001, WITH REPRESENTATIVES OF THE PENSION BENEFIT GUARANTY CORPORATION. ATTENDING FROM ASPA WERE GEORGE TAYLOR, PRESIDENT OF ASPA, EDWARD BURROWS, KURT PIPER, CHAIR OF THE ACTUARIAL/PBGC SUBCOMMITTEE, AND LAWRENCE DEUTSCH, VICE-CHAIR. ATTENDING FROM THE PBGC WERE STUART SIRKIN, HAROLD ASHNER, JOSEPH GRANT, GAIL SEVIN, BELA PALLI, JANE PACELLI, MICHAEL RAE, WALTER LUIZA, DEBBIE MURPHY, AND TED WINTER. THIS WAS OUR SEMIANNUAL CONFERENCE TO DISCUSS A RANGE OF ISSUES OF IMPORTANCE TO ASPA MEMBERS.

First, ASPA thanked the PBGC for the waiver of penalties for late filing of Form PBGC-1 and late payment of premiums for forms and payments due October 15, 2001, due to the September 11 attack. ASPA thought that the vast majority of plan sponsors on the West Coast filed and paid timely but that East Coast plan sponsors might have had some trouble.

Second, ASPA discussed the impact that the September 11 attack would have on ASPA members and our industry as it relates to the PBGC. The possible loss of life of ASPA members and service providers was obviously the primary concern. Plan servicers' firms and plan sponsors' businesses that were affected directly or indirectly may have problems filing their PBGC-1 forms on a timely basis and may also have trouble meeting future deadlines due to loss of records or even greater losses. There might also be plan participants who survived their corporation's tragedy, and there would be no easy way for them to claim their benefits.

ASPA suggested that the PBGC search its database of addresses of plan sponsors to find the plan sponsors who had addresses in the two zip codes for the two towers. Since each building had its own zip code, this method might find most such plan sponsors. Then the PBGC could ascertain whether the plan sponsor was able to handle its responsibilities for the respective plan or whether the PBGC needed to step in and help.

Third, ASPA and the PBGC discussed another ramification of the September 11 attack – the effect of the weakening of the economy and the decrease in the market value of plan assets on the calculation of the variable rate premium. Whether there should be any relief in the calculation of the variable rate premium is a very tricky matter. The PBGC premium structure is designed to cover benefit payments. The purpose of the variable rate premium is to charge higher premiums for plans that present a higher risk,

such risk being determined solely by the current funded status of accrued benefits. The PBGC is not allowed to use true risk underwriting to determine premiums. It is difficult to argue that there has been any decrease in risk when there is a decrease in the value of plan assets.

So, at best, the plan administrator could make use of one or more of the smoothing techniques already available to reduce the variable rate premium. The plan's asset valuation method could be changed to "average" gains and losses (see Revenue Procedure 2000-40). Also, the Alternative Calculation Method could be used; this method would delay the effect of the decrease in asset value on the calculation, but not truly smooth it out.

Of noteworthy mention are the slew of proposals last year to have a temporary decrease in the PBGC premium due to the "excess" premiums then being collected during the economic boom. In March 2001, ASPA discouraged any decrease in the variable rate premium except for that in the proposed legislation.

Joseph Grant of the PBGC provided some statistics: while formerly 30% of participants were in plans paying the variable rate premium, currently only 7% of participants are in such plans. Obviously this will change due to the decrease in the value of plan assets, but the trend has been towards better funding.

Fourth, ASPA and the PBGC discussed a current proposal to substitute the use of Moody's AA rate for that of 30-year Treasuries in the 412(l) calculation and, perhaps, for 417 and 415. Ed Burrows said that while the use of 30-year Treasuries may need to be replaced, the use of Moody's AA is not right. If anything is changed, the whole structure should be torn down and rebuilt. Certainly neither Congress nor Treasury would accept any index other than a government index. It is vitally important to encourage heavier funding. The players screaming the loudest

have always been primarily interested in minimal funding. In fact, there may be too much smoothing now. When the current proposal dies, we should all come together and do something that works.

Stuart Sirkin of the PBGC said that they need to see the data and see what is going on. Perhaps the Code Section 415 interest rate for lump sums should be decoupled from 417 and made a fixed rate again. This change would go a long way towards reducing volatility, long an ASPA priority.

In terms of proposals for pension plans, there is a disconnect between the agencies – the PBGC wants more money contributed to plans while the Treasury is more concerned about taxes. The sad part about Distress Terminations is that pension underfunding is largely a preventable accident. While the sudden collapse of a company could certainly result in some underfunding for the year prior to the collapse, it seems more common that the slow demise of a company could cause a plan to become more and more underfunded as the company sinks.

ASPA believes that there must be a better way than that currently available for employers to contribute more to a plan in good years (and less in bad years). Some proposals will be discussed later in this article.

Fifth, the PBGC provided some information about post-termination audits. Past results indicated that 10% of participants were underpaid in 22% of plans audited. Their more recent (1998-1999) results are that less than 5% of participants were underpaid in 10% of plans audited. Whether this is due to better instructions or the gradual change to GATT rates is unknown.

The criteria for audits are different based on the size of the plan. Plans over 500 lives are always audited. Plans under 500 lives are randomly audited. Plans are audited as quickly as possible after Form

501 is filed, certainly no more than a year after the benefits were distributed.

We discussed whether to audit after the 500 filing, but before the 501 filing. This would not be effective since part of the audit is to determine if the proper 417 rate is used, which depends on the month of distribution.

Sixth, ASPA thanked the PBGC for the premium rule change, which no longer counts persons without accrued benefits as participants for premium purposes. This means that for many plans in which participants accrue benefits based on years of participation, there may be no participants as of the calculation date, resulting in no PBGC premium for the first year of the plan. However, if the Form PBGC-1 for the first year is not filed timely, there could be late filing penalties commensurate with the penalties for late filing of Form 5500. *(Author's note: I have never seen such penalties applied, but I would not want one of my clients to be the first.)*

The good news is that participant data is no longer needed to complete the first Form-1 if there is no premium due, only client information. This way if a service provider knows that a new plan is covered by Title IV, the Form PBGC-1 can be prepared immediately after the plan is adopted. A remaining problem is when the service provider is unaware that the plan is covered by Title IV until many months after the due date of the first Form PBGC-1.

Seventh, the PBGC discussed a problem they were having in processing a huge bulk of premium forms right after October 15. There was also concern on the part of the PBGC with the problems service providers have in preparing such a bulk of forms prior to October 15. One idea was to let small plans file their forms and pay their premiums later, perhaps as late as December 31. Another idea was to stagger

ASPA BENEFITS COUNCILS CALENDAR OF EVENTS

Date	Location	Event	Speaker
April 4	Western Pennsylvania	Communicate, Don't Litigate	Richard D. Glass, PhD, CEBS
April 17	Cleveland	Legislative Update	Brian H. Graff, Esq.
April 19	South Florida	Legislative Update	Brian H. Graff, Esq.
April 24	Dallas/Ft. Worth	Legislative Update	Brian H. Graff, Esq.
April (tba)	Atlanta	Changing 401(k) Plan Vendors	Cynthia Groszkiewicz, MSPA, QPA and guest speaker (tba)
May 15	Texas Gulf Coast	Plan Design Using New Deduction Rules	Kevin J. Donovan, MSPA
May (tba)	Atlanta	Form 5500 Update	Adam C. Pozek
June 27	Western Pennsylvania	Takeovers and Compliance Issues	Cheryl L. Morgan, CPC

the payment and filing for premiums for small plans to be every other year. ASPA did not think either idea was practical since most service providers find it more practical to prepare the PBGC premium form at the same time that the Form 5500 is prepared. Perhaps a better idea would be to find some way to stagger the Form 5500 deadlines in a way that would not confuse service providers. It is possible that changing the filing deadline for the Form 5500 would require legislation. The PBGC has asked for ASPA to provide written input on the subject.

Eighth, ASPA thanked the PBGC for the Form PBGC-1 EZ. It turns out to have been a useful substitute for the PBGC-1 in many instances.

Ninth, the procedures for premium audits are being changed. Instead of automatically looking at six years, only one year would be looked at unless errors were found with the year examined. The PBGC is looking both to encourage compliance and to identify ways to correct problems before they occur. Types of errors found in the most recent exams are the incorrect counting of participants and the incorrect calculation of the variable rate premium.

Tenth, the small plan variable rate premium proposal and the DC lost participant proposal, which were removed from EGTRRA due to the objections of the Senate Parliamentarian, are still expected to become enacted. Labor and Tax committees have promised that they will tack this onto other legislation at the first opportunity. The effective date may be deferred a year due to the delay.

Eleventh, cash balance plans were discussed. Any proposals the PBGC might be thinking of have been put on the back burner until Treasury decides if cash balance plans are OK, whereupon such proposals will be revived. Since ASPA believes that there might be a lot of new, small cash balance plans created in the next year or so, the issues surrounding such should not be delayed.

The PBGC reiterated that their basic problem has not been how to determine the benefit, but simply how to value the benefits for distress terminations. Ed Burrows, MSPA, mentioned that this is a problem for standard terminations as well as for insurance companies providing annuities.

Ed is of the opinion that valuation is the easiest of the two problems, in that an actuary can use reasoned judgement and assumptions good enough to live with, not to belittle any litigation concerns. A tougher problem is what if the plan uses an index that you cannot live with or one that goes out of existence or changes methodology. ASPA would hope that it would be possible for appropriate Code Section 411(d)(6) language to be approved by Treasury. Thus far, Treasury has taken a straight-laced view

that excludes the 96-8 solution of substituting either a fixed rate or another index for a problematic index. Stuart Sirkin was of the opinion that Congress might not be thrilled to be forced to deal with cash balance plan issues again.

Twelfth, ASPA and the PBGC discussed various proposals for defined benefit revitalization. These included:

1. The use of a cash balance format;
2. Accruals that are keyed to employee decisions in how much the employee contributes affecting the benefits he accrues (*e.g.*, matches);
3. Provisions allowing employee contributions on a pre-tax basis;
4. An element of participant direction, such as a variable index or fixed;
5. Reintroduce a spread between the maximum deductible and the minimum required contribution amounts;
6. Combining DB and 401(k) into one document;
7. Combining DB and safe harbor 401(k) into one document;
8. Combining DB and safe harbor 401(k) into one document and substituting an equivalent DB accrual for the 3% safe harbor contribution;
9. A discretionary defined benefit pension plan that would allow the employer to decide late in the year whether there would be an accrual that year. This was a part of the SAFE proposal of ASPA.

The PBGC is of the opinion that the revitalization of defined benefit plans can be served through new cash balance plan designs, including the 401(k) combo. Defined benefit plans have a much better chance of being revitalized if executives' pensions are provided through tax qualified defined benefit pension plans instead of through non-qualified plans. Providing incentives for this approach would be most helpful.

CONCLUSION

The meeting with the PBGC was very constructive. The PBGC is anxious to promote the growth of defined benefit pension plans and to foster incentives for employers to implement and continue defined benefit pension plans. ▲

Kurt F. Piper, MSPA, is owner and chief actuary of Piper Pension & Profit Sharing in Culver City, CA. Kurt serves on ASPA's Board of Directors, is a Member of the American Academy of Actuaries (MAAA), an Associate of the Society of Actuaries (ASA), a Member of ASPA (MSPA), and an Enrolled Actuary (EA). He is a frequent speaker and currently serves as chair of GAC's Actuarial subcommittee.

Share Accounting vs. Unit Accounting

investments (*i.e.*, mutual funds) in which the separate account is invested.

The mutual funds available inside of the separate account are “wrapped” around an annuity contract. The individual mutual funds that make up the separate account are valued using the standard share accounting method described above. However, since there may be hundreds or thousands of plan trustees who select to invest in the wrapped group annuity contract, the contracts are valued using the unit accounting method. Simply, the value of the “funds” available inside the annuity contract are calculated by taking the NAV, plus dividends paid, plus any capital gains paid, minus any fees assessed by the separate account, and are divided by yesterday’s NAV to get today’s unit value. An initial unit value is established for each investment wrapped inside the group annuity separate account (*i.e.*, \$10).

Example 2: If a deposit of \$10,000 is made into a “fund” that is available within the group annuity separate account and the unit value of the fund is calculated as \$10, then 1,000 units are purchased by the fund ($\$10,000/\$10 = 1,000$).

With group annuity contracts, any dividends, capital gains, or fees that are assessed by the “fund” are included within the unit value calculation. There are no additional “units” added to or subtracted from the account. Any “realized” change is calculated as a part of the value of the account (the unit value) rather than adding or subtracting units. Therefore, if a capital gain or dividend is included in the unit value calculation, the unit value of the fund will increase. Conversely, if a fee is included in the unit value calculation, the unit value of the fund will decrease. When an investment inside the group annuity contract pays a dividend, that dividend is also included in the unit value, rather than adding “units” to the account. Using Example 2 above, if the unit value is now calculated as \$10.50, the number of units owned by the trust remains 1,000. However, the value of those units is now \$10,500 (*i.e.*, $\$10.50 \times 1,000$).

ADVANTAGES OR DISADVANTAGES

Are there advantages or disadvantages to either share or unit accounting for daily-valued plans? The biggest *perceived* advantage of share accounting is that an individual participant can track the specific number of shares they own in a given mutual fund provided by the plan. If the net asset value drops, the participant expects that the value of the shares he/she owns will decrease accordingly. If the net asset value increases, then the participant expects that the value of the shares he/she owns will increase accordingly. If a capital gain

or dividend is paid by the mutual fund, then the participant expects to be allocated their pro-rata portion of the capital gain or dividend paid to the fund. As a result, this *perception* can be one of the biggest disadvantages of share accounting. Why? Because the mutual fund is established in the name of the trustees of the plan, *not* the individual participant. Therefore, any capital gains or dividends that are distributed by the mutual fund are paid directly to the aggregated account in the name of the plan. The plan and trust document then determines how those gains or losses are to be allocated to the participants. Depending upon the earnings allocation formula, some participants may be excluded from the allocation, even though they had an account balance at the time the dividend or capital gain was declared by the mutual fund.

Example 3: Assume a mutual fund declares a \$1.00 per share dividend on 3/1/2002 (the declaration date) to be paid on 3/31/2002 (the payment date) to account holders with a balance in the fund as of 3/15/2002 (the record date). Assume that the plan document indicates that earnings are to be allocated based upon the last valuation date. In a daily-valued plan, the last valuation date is typically the previous business day. If a participant had an account balance on both the declaration date (3/1/2002) and the record date (3/15/2002), but elected to transfer his/her entire balance to another fund on 3/18/2002, then the participant would not be included

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- Learn from the top officials and representatives of the IRS, Department of Labor, and Department of Treasury.

ASPA and the ABC of Delaware Valley are proud to join EBC, Inc. in co-sponsoring this educational conference with the IRS.

Brochures are available online. Visit our Web site at www.aspa.org or contact the ASPA Meetings Department at (703) 516-9300.



in the earnings allocation. (Note: The earnings allocation may not be completed until April, when the earnings distribution is allocated to participants.)

Many participants would argue that they are eligible to receive an earnings allocation in the above example because they had a balance in the account on the record date. However, as indicated earlier, the participant does not actually “own” the shares of the mutual fund. The participant only owns “an interest” in the account, and the account is actually owned by the trust. As a result, the trust dictates how the earnings should be allocated. In reality, when the participant moved their money from the fund on 3/18/2002, he/she “realized” any earnings accumulated by the fund at that time. When the capital gain or dividend is actually paid to the mutual fund account, in this case on 3/31/2002, the net asset value of the fund is decreased and the number of shares that the plan owns is increased accordingly. There is no stated change in the overall “equity position” of the account.

Alternatively, plans that invest in wrapped group annuity contracts that use unit accounting avoid having to allocate any earnings distributions made by the underlying investments in the separate account, since earnings are automatically included in the unit value calculation. Therefore, there are no capital gains or dividend allocations to be processed against individual participant accounts. This method reduces the need for the plan administrator to allocate earnings as they are received, since the earnings are already included in the overall value of the account. However, this can be frustrating for participants because they cannot determine the actual number of shares they “own” and cannot track the value of these investments directly via sources such as the newspaper or the Internet. Also, if there are any asset management fees associated with the group annuity contract, they may be included in the unit value calculation and invisible

to the participant. Therefore, it may be more difficult to determine the exact expenses associated with a given investment inside the annuity contract. However, the group annuity contract expenses are typically defined in the contract itself.

RECORDKEEPING

A participant-directed plan can use either “unit accounting” or “share accounting.” If the plan sponsor chooses to fund the trust with mutual funds, then the plan recordkeeper will typically use share accounting. If the plan sponsor chooses to fund the trust with a group annuity product, then the plan recordkeeper will typically use unit accounting.

If the plan also provides for daily valuation, then the participant will have the ability to move their money frequently between the investments available. For example, if the plan has ten investments available for selection, then the participant will typically elect to move a percentage of one investment to one or more of the other available investments. The recordkeeping system will then “value” those shares or units to determine the dollar amount to be transferred. If the plan uses share accounting, the dollar amount will be calculated by taking the number of shares calculated times the NAV for the mutual fund. If the plan uses unit accounting, the dollar amount will be calculated by taking the number of units held times the calculated unit value. Most recordkeeping systems are designed to accommodate investments that are valued using either a share value or a unit value. For daily-valued plans, these share or unit values are input into the recordkeeping system every day. Then, based on the number of shares or units that a participant has in his/her account, the system will multiply the value times the number of shares or units and determine the account balance for that particular investment. The participant can then obtain this value via a voice response system or the Internet.

JBEA: RENEWAL OF ENROLLMENT UPDATE

The JBEA mailed applications for renewal of enrollment in October 2001. Any enrolled actuary who did not receive an application can receive a copy by going to the Joint Board’s Web site or by calling the Joint Board at (202) 694-1891. The Web site can be found on the Internal Revenue Service homepage at www.irs.gov. Once there, click on “Tax Professionals” and then click on “Enrolled Actuaries.” Form 5434A, *Application for Renewal of Enrollment*, can be found in the section titled “General Information Concerning Renewal of Enrollment.”

The Joint Board previously issued a notice extending the due date for the Application for Renewal of Enrollment from March 31, 2002, to July 31, 2002. The Joint Board urges enrolled actuaries to complete the form and mail it in as soon as all CPE requirements are met.

Wear the logo with pride!

ASP is now selling white, pine green, and navy blue polo shirts featuring the ASP logo embroidered on the chest. An order form is included in this issue of *The ASPA Journal*. Order now while all colors and sizes are in stock!

Item: ASPA Outer Banks Polo Shirt is 100% heavyweight 6.8 oz. cotton.

Item #: A-03

Colors: White with blue logo
Navy with white logo
Pine Green with black logo

Sizes: S, M, L, XL, XXL

Price: \$32.50 + shipping and handling

SELF DIRECTION

Many participant-directed plans also provide for “self-direction” of investments. In this situation, an individual brokerage account is established for each participant in the plan. The participant can then pick and choose any investment they wish, such as individual stocks or mutual funds. The participant maintains total control over the investments he/she wants to select. The participant usually accesses the brokerage account directly from the broker providing the account (e.g., Fidelity, Schwab, Merrill Lynch). Many of the recordkeeping systems will store the basic individual brokerage account information, such as the account number and total account balance. However, the broker providing the account tracks the individual investment balances and transaction history. If a participant purchases stock inside the brokerage account, then the broker handling the account will buy the specific number of shares requested by the participant. The broker holding the brokerage account would typically use share accounting for any mutual funds selected by the participant. Unit accounting is usually not applicable for investments held inside a brokerage account.

CONCLUSION

There are distinct differences between share accounting and unit accounting. Consultants should make their clients aware of the differences between these two methods and discuss the advantages and disadvantages of each. With that knowledge, clients can make informed investment selections, choosing the types of investments that are most appropriate for their plans and their participants. ▲

Carol J. Ringwald, founder and president of Daybridge, works in the Jacksonville, FL home office. With more than twenty years of experience in the pension and insurance industries, Carol provides business consulting in the areas of daily valuation and recordkeeping, product marketing and pricing, internal policies and procedures manuals, and evaluating recordkeeping systems and trading platform solutions. Formerly, Carol was a senior vice president with Shawmut Consulting Associates, Inc. and a daily consulting services manager with SunGard Corbel. Carol has spoken at seminars sponsored by the American Institute of Certified Public Accountants, ASPA, SunGard Corbel, the Office of the Comptroller of the Currency, and NIPA.

THE 2002 401(K) SALES SUMMIT

ASPA's First Annual 401(k) Sales Summit was an overwhelming success in every way! Industry recognized speakers, premier exhibitors and sponsors, and a diverse group of attendees representing the various aspects of selling and marketing 401(k) plans filled the conference halls. The numbers speak for themselves! We sold out the Exhibit Hall and we outgrew the hotel in the first year (over 520 total attendees)! But these are “problems” we are happy to deal with. And, most importantly, due to the tremendous response to this new conference – there will definitely be a “Second Annual 401(k) Sales Summit.”

The goal of the Summit was to reach out to *all* retirement professionals, including those outside of our current ASPA membership, who sell or influence the sale of 401(k) plans. We wanted to provide a forum for education, networking, and the sharing of ideas between the top 401(k) sales and marketing professionals in the country and the top retirement technical experts in the country. We met that goal. The list of speakers, attendees, exhibitors, and sponsors looked like a list of “Who’s Who in the Retirement Planning Industry”!

Harry Dent of H.S. Dent Advisors started off the conference with his insightful presentation – “The Roaring 2000s.” His optimistic view (you might want to buy this tape!) of today’s stock market and where it is

going, based on Baby Boomer demographics and statistics comparing the Technological Revolution to the Industrial Revolution, set the tone for an upbeat meeting.

In addition to the opening session, two other popular sessions were Warren Cormier, of Boston Research Group, presenting “What Do Plan Sponsors Really Want?” and ASPA’s own Executive Director, Brian Graff, offering an up-to-the-minute informative (and amusing) account of the Enron debacle and what is happening on the Hill related to proposed legislation resulting from Enron issues. (Keep working on those Seinfeld imitations, Brian!)

Special thanks to the Summit committee and ASPA staff for all the hard work and long hours that made this conference a reality!

Program Co-Chairs

Christine Chaia
Frederick Reish, APM
Chris Stroud, MSPA, MAAA, EA

Conference Consultant/Coordinator

Kristine Coffey, CPC

Steering Committee

Mark Davis
Stephen L. Dobrow, QKA, QPA, CPC
Steve Hart
Terri Weatherby, QPA, APA, APR

sum mit (sum'it), *n.* **1.** the highest point or part; top; apex. **2.** the highest point of attainment or aspiration. **3.** the highest state or degree.

—**Syn.** **1.** peak, pinnacle.

sum'it meet'ing, any meeting or conference of top-level officials, executives, etc.

EXHIBITORS

401(k) Exchange	MassMutual
Actuarial Systems Corp.	Matrix Settlement & Clearance Services
Alliance Capital Management	MetLife
Arnerich Massena & Associates	Mutual of Omaha
BISYS Retirement Services	Nationwide Financial
CIGNA Retirement and Investment Services	Net Financial Systems
Circle Trust	Newkirk
Datair Employee Benefit Systems	NYLIM Retirement Services
Daybridge emplanet	Ohio National Financial Services
Fidelity Investments Institutional Services Co.	Pan American Life
First Mercantile Trust	Penchecks, Inc.
GoldK	PFPC
The Guardian	Pioneer Funds
Hartford Life	Putnam Investments
ING AETNA	Scudder Investments
Janus	Security Trust
Larkspur Data	Sharp Benefits, Inc.
Liberty Funds	SunGard Corbel
Lincoln Retirement	T. Rowe Price
Manulife Financial	TeamVest Retirement Plan Services
	Travelers
	Trustar Retirement Services
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401(k) Sales Summit

"I have really appreciated the narrow focus on 401(k) and have completed my membership application for ASPA because of the quality of this meeting."

*"It was great to have the
As a TPA, I met an investor
and we plan to do business"*

Carol Lawton, Christopher Diana, and Tony Shetensky enjoy the activity at the Traveler's booth during an Exhibit Hall break.



Chris Stroud, MSPA, Conference Co-Chair, kicks off the First Annual 401(k) Sales Summit.

So many attendees! Had to move the lunch – what a treat!



Nevin Adams
 Chris Barlow
 Fred Barstein
 Jack Boyce
 Kerry Boyce
 Jerry Bramlett
 Pat Byrnes
 Katherine Capage
 Tyler Carr
 Phil Chiricotti
 Warren Cormier
 Harry Dent
 Stephen Dobrow
 David Duncan
 Ryan Felie
 Thomas Foster
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Brian Graff
 Ward Harris
 Beverly Holmes
 Bambi Holzer
 Donald Jones
 Sean Kelley
 Lee Kliebert
 Derek MacDougall
 Daniel Notto
 Rosemarie Panico-Marino
 Marge Paul
 Fred Reish
 John Rekenthaler
 Neal Ringquist
 Matt Russell
 Eric Schneeman
 Grant Seeger
 Gail Weiss
 Steve Wilt

Speakers

The 401(k) Sales Summit will return to Scottsdale next year!

Photographs courtesy of Stephen Dobrow, CPC, QPA, QKA, and Todd Brost, ASPA Director of Meetings.

"Actuaries and investment folks together! Great idea!"



The conference attendees had many opportunities to visit the industry's leading product and service providers in the sold out Exhibit Hall.



ASPA members Mark Davis and Bruce Ashton, APM, enjoy the warm Scottsdale sun during the lunch break.

Highlights



opportunity to meet investment professionals. Investment professional at this conference ss together."



Kris Coffey, CPC, Conference Consultant, gives the "thumbs-up" sign to indicate a successful conference.

Brain Graff, Esq., ASPA's Executive Director, provides an informative (and humorous!) update on the impact that Enron is having on Capitol Hill.



Conference Co-Chair Fred Reish, APM, and Scottsdale local Kerry Boyce, CPC, QPA, chat with Summit attendees.



Demystifying the ASPA Board Selection Process

by Richard D. Pearce, FSPA, CPC

DID YOU EVER WONDER HOW ASPA BOARD MEMBERS GET SELECTED? THOSE OF YOU WHO HAVE ATTENDED THE ASPA ANNUAL BUSINESS MEETING AT THE ANNUAL CONFERENCE IN WASHINGTON, DC, MAY KNOW THAT TYPICALLY A SLATE OF NEW BOARD MEMBERS IS SUBMITTED ON BEHALF OF THE NOMINATING COMMITTEE. ALMOST IMMEDIATELY, SOMEONE IN THE FRONT ROW MAKES A MOTION THAT NOMINATIONS BE CLOSED. A QUICK MEMBERSHIP VOTE IS TAKEN, AND ANOTHER NEW TEAM OF BOARD MEMBERS GOES INTO PLACE. THIS IS AN ANNUAL RITUAL THAT LEAVES SOME OF OUR MEMBERS SCRATCHING THEIR HEADS AND WONDERING HOW FAIR AND OPEN THIS PROCESS REALLY IS.

Any credentialed ASPA member is eligible to sit on our Board of Directors. To be considered, two voting ASPA members must submit the member's name for nomination no later than 60-days prior to the annual business meeting. The Screening Committee then reviews the list of nominees. This committee consists of five members. Two are Board members chosen by the immediate past president, and two are Board members chosen by the penultimate past president. (These Board members may not be individuals currently eligible for reelection to the Board.) ASPA's President is the fifth member and serves as chair of the Screening Committee.

The Screening Committee's job is to review the nominations list and to make recommendations to the Nominating Committee. There are a number of items that are taken into consideration in this process. In order to assure adequate representation for all of our members, it is important that the Board of Directors be carefully balanced. Not only should each of ASPA's six professional designations be well represented, but also a relatively equal number of

Directors should come from each of our major committees. This balance helps prevent any single committee's agenda from dominating the activities of our organization.

The Screening Committee also takes into consideration the size and type of company in which the nominee is employed to make sure all of the various businesses that make up the retirement plan industry are represented. Another criteria the committee takes into account is the physical location of the nominee's place of business to make sure that our Board is diversified geographically as well. Finally, the Screening Committee ranks each candidate on leadership potential, since our officers are invariably chosen from the Board of Directors.

All of these criteria are taken into careful consideration by the Screening Committee in evaluating the nominees that are submitted each year. They attempt to rank each candidate based not only on the balance or leadership he or she might bring to the Board, but also on how much the nominee has contributed in the way of time and effort on the committees on

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Thursday, June 13, 2002
Crowne Plaza Boston-Natick
Natick, MA

Friday, June 14, 2002
Crowne Plaza Hotel
White Plains, NY

Co-sponsored by ASPA and the Northeast Area Employee Plans, Tax Exempt and Government Entities Division of the IRS and its Pension Liaison Group

Don't miss this great opportunity to meet and discuss employee benefit issues with colleagues, and government representatives. Plan to register by May 24 and take advantage of the early registration fee of \$250. For more information, call ASPA's Meeting Department at (703) 516-9300 or visit our Web site at www.aspa.org.

which he or she has served. This task makes where the Screening Committee's job exceedingly difficult. There are lots of hardworking members who staff our various committees, and many of them are deserving of a seat on the Board. Unfortunately, there are just 18 total Board positions available, and usually only six seats open up in any one year. Very often a current Board member who has been selected for the Executive Committee will resign his or her seat, and this will open up an extra position in a particular year. Just as often, however, a seated Board member will be nominated for a second term, and this means one less Board position will be available for the current year's list of new candidates. No individual ASPA member is permitted to serve more than two consecutive three-year terms as a Director.

Once the Screening Committee has completed its work, the entire list of candidates is then forwarded to the Nominating Committee along with the preliminary rankings. The Nominating Committee is chaired by the immediate past president and is made up of the current ASPA President (who votes only in the event of a tie) and the five immediately preceding past presidents. ASPA's President-Elect also attends Nominating Committee meetings as an observer. This committee completes a second review of each candidate using the same criteria as the Screening Committee and taking into consideration that committee's rankings.

The Screening and Nominating Committees both meet three times each year. The Nominating Committee's final selection report is not made until the fall Board meeting that precedes the Annual Conference. Following approval by the Board, this final slate is then presented to our membership for a formal membership vote at the annual business meeting.

With so few Board seats available each year, it is not unusual for a candidate to be nominated three, four, or even more times before being selected by the Nominating Committee. Unfortunately, not everyone who may deserve a seat on the Board successfully emerges from the tedious screening process; however, it is certainly no disgrace if a candidate fails to be selected. Sometimes it is just a matter of being on the right committee or being located in a certain geographic area that turns out to be the deciding factor between two equally qualified candidates.

So that's how ASPA's Board members get selected. The Board of Directors certainly is not the "good old boys" club that some people might suspect it to be. Quite the contrary, the selection process is designed to assure the organization a diversified point of view as well as adequate representation for all of

our members. And with all of ASPA's accomplishments over the past few years, many of our members would agree that the system seems to be working quite well. ▲

Richard D. Pearce, FSPA, CPC, is president of Invesmart of Delaware, a pension consulting firm in Wilmington, DE. As president of ASPA in 1997, Pearce was chair of the Screening Committee and was also chair of the Nominating Committee in 1998. He has also been a member of ASPA's Board of Directors and is past chair of the Government Affairs Committee's Congressional Relations Subcommittee, Interprofessional Relations Committee, and Principles, Practices and Risk Management Committee. He served on the Council of Presidents Joint Committee that developed the Uniform Code of Professional Conduct.

Educator's Award Call for Nominations

The Education and Examination Committee is seeking nominations for ASPA's Educator's Award to recognize and honor outstanding educators. The recipient of the Educator's Award will receive a plaque in recognition of his or her achievement, free registration to the 2002 ASPA Annual Conference to attend the award presentation, one night's accommodation, and feature articles in *The ASPA Journal* and *The Candidate Connection*.

If you know an ASPA member who has made a significant contribution to pension education (e.g., through instruction, conferences, ASPA Benefit Councils, promotion of ASPA's education program, or preparation of educational materials), please complete and return the form below by June 1, 2002.

Please also attach a few paragraphs in support of your nomination, including nominee background information.

Return the completed form to:

ASPA, Attn: Director of Education Services
4245 North Fairfax Drive, Suite 750
Arlington, VA 22203-1648

You can also fax the form to (703) 516-9308.

ASPA's Educator Award

Educator's Name: _____

Educator's Company: _____

Educator's Phone: (____) _____

Nominator's Name: _____

Nominator's Company: _____

Nominator's Phone: (____) _____

Please attach a few paragraphs in support of your nomination and return by June 1, 2002.

Credit the New Math of 401(k)

the regular reduction in taxable income at their 15% bracket, plus an additional \$1,000 from the tax credit. That means the cost of contributing \$2,000 was only \$700. If the employer makes the most common 401(k) match of 50% on the first 6% of compensation deferred, the employee will receive a \$960 match.

The employee's \$700 cost of contributing netted a total of \$2,960 in the plan. That is equivalent to a "return" of over 322%!

Employers should begin revising their own math. The cost of 401(k) matching obligations will certainly be higher in future years as more employees learn of the new tax credit and increase plan participation. Contributing to a retirement program is now more affordable and makes great economic sense for moderate wage earners. ▲

The above article was reprinted, with permission, from *News @ Hand*, a publication distributed by Hand Benefits and Trust, Inc.

☞ *Additional savings may be available on state income tax rates, but beware – states must first conform to EGTRRA provisions.*

ADJUSTED GROSS INCOME			TAX CREDIT RATE
Joint Filers	Single Filers	Heads of Households	
\$0-\$30,000	\$0-\$15,000	\$0-\$22,500	50%
\$30,001-\$32,500	\$15,001-\$16,250	\$22,501-\$24,375	20%
\$32,501-\$50,000	\$16,251-\$25,000	\$24,376-\$37,500	10%
Over \$50,000	Over \$25,000	Over \$37,500	0%

Michael L. Bain and Sal L. Tripodi Elected to ASPA's Board of Directors

Michael L. Bain, MSPA, and **Sal L. Tripodi**, APM, have been elected to ASPA's Board of Directors and will serve a three-year term from 2002 to 2005.



Mike is co-owner of CMC, a third party pension administration firm, in Glendale, CA. Mike graduated with a Bachelor's Degree and highest honors from the University of California at Riverside and went

on to receive his Master's Degree. He is a Member of ASPA, (MSPA), an Associate of the Society of Actuaries (ASA), and a Member of the American Academy of Actuaries (MAAA).

Mike serves as General Co-Chair of ASPA's Education and Examination Committee, as well as Chair of ASPA's Technology Committee. He is currently vice president and a board member of the Glendale Association of Retarded. Mike has also served as a board member for the Kiwanis Club of Glendale.

Mike has spoken at functions presented by ASPA, the National Institute of Pension Administrators (NIPA), the California CPA Society, and at local seminars for various industry groups. He has taught a wide variety of courses ranging from dog obedience and first aid to university-level calculus and pension administration courses.



Sal earned a law degree from Catholic University of America in Washington, DC and a Masters in Taxation from Georgetown University Law School. In addition to his current work with TRI Pension Services, which provides training, consulting, and publishing services relating to ERISA plans, Sal serves as adjunct professor at the University of Denver School of Law, Graduate Tax Program. He was on the legal team that drafted the Corbel/FDP prototype documents under GUST. Sal is also the chair of GAC's Legislative Relations Committee.

Sal worked for the National Office of the IRS, Employee Plans Division. Sal also served for eleven years as vice president of PPD, a pension consulting firm. He is the author of the *ERISA Outline Book*, which is published by ASPA and used in ASPA's education program. He was named as the recipient of ASPA's 2001 Educator's Award.

Sal has spoken at seminars and national employee benefits conferences. His closing sessions, "Keeping Current," at the ASPA Annual and Summer conferences consistently receive rave reviews.

Sal has spoken at seminars and national employee benefits conferences. His closing sessions, "Keeping Current," at the ASPA Annual and Summer conferences consistently receive rave reviews.

Lawrence Deutsch, MSPA; Beverly Haslauer, CPC, QPA; and Stephen Rosen, MSPA, CPC, were elected to their second Board terms and will serve until 2005.

WELCOME NEW MEMBERS

Welcome and congratulations to ASPA's new members and recent designees.

MSPA

Philip D. Cofield
Janice L. Rexroth

CPC

Jeffrey D. Cain
Betty Carnes
J. Timothy Corle
Steven C. Crawford
Jennifer Garvin
Katherine L. Glowac
Barbara A. Hoffman
Andrew B. Ledewitz
Peter J. Opitz
George C. Patterson
Timothy F. Pegler
Susan H. Perry
Susan Septimus
Jeffrey A. Swiantek
Larry A. Turner
Michelle M. Ueding
William E. Wagnon
Matthew T. Zwaanstra

QPA

Beau C. Adams
Diane M. Barton
Dean A. Becker
Brandy L. Brandt
Michael Thomas Burmeister
Marilyn Chladil
Julene Christie
Cathy J. Cornell
Martin J. Costello
Kimberly Ann Eddins
Linda J. Garza
Arnold D. Gerstein
Irene Gofman
Michael D. Grabhorn
Jodie L. Hanke
Andrea M. Heffner
Joyce Hollerbach
Karen B. Johnson
Christina R. Jones
Joe L. Kitchens
Sharlene L. Koleno
Janet E. Lacy
Kathleen K. Laird
Michael K. Lamb
Annelisa M. Lemstra
Larry L. Lienemann
Neil Lisec

Nancy L. Lustig
James I. Mahaney
Kimberly A. Mamula
Marilyn Manzer
Cari A. Massey-Sears
Scott M. Miller
Kyla K. Myers
Christopher Paese
Cynthia A. Parker
J. Paul B. Prasifka
Susan M. Reynolds
Linda H. Robinson
Martha S. Sharp
Nellie A. Slash
Cynthia S. Smeltzer
Terrence J. Smith
Gregory L. Stone
Deborah J. Stransky
Jeffrey A. Swiantek
Thomas B. Vickroy
Amy J. Vlieg
Kyleen R. Wagner
Nana A. Waters
Em B. Willoughby
Winnie S. Yu

QKA

Gary J. Demaio
Paul F. Dolan
Gwendolyn S. Dominic
Joseph J. Dwyer
Kathleen H. Dyar
Kimberly Ann Eddins
Stephen G. Estelle
Steven A. Ferguson
Edward C. Fink
Steven H. Forss
Sheri L. Foster
Charles R. Fridinger
Robert S. Frost
Mary Fusco
Linda J. Garza
Gary J. Geiger
Lenore M. G. Ginoza
Igor Golubov
Helene Gorny
Michele L. Gugino
Christine M. Haas
Stacey D. Hall
Jodie L. Hanke
Denise M. Hankey
Gavin Harpman

Kathleen Harris
Margaret M. Heffernan
Robert J. Henighan
Kathleen A. Hill
Dennis Holcombe
Joyce Hollerbach
Darren P. Holsey
Delores Hom
Kimberly A. Hubatch
E. Christine Hulbert
Christie R. Huls
Lisa M. Isabella
Robert A. Janicki
Karen B. Johnson
Lura E. Johnson
Russell R. Johnson
Thomas Edward Johnston
Cheryl A. Jorgenson
Cynthia L. Kamuf
Arlene R. Karczewski
Holly Karder
Deborah J. Katz
Julie A. Kelly
Rick E. Kennedy
Lisa C. Keys
Peter W. Kirtland
Allan W. Knaup
Jesse J. Knight
John M. Knoll
Beth Fuquay Koch
Jacqueline Kral
Marianne T. Kral
Candace Larson
Daniel M. LeFree
Edward R. Lenahan
Amanda C. Lester
Leigh A. Lewis
Larry L. Lienemann
Neil Lisec
Linda Lum
Lara Magruder
Barbara A. Mansfield
Marilyn Manzer
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Marcello Mazza
David S. McIntire
Elizabeth K. Mcintyre
Vincent McKearney
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Shelia L. McLaughlin
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Brenda C. Meckler

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Douglas R. Morgan
Byron F. Morton
Michelle L. Moser
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Kimberly M. Pace
Jane A. Parsons
Sandra M. Pehur
Linda K. Phillips
Casey L. Pittman
Kasey R. Price
R. Joseph Rader
Thomas Redmond
Kevin P. Reynolds
Kimberly A. Rineer
Michael G. Ritchie
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Joan E. Scherer
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Robert A. Schutz
Cathy Scott
Anna M. Sears
Blanca Shapiro
Martha S. Sharp
Brandy K. Simons
Debra L. Singer
Christine Sivak
Nellie A. Slash
Laura L. Small
Lawrence M. Smith
Russell D. Smith
Kelley D. Stanton
Robert W. Stebbins
Chris R. Stencil
Gregory L. Stone
Deborah J. Stransky
Angela R. Subera
Laura L. Swain
Natalie Torres
Victor A. Traub III
Thomas B. Vickroy
Amy J. Vlieg

Kyleen R. Wagner
Terrence M. Walsh
Marcia S. Weaver
Eileen F. Whitmore
Donna L. Wilhelm
Judith A. Winkler
Stephen E. Witkun
John J. Wolf
Toi Yam
Barbara L. Young
Keith A. Zatawski
Christopher L. Zebley
Douglas C. Zemer
Janice A. Zielesch

APM

Thomas A. Gatenby
Kathleen M. Meagher

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Cynthia R. Voelkel



Alphabet Soup

In today's fast-paced world, we are often deluged with information and our brains are frequently on "overload." As a result, it is commonplace to see and hear frequently used names and phrases shortened into easy-to-remember abbreviations or acronyms. This language of short-cuts affects all aspects of our daily lives – USA, USB, SSN, PIN, PC, RSVP, ETA, PTA, ID, IQ, WWW, COD, DOB, and the list goes on and on.

Industry-related acronyms can be quite confusing to new employees entering the workforce who might not have had the chance to learn the terms' origina-

tions. Consequently, a technical conversation at the office water cooler might seem like a bowl of alphabet soup! In some instances, frequent use of an acronym can cause us to forget the original identity of the name or phrase. Here's a quick reference of acronyms often used within ASPA publications and amongst ASPA members. The list primarily focuses on ASPA committees, actuarial organizations, and legislation. To find out more about any of these terms or to learn more about other industry-related acronyms, refer to your *2002 ASPA Yearbook* and the *PA-1 Study Guide*.

AAA - F&B

AAA	American Academy of Actuaries; a professional membership organization for actuaries practicing in the US	CCA	Conference of Consulting Actuaries; a professional membership organization for actuaries working as consultants
ABCD	Actuarial Board for Counseling and Discipline; responsible for disciplinary procedures for actuaries	COP/COPE	Council of Presidents/Council of Presidents Elect; a North American committee consisting of the Presidents and Presidents-Elect from all the major actuarial societies
ABCs	ASPA Benefits Councils; regional councils formed to promote ASPA recognition and membership within communities	DB	Defined Benefit
APM	Associated Professional Member; an ASPA designation	DC	Defined Contribution
ASA	Associate of the Society of Actuaries; an SOA designation	DEFRA	Deficit Reduction Act of 1984
ASAPs	ASPA's technical alert service (offered by fax or e-mail) to disseminate late-breaking news "ASAP" (as soon as possible)	DOL	Department of Labor; responsible for enforcing ERISA
ASB	Actuarial Standards Board; responsible for professional standards of practice for actuaries	E&E	ASPA's Education and Examination committee; develops ASPA's study courses and oversees the examinations; also refers to ASPA's education and examination program
ASPA	American Society of Pension Actuaries – a professional membership organization designed to educate actuaries, consultants, administrators and other benefits professionals, and to preserve and enhance the private pension system	EA	Enrolled Actuary (can certify Schedule Bs and actuarial reports)
BLC	ASPA's Business Leaders Conference; held annually to assist retirement business owners and managers in addressing industry business issues	EA	Enrolled Agent (can practice before the IRS)
BOD	ASPA's Board of Directors	EC	ASPA's Executive Committee
		EGTRRA	Economic Growth and Tax Relief and Reconciliation Act of 2001
		ERISA	Employee Retirement Income Security Act of 1974 – also referred to as the "Act"; the "granddaddy" of employee benefit plan legislation
		ERTA	Economic Recovery Tax Act of 1981
		ESOP	Employee Stock Ownership Plan
		F&B	ASPA's Finance and Budget committee; responsible for managing the budget and monitoring ASPA's accounts, income, and expenses

FSA	Fellow of the Society of Actuaries; an SOA designation	PLR	Private Letter Ruling, a document issued by the IRS national office
FSPA	Fellow, Society of Pension Actuaries; an ASPA designation	PWBA	Pension and Welfare Benefits Administration, which is a part of DOL
GAC	ASPA's Government Affairs Committee; communicates with top officials and government agencies regarding legislation and pension policies	QDRO	Qualified Domestic Relations Order; provides for the assignment of qualified plan benefits in a divorce proceeding
GATT	Uruguay Round of the General Agreement on Tariffs and Trade – 1994	QKA	Qualified 401(k) Administrator; an ASPA designation
GUST	Combined term for GATT, USERRA, SBJPA, and TRA '97	QPA	Qualified Pension Administrator; an ASPA designation
HCE	Highly Compensated Employee	REA or REACT	Retirement Equity Act of 1984; this legislation introduced "QDROs"
IRA	Individual Retirement Account	RPA	The Retirement Protection Act of 1994 (often referred to as "GATT" in the pension world, since it was attached to the GATT bill)
IRC	Internal Revenue Code (also referred to as "the Code"). After the extensive revisions of TRA '86, the former "Internal Revenue Code of 1954" became "the Internal Revenue Code of 1986."	SBJPA	Small Business Job Protection Act of 1996; introduced "SIMPLE 401(k)" and "SIMPLE IRA"
IRS	Internal Revenue Service; responsible for enforcing the Code	SEP	Simplified Employee Pension plan
JBEA	Joint Board for the Enrollment of Actuaries	SOA	Society of Actuaries; an international research, education, and membership organization for actuaries; administers actuarial exams and provides Associateship and Fellowship designations
LABC	ASPA's Los Angeles Benefits Conference; a conference held annually, jointly sponsored by ASPA and the IRS	SPIT	ASPA's Strategic Planning and Implementation Team; a forum to assist in the implementation of the plans and visions of ASPA's Board of Directors
MABC	ASPA's Mid-Atlantic Benefits Conference; a conference held annually, jointly sponsored by ASPA and the IRS	TAJ	<i>The ASPA Journal</i> ; the name of ASPA's current bi-monthly publication
MSPA	Member, Society of Pension Actuaries; an ASPA designation	TAMRA	Technical and Miscellaneous Revenue Act of 1988
NHCE	Non-highly Compensated Employee	TEFRA	Tax Equity and Fiscal Responsibility Act of 1982; introduced the "top-heavy" concept
OBRA	Omnibus Budget Reconciliation Act. The original act passed in 1987; subsequent acts with the same name were passed in 1989, 1990 and 1993	TPA	Third Party Administrator; one who helps administer qualified plans
PA-1	ASPA's Pension Administrator's course (consists of Parts A and B)	TPA	<i>The Pension Actuary</i> ; former name of ASPA's bi-monthly publication
PAC	ASPA's Political Action Committee; provides financial support to candidates for federal elective office who demonstrate support of the private pension system	TRA	Tax Reform Act; originally passed in 1986; a subsequent act with same name was passed in 1997. TRA '86 brought the first uniform definition of HCE.
PBGC	Pension Benefit Guarantee Corporation; provides plan termination insurance for certain DB plans	UCA	Unemployment Compensation Amendments of 1992
PERF	ASPA's Pension Education and Research Fund; provides endowments for educational institutions to be used in granting scholarships	USERRA	Uniformed Services Employment and Reemployment Rights Act of 1994

2002 GREAT LAKES IRS/ASPA BENEFITS CONFERENCE

Co-sponsored by ASPA and the IRS

May 2-3, 2002
Hyatt Regency McCormick Place
2233 S. Martin Luther King Drive
Chicago, IL 60616

The 2002 Great Lakes Area IRS/ASPA Benefits Conference is an opportunity to meet and discuss employee benefits issues with colleagues and government agency representatives. The program focuses on exchanging information, advancing knowledge, and fostering sound principles, procedures, and practices.

Formerly known as the Midstates Benefits Conference, the 2002 Great Lakes IRS/ASPA Benefits Conference will provide you with the best education for your investment.

CONFERENCE BENEFITS

- Access to the newest information concerning benefits regulation, litigation, enforcement, and compliance
- An opportunity to network with other practitioners, plan sponsors, and plan administrators
- Table top exhibits displaying the latest in products and services

A complete brochure has been mailed. To find out more, visit our Web site at www.aspa.org or contact the ASPA Meetings Department at (703) 516-9300.

THINKING ABOUT JOINING ASPA PAC?

I encourage you to talk with your peers at the ASPA conferences listed below and to be a part of the PAC that positively impacts our retirement profession on Capitol Hill. Ask *us* why *we* joined ASPA PAC. We will be the ones with the ASPA PAC sticker on our name badges. We are working to make a difference.

Great Lakes Benefits – May
Business Leadership – May
Mid-Atlantic Benefits – May
Summer – July
Annual – October
LA Benefits – January



Stephen L. Dobrow, CPC, QPA, QKA
General Chair, Conferences Committee
ASPA PAC member

For more information about ASPA PAC, contact Jolynne Flores, ASPA's PAC Manager, at jflores@aspa.org or (703) 516-9300.

The ASPA Political Action Committee (ASPA PAC):
A greater voice on Capitol Hill to preserve
and enhance the private pension system.

2002 Harry T. Eidson Founders Award Nomination Deadline is Approaching

Harry T. Eidson Founders Award 2002 nominations will be accepted until **May 15, 2002**. Nominations can be submitted directly from the *What's New* or *Members-Only* sections of ASPA's Web site at www.aspa.org, or you can request a form by contacting ASPA's membership department at (703) 516-9300.

The Harry T. Eidson Founders Award recognizes exceptional accomplishments that contribute to ASPA, the private pension system, or both. The award is given in honor of ASPA's late founder, Harry T. Eidson, FSPA, CPC. The recipient need not be an ASPA member. If no deserving candidate is found, no award will be given.

The following criteria are used to determine the nominee:

- The contribution must be consistent with the ASPA mission statement and should have a lasting, positive influence on ASPA or the private pension system.
- The contribution may be current, one that spanned many years, or one made years ago from which ASPA or the private pension system benefit today.

- The contribution should be a result of time devoted above and beyond reasonable expectations, not a result of time spent primarily for personal gain.
- The contribution may be one recognized on a national basis or one more local in nature. Publicity is not a criterion.

ASPA's Membership Committee will make the recommendation for the award to ASPA's Board of Directors after considering a broad base of nominations. If you are a voting member of ASPA and know someone you believe meets the criteria, please complete a nomination form and return it to ASPA.

The award is presented at the ASPA Annual Conference and the winner's name is engraved on a plaque in the ASPA office.

Previous winners: Ruth F. Frew, FSPA, CPC, in 2001; Leslie S. Shapiro, J.D. in 2000; Howard J. Johnson, MSPA, in 1999; Andrew J. Fair, APM, in 1998; Chester J. Salkind in 1997; John N. Erlenborn in 1996; and Edward E. Burrows, MSPA, in 1995.

Reinventing the Board: Step 1

by Jane S. Grimm

LAST YEAR, ASPA'S BOARD OF DIRECTORS BEGAN WORKING WITH A PROFESSIONAL FACILITATOR, A CONSULTANT TO MANY PROFESSIONAL ASSOCIATIONS' BOARDS, TO REVISE THE WAY ASPA'S BOARD OPERATES. THE BOARD MADE A CONSCIOUS DECISION TO SPEND MORE TIME PLANNING ASPA'S FUTURE AND LESS TIME HEARING REPORTS FROM COMMITTEES AND TASK FORCES. THE BOARD IS SETTING DIRECTION AND ESTABLISHING GOALS FOR THE COMMITTEES, LEAVING THE "HOW WE GOT THERE" AND "WHAT WE DID" TO THE INDIVIDUAL COMMITTEES. SEE "REPORT FROM THE PRESIDENT" BY GEORGE TAYLOR, MSPA, IN THE JANUARY-FEBRUARY 2001 ISSUE OF *THE PENSION ACTUARY*.

In addition to setting a new direction, the Board has undertaken the task of determining ASPA's "core purpose" and "core values." There have been many discussions, a great deal of revising and, yes, even some wordsmithing, but glimpses of the final statements will be seen in the not too distant future.

This January, the Board met in sunny Ponte Vedra Florida, and the Board members were able to take their "focus groups" outside. The work continues. ▲

Jane S. Grimm, ASPA Managing Director is the National Office Liaison to the Board.



photos

- 1. John P. Parks, MSPA, ASPA's 2000 President
- 2. Michael L. Bain, MSPA, and Cathy Green, CPC, QPA

- 3. Richard D. Pearce, FSPA, CPC, ASPA's 1997 President
- 4. Kurt F. Piper, MSPA
- 5. Beverly B. Haslauer, CPC, QPA

FOCUS ON ABCs

New ASPA Benefits Council Makes Twelve!



ASPA is pleased to announce the addition of our newest ASPA Benefits Council, the **ABC of Dallas/Ft. Worth**. On April 24, 2002, Brian H. Graff, Esq., will provide a legislative update at the new ABC's inaugural meeting in Dallas. With the September addition of Northern Indiana (Ft. Wayne) and the Texas Gulf Coast (Houston) in July, ASPA has added three new councils in the past nine months.

ABCs are ASPA's effort to bring education to benefits professionals on a local level. ABCs provide a means for employee benefits professionals to acquire continuing education credit, keep current on industry issues, and network with other benefits professionals in their community. All of this is accomplished on a local level, making participation convenient and cost-effective.

ASPA currently supports twelve ABCs in the following locations: Atlanta, Chicago, Central Florida (Orlando), Cleveland, Dallas/Ft. Worth, Delaware Valley (Philadelphia), New York, Northern Indiana (Ft. Wayne), North Florida (Jacksonville), South Florida (Ft. Lauderdale), Texas Gulf Coast (Houston), and Western Pennsylvania (Pittsburgh). For a complete meetings schedule or for contact information, visit the Local Council section of ASPA's Web site at www.aspa.org. ▲



Changing Your Personal Record on eASPA

by Mike Bain, MSPA

THIS ARTICLE IS THE FIRST IN A SERIES THAT WILL EXPLORE THE VARIOUS WAYS THAT THE NEW ONLINE PRESENCE OF eASPA HELPS YOU, THE MEMBER. THIS MONTH'S ARTICLE FOCUSES ON UPDATING YOUR PERSONAL INFORMATION ONLINE. FUTURE ARTICLES WILL REVIEW REGISTERING FOR CONFERENCES OR EXAMS AND SEARCHING FOR MEMBERS.

EDITING PERSONAL INFORMATION

From ASPA's main page (<http://www.aspa.org>), select Members Only and then follow the link to eASPA (or enter <https://router.aspa.org>). Once you have logged into the eASPA portion of the Web site, you can access your personal information by simply clicking on your name and ID number that appear on the left side of the page. This opens your database record for editing.

If you can't remember your login and password, click on the Email My Password button on the login page, enter your e-mail address, and click the Submit button. Your entry will be compared against the records in the database. If a match is found, then the login information is sent via e-mail. If no match is made, contact the Membership Department at the ASPA National Office and they will assist you.

Upon entering your record, you will come to a page that lists a wide variety of personal information, in-

cluding your name, address, company name, e-mail, phone number, and fax number. To change your information, click on Edit.

After double clicking on your name, you have the opportunity to change your name, phone number, address, e-mail, and/or company, among other things. Update your information, or add new information, then click the Submit button that appears at both the top and bottom of the page. A confirmation window will pop up, informing you that the information has been updated – click OK. This commits your changes to the database. You will then be forwarded to the main editing screen where you should see your changes reflected.

The changes you make online go directly into ASPA's database. A record is also created with your name and the date that you made the changes so that all database activity is tracked. Please make sure that your spelling is accurate.

You can also update your eASPA login and password by clicking on Security near the top of the page. From the security edit screen, you can change your login and password (which must be entered twice identically). These are not case sensitive. Once you have made your changes, click on Submit and the database is updated.

On the main editing screen, you will see a button marked History. Depending on your membership status and activities within ASPA, you will be able to view your history, which will display various committee and meeting activities, among other things.

With eASPA, you can now take control of your own personal information in ASPA's database. Please take this opportunity to review the data on file, especially your mailing and e-mail addresses. In future articles, we will teach you how to access some of the other information that is only available to members. ▲

Michael L. Bain, MSPA, is president of CMC in Glendale, CA. Mike is ASPA's Technology Committee chair and general co-chair on the E&E Committee. He has been involved with technology and systems integration since the outset of his career, including working for several pension software firms.

ASPA Announces the Martin Rosenberg Academic Achievement Award Winners

ASPA proudly recognizes the recipients of the Martin Rosenberg Academic Achievement Award. Kenneth S. Eberle, CPC, is being honored for his performance on the December 2000 C-3 exam, and Victoria Castagno is being honored for her performance on the December 2001 C-2(DB) exam.

Ken joined Strong Retirement Plan Services in 1997 as an ERISA specialist. Prior to joining Strong, he spent three years at Coopers & Lybrand, LLP. He received his BBA from the University of Wisconsin in Madison and his MAS from the University of Illinois, Urbana/Champaign.

Vicky joined the Benefit Consultants Group in Philadelphia in 1977 and is celebrating 25 years of service in the retirement industry. She received her BA in Mathematics from West Chester University and her MS in Computer Science from Villanova University.

The award is presented in honor of the late Martin Rosenberg, a Fellow of ASPA. Mr. Rosenberg served as an Education and Examination Committee member from 1979 to 1985 and as General Chair from 1985 until his death in 1987. The award is designed to annually recognize top performing ASPA examination candidates (certain minimum performance criteria are applied).



Goals + Vision + Implementation = Success

by Scott D. Miller, FSPA, CPC

WHAT MAKES ASPA THE GREAT ORGANIZATION THAT IT IS? IT IS THE THINGS THAT WE CHOOSE TO DO AS A MEMBER DRIVEN ORGANIZATION. IT IS THE IDENTIFYING OF A VISION AND PUTTING THE STRUCTURE IN PLACE AND EXECUTING THE ACTIVITIES IN OUR QUEST TO ATTAIN THOSE WELL-DEFINED, COMMON GOALS.

In 1999, the ASPA Board of Directors realized that in order to function most effectively and best serve our members, the Board needed to spend more of its time analyzing our membership and the industry and identifying the vision for the future of the organization.

It was at this time that the Board of Directors established the Strategic Planning and Implementation Team (SPIT). The responsibility charged to this group was to coordinate the activities among the various ASPA committees and establish short-term plans to allow the organization to reach our determined vision. It is the responsibility of the individual committees to identify and implement the individual activities to attain these goals. The Board should focus on strategic planning to meet members' goals and objectives and communicate these intentions to the various committees.

SPIT is made up of the chairs of many of ASPA's committees, ASPA's President and President-Elect, as well as ASPA's Executive and Managing Directors. At the SPIT meeting held February 8 and 9, 2002, this group reviewed the historical activities of the individual committees, identified committee successes and problem areas, discussed ways of attracting and best utilizing volunteers, and set 18-month goals for each committee to help the organization move towards the vision for the organization. There was also discussion of how the various committees could be more effective by working together in different activities.

The goals that were set by the committee Chairs include:

- **The ASPA Journal:** expand the topics covered, more fully communicate the activities of the ASPA committees, and continue to improve the Journal's appearance.
- **Conferences:** continue to improve the quality of topics and speakers at our conferences, provide the best conferences in the industry, and build a library of webcast presentations.
- **Continuing Education:** develop more accessible continuing education opportunities.

- **Education and Examination:** restructure the education program to make it more effective, find better study material alternatives, and explore ways to provide more educational opportunities.
- **Government Affairs:** continue to influence current legislative issues and initiatives (such as Enron), develop and communicate a new set of proposed law changes to enhance retirement program alternatives, and get more involved in providing retirement program education to IRS and DOL agents.
- **Membership:** survey the membership to allow the committees to better meet the needs of the membership, better market the value of ASPA designations and the benefits of membership, and identify and implement new member benefit programs.
- **Technology:** redesign the ASPA Web site to make it more user-friendly and functional and to develop the ability to provide exams online for continuing education and other non-proctored exams.

We should all be proud of the work performed by ASPA's volunteers and our staff – without them we would not be the successful and effective organization that we are today. ▲

Scott D. Miller, FSPA, CPC, is principal of Actuarial Consulting Group Inc., which has offices in New York and Illinois. Scott has over twenty years of experience in the employee benefits and compensation consulting field. He is a Fellow of ASPA (FSPA), a Fellow of the Conference of Consulting Actuaries (FCA), a Member of the American Academy of Actuaries (MAAA), a Certified Pension Consultant (CPC), and an Enrolled Actuary (EA).

Scott is ASPA's President-Elect. He served as ASPA's Treasurer in 2001 and as Vice President in 1999 and 2000. In addition to working on several committees, Scott was General Chair of the Education and Examination Committee for two years, and was Chair of the Pension Education and Research Foundation for one year.

Scott is a local and national lecturer on pension, actuarial, and employee benefits topics and has spoken at numerous conferences, including ASPA's Annual Conference and Summer Academy.



Can This Plan be Saved?

by Bruce L. Ashton, APM, and Nicholas J. White, APM

THE PROBLEM: JOHN AND SARAH SERVE ON THEIR PLAN COMMITTEE AND HAVE COME TO ONE OF THE HARDEST DECISIONS OF THEIR LIVES – WHETHER OR NOT TO SPLIT UP WITH THEIR PLAN’S INVESTMENT PROVIDER. HOWEVER, THEIR INVESTMENT PROVIDER IMPOSES A CONTINGENT DEFERRED SALES CHARGE (CDSC) TO TERMINATE ANY ARRANGEMENT! “THE PARTICIPANTS,” CRIES SARAH, “THE POOR PARTICIPANTS! ON TOP OF ALL THEIR INVESTMENT LOSSES, THEY’RE NOW GOING TO LOSE ANOTHER 5%. JOHN, THIS IS AWFUL!” POOR SARAH. POOR JOHN. POOR PARTICIPANTS. **CAN THIS PLAN BE SAVED?**

The Choices: John and Sarah decide to go for counseling. They schedule an appointment with their kind and understanding ERISA lawyer, Fred. After getting them comfortably situated on the couch, Fred says, “John, Sarah, you and the company face a hard choice. To do the right thing and get rid of the under-performing investments, you have to force the participants to sustain a further loss.” Fred shakes his head sadly.

“Isn’t there *something* we can do?” cries John.

“Well,” says Fred, stroking his beard, “many employers in this situation will simply bear the CDSC rather than having it deducted from the participant accounts. But this presents a problem. If the company deposits the 5% into the plan, the payment will be treated as a contribution, subject to the deduction and annual addition limits of the Code and the allocation provisions of the plan. Of course, it might be possible to amend the plan to provide for a special allocation of 5% to each participant’s account to solve the allocation issue, but the other restrictions would be unavoidable.”

“Our bosses won’t like that, John,” says Sarah, dejectedly.

“There is an alternative,” Fred says, “but they may not like this any better. In a series of Private Letter Rulings, the IRS has held that a ‘restoration payment’ by the employer to resolve a fiduciary breach will not be treated as a contribution. (The breach is the failure to act prudently in selecting the investment product in the first place.) If the payment is a true restoration payment, it will not be subject to the Code limits on contributions. You can also allocate it to the participant accounts to cover their loss without regard to the plan’s allocation formula. And, best of all, the employer gets to deduct the payment as an ordinary and necessary business expense under Code Section 162.”

“Oh, Fred, that’s *wonderful*,” says Sarah.

“Wait,” says Fred. “In order for this treatment to apply, there must be an actual claim by the participants or the Department of Labor that the fiduciaries committed a breach. Alternatively, the company might be able to treat this as a restoration payment if it voluntarily admits that it committed a breach when it selected this product and is making the restorative payment to avoid a claim by the participants. The IRS hasn’t addressed

this in any of the PLRs, but conceptually it should fall within the logic of the IRS’ position. Needless to say, many employers are reluctant to admit to having committed a fiduciary breach.”

“Sure,” says John, “I can just see old skinflint in the front office admitting something like that.”

“Well, since there’s no dispute here, what can we do?” asks Sarah, hopefully.

Fred adjusts the glasses at the tip of his nose. “One option that some plans have used is for the *new* investment provider to credit the accounts of the participants with the amount of the CDSC. Thus, the new provider effectively pays the CDSC.”

“But why would it do that?” Sarah asks.

“There’s no free lunch, of course,” says Fred. “The new investment provider will impose additional charges on the participant accounts in order to be reimbursed over time. I need to caution you that before this option is chosen, you, as plan fiduciaries, need to carefully weigh whether the increased load on the accounts of the participants is appropriate, since new participants will bear this cost even though they would not have borne the CDSC in the first place. In addition, if this approach is used, you need to make sure that the additional charge disappears after the new investment provider has been fully reimbursed.”

Saving the Plan: “So, what do you recommend, Fred?” asks John, cautiously.

“To save this plan, John, I would recommend that you see whether the payment could be treated as a contribution, subject to all the Code limits, without causing a problem. Then we should look at whether we can amend the plan now to provide for a special allocation of this contribution.”

“You’re so smart, Fred,” echo Sarah and John gratefully. ▲

Bruce Ashton, APM, is a shareholder with Reish Luftman McDaniel & Reicher in Los Angeles, where he specializes in all aspects of employee benefits. He is a director and secretary of ASPA and co-chair of the Government Affairs Committee.

Nicholas White, APM, is a partner of Reish Luftman McDaniel & Reicher, specializing in employee benefits. He is a vice-chair of the ASPA GAC IRS subcommittee.

FUN-da-MENTALs

SIDE FUN



"Do you plan on getting up early to get the worm ALL your life?"

Pension Poetry

Brian and "bill" ran up the Hill
To fetch some legislation.
EGTRRA came down
And all 'round town –
It was a huge sensation!

A wealthy participant named Mary
Fell in love with a poor actuary.
All her money he spent –
Without spousal consent.
Now he's no longer her beneficiary!

WORD SCRAMBLE

Unscramble these four puzzles – one letter to each space – to reveal four pension-related words. Answers will be posted on the eASPA portion of ASPA's Web site at <https://router.aspa.org>. Login, go to Members Only>Newsletter, and look near the bottom.

1. FINE BET _ _ _ ○ _ _
2. NOTION CUT RIB _ _ ○ _ _ _ _ _ ○ _ _
3. RARE FLED _ ○ _ _ _ ○ _ _
4. RED HOCK LOST ○ ○ _ ○ _ _ _ ○ _ _ _

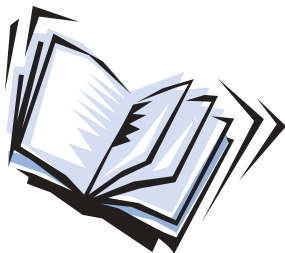
BONUS: Arrange the circled letters to form the Mystery Answer as suggested by the cartoon.

Mystery Answer:

Due to a "○○○○ ○ ○○○○○○○"

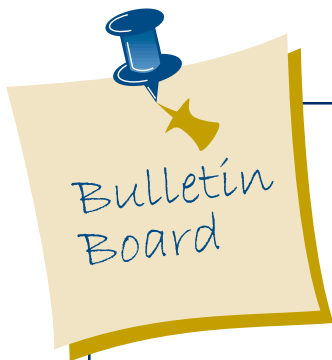


Why the plan administrator didn't calculate the terminated participant's payout.



Best Sellers – Book Titles

1. *It Pays to Have a Plan*
– by Ben E. Fit
2. *Lost Fortunes*
– by N. Ron Dopes
3. *The Joy of Periodic Payments*
– by Ann U. Ity
4. *Nightmares on Wall Street*
– by Ima Loser



Bulletin Board

EDUCATION

April 26
Registration deadline
for spring weekend
courses

May 4-5
C-1, C-2(DB), C-2(DC),
C-3, and C-4 spring
weekend courses
Chicago, IL

April 30
Final registration
deadline for spring
exams

May 1-31
C-1, C-2(DB), C-2(DC)
spring exam window

May 22
C-3 and C-4
examinations

CONFERENCES

May 2-3
Great Lakes Benefits
Conference
Chicago, IL

May 4-7
Business Leadership
Conference
Lake Tahoe, NV

May 16-17
Mid-Atlantic
Benefits Conference
Philadelphia, PA

CALENDAR OF EVENTS

2002

ASPA CE
CREDIT

Apr 26	Registration deadline for spring weekend courses	
Apr 30	Final registration deadline for spring exams	
May 1-31	C-1, C-2(DB), C-2(DC) spring exam window	*
May 2-3	Great Lakes Benefits Conference Chicago, IL	15
May 4-5	C-1, C-2(DB), C-2(DC), C-3, and C-4 spring weekend courses, Chicago, IL	15
May 4-7	Business Leadership Conference, Lake Tahoe, NV	20
May 16-17	Mid-Atlantic Benefits Conference, Philadelphia, PA	TBA
May 17	Postponement deadline for spring exams	
May 22	C-3 and C-4 exams	*
Jun 13	Northeast Key Benefits Conference Natick, MA	8
Jun 14	Northeast Key Benefits Conference White Plains, NY	8
Jul 27-31	Summer Academy San Diego, CA	20
TBA	Three Best of Great Lakes, TBA	8
Sep 30	Early registration deadline for fall exams	
Oct 27-30	Annual Conference Washington, DC	20
Oct 31	Final registration deadline for fall exams	
Dec 4	C-3, C-4, and A-4 exams	*
Dec 31	Deadline for 2001 edition exams for PA-1 (A&B)	**
Dec 31	Deadline for 2001 edition exams for Daily Valuation	***

* Exam candidates earn 20 hours of ASPA continuing education credit for passing exams, 15 hours of credit for failing an exam with a score of 5 or 6, and no credit for failing with a score lower than 5.

** PA-1A and B exams earn five hours of ASPA continuing education credits each for passing grades.

*** Daily Valuation exams earn 10 hours of ASPA continuing education credits each for passing grade.

ASPA 2002 SUMMER ACADEMY

July 28-30, 2002 Join us for the 4th annual ASPA Summer Academy from July 28 to July 31, 2002. Registration will commence in May. The conference is on the move, and this year, will be held in sunny San Diego. Highlights of the Academy include:

- Concurrent sessions providing over 40 topics
- Nationally rated speakers
- Major IRS and government presence to provide us with the latest information from Washington, DC
- Vendor partners showcasing the products you need to succeed
- 20 ASPA CE credits and up to 21 JBEA credits

The Academy offers an extensive review of EGTRRA and other regulatory and legislative updates.

Watch your mail in May for the complete Academy brochure.

For more information, contact ASPA at (703) 516-9300 or visit our Web site at www.aspa.org.

IT'S A ZOO OUT THERE.

DID YOU KNOW?

Did you know that the first-ever ASPA 401(k) Sales Summit drew an astonishing 550 attendees, of which 400 were not ASPA members! Some attendees signed up for membership on sight, many attendees took membership material, and a large number were very interested in learning more about ASPA membership, publications, conferences, exams, and other ASPA activities and services. Plan to attend the second 401(k) Sales Summit in Scottsdale, AZ during the first quarter of 2003.