

THE ASPPA Journal

ASPPA's Bi-monthly Journal for Actuaries, Consultants, Administrators and Other Retirement Plan Professionals

FROM THE PRESIDENT



Back to the Future: ASPPA Turns 40!



by Sarah E. Simoneaux, CPC

One year ago, a devastating hurricane slams into New Orleans and the Gulf Coast. A once popular President struggles with an increasingly unpopular foreign war and a polarized electorate. Syria sponsors guerilla raids from Lebanon into Israel, igniting yet another Middle East conflict. In other news, *Psycho* is deemed too violent for television, Frank Sinatra wins the Grammy for best song and *The Sound of Music* is named Best Picture. Wait...isn't this 2006?

No, the year described by the above events is 1966—the same year ASPPA was born! Hurricane Betsy hit the Gulf Coast in 1965, President Lyndon Johnson dealt with Vietnam and campus unrest and the Six Day War between Israel and Egypt, Syria, Jordan and Iraq erupted in 1967.

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ASPPA's 40th Birthday— Something to Sing About!

by Chris L. Stroud, MSPA

It is ASPPA's 40th birthday, and that is certainly something to sing about. In fact, the movie "The Sound Of Music" was released in 1966, the same year ASPPA was born. (*The hills are alive with the sound of music...*) We can certainly attest to the fact that, 40 years later, at least one Hill is still very much alive with many sounds—some that are music to our ears and some that are not! Since music helps make the world go 'round, feel free to hum along as we stroll down memory lane in honor of ASPPA's 40th birthday.

People are often influenced by the music of an era and they also have memories that tie certain songs to specific events in their lives. In 1966, a group of actuaries were getting together to form ASPPA while the Four Tops were promising "Reach Out I'll Be There." Today we find ourselves still reaching out to ASPPA for the latest pension information and many other aspects of our profession. A few years later, in 1969, while the Youngbloods were crooning "Get Together" and the Isley Brothers were singing "It's Your Thing," ASPPA held its first Annual Conference at Purdue University (with 39 attendees). Elsewhere in the world that same year—and also out of the world—Credence Clearwater Revival released "Bad Moon Rising" and the first man stepped on the moon. ASPPA membership skyrocketed to 300 members.

Fast-forward to 1974—the passage of ERISA. Although Barbara Streisand was reminiscing about "The Way We Were," Gladys Knight & The Pips were happily singing "Best Thing That Ever Happened To Me." In 1976, the US celebrated its Bicentennial while listening to "Good Vibrations" (Todd Rundgren). Life in the defined benefit world was fun. Rita Coolidge released "Higher And Higher" and the Eagles belted out "Take It To The Limit." It was obvious folks were listening to the music, as many plans were funding for maximum benefits, payable at age 55, unreduced, with a full joint and survivor annuity as the normal form. Paul Simon predicted that it would all be "Slip Slidin' Away" and Donna Summer guessed that it was "The Last Dance."

Soon 1982 was upon us, with TEFRA and top heavy—and the small plan market was drastically changed. The GAP Band exploded with "You Dropped A Bomb On Me!" As Paul McCartney was singing "Take It Away," small plans began terminating in masses. Although Kenny Loggins and Steve Perry sang "Don't Fight It," ASPPA began fighting then and continues to fight to this day for small plans and the private retirement system.

Over the years, education has always been a priority within ASPPA. In 1985, while Daryl Hall and John Oates were singing about "Adult Education," ASPPA became the first organization to announce a formal continuing education program for its actuaries. A few years later, Madonna was not the only one "Causing A Commotion." OBRA '87 was passed, establishing current liability calculations. Perhaps the Pet Shop Boys & Dusty Springfield said it best—"What Have I Done To Deserve This?"

As ASPPA expanded its education and conference programs, membership and conference attendance continued to thrive. By 1990, UB40 was thrilled with "The Way You Do The Things You Do," and ASPPA members showed their support as membership reached the 3,000 mark and the Annual Conference hosted 1,200 attendees. Over the next decade, ASPPA's expanded government affairs activities resulted in effective advocacy and involvement on Capitol Hill. *ASPPA asaps* came to life as Michael Jackson sang "You Are Not Alone." ASPPA PAC was formed and the checks started rolling in as the Backstreet Boys sang "All I Have To Give." We survived the millennium and Y2K.

As ASPPA continued to grow and prosper, so did our businesses and our friendships. At times, ASPPA seemed "Larger Than Life" (Backstreet Boys).

So here we are in 2006—yet another year of pension reform. And thanks to ASPPA's hard work, this round of legislation contains many wins. Today we have much to take pride in and for which to be thankful. ASPPA's membership is approaching 6,000. A team of talented staff and dedicated volunteers keep the organization moving. "Together We Are One" (Delta Goodrem). Happy Birthday, ASPPA! 🎉

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FROM THE PRESIDENT



As ASPPA has grown and matured over the last 40 years, our society's cultural preferences have changed (whether they have progressed is a matter for debate) seemingly more than current events. Our own day-to-day lives 40 years later, however, are markedly different. While cell phones, pocket computers, e-mail and the Internet have freed us from the boundaries of a specific location, they have also enslaved us in a world of immediate and constant communication. Medical advances are even more dramatic. The first heart transplant was performed in 1967, and the science of genetics back then was still in its infancy. Of course, we still do not have those cool flying cars that always show up in the futuristic worlds of movies and cartoons.

While our cars are still grounded, the myriad of retirement plans available to employers today would barely be recognizable to our colleagues of 1966. While ASPPA, on its 40th birthday, might appear equally as mystifying, our founders would sense that ASPPA has remained dedicated to the private retirement system. Their initial design for ASPPA allowed for 40 years of change and growth. Past and current ASPPA members and leaders can take pride in the 40 years of progress that has made ASPPA what it is today. Happy Birthday, ASPPA!

And now, what should ASPPA wish for before the candles are blown out? What about the next 40 years? Can ASPPA continue to maintain its high standards in an industry and a society that seems to change at an ever increasing rate? As we celebrate ASPPA's 40 years of success, we need to remain poised for the future. Technology has

actually increased the rate of progress exponentially. It took the world 14 years to sequence HIV; it took 31 *days* to sequence the SARS virus. ASPPA took 14 years to create its first non-actuarial credential, the Certified Pension Consultant (CPC), six years to adopt the Qualified 401(k) Administrator (QKA) credential and two years to institute the Qualified Plan Financial Consultant (QPFC) credential. Although some argue that the rate of change may be too fast, or that change itself is unnecessary, our industry marches on at an ever rapid pace. ASPPA must keep up, even when it seems painful to do so. ASPPA's birthday wish should be this—to remain a dynamic organization that embraces change and continues to serve our diverse membership.

To stay vibrant for the next 40 years, ASPPA must keep true to its mission to be the premier educator and advocate for the private retirement system. With baby boomers approaching retirement, that mission may need to be expanded to include focusing more on the distribution end of the retirement equation in addition to the accumulation phase. We cannot, however, lose sight of the young people. The children and grandchildren of the baby boomers, the generation between ages 5 and 25, are larger in numbers than their famous parents and grandparents. What will their retirement look like 40 or more years from now? What will their work patterns be? Even closer to home, are we recruiting them to replace us?


With increased longevity, it is debatable whether 40 is still considered to be the midpoint of a person's life. No one can argue, however, that it represents a milestone in any

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Due to the passage of the Pension Protection Act of 2006, there is no Washington Update in this issue.

life—even ASPPA's. It can also be a turning point, and there is certainly life beyond 40! After all, Mother Teresa was 41 when she started her mission to work with India's dying population. DaVinci did not write down his ideas for a submarine or a helicopter until he was 43. Edison invented the dictaphone, the mimeograph and silent pictures after turning 40. Beethoven wrote Symphony No. 9, arguably his most beautiful, at the same age as Edison. Oddly enough, both Edison and Beethoven were deaf before 40. Both also contemplated suicide before entering into the most creative period of their lives.

Creativity lives after 40, and I expect ASPPA to be happily celebrating its 80th birthday in 2046 with many more achievements to proclaim at that time. I, on the other hand, will be retired and traveling around in my flying car! In the meantime, I hope that you will join us this year at the 2006 ASPPA Annual Conference in Washington, DC, and help us celebrate ASPPA's 40th birthday. 



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The Final Word on the Disclosure of Relative Values

by Barry Kozak, MSPA

When Congress added the QJSA (Qualified Joint & Survivor Annuity) and QPSA (Qualified Pre-retirement Survivor Annuity) provisions to the Code and ERISA in 1984, they gave rights to the spouses of married participants and required qualified plans to provide these spouses with a timely notice of their rights. The very basic rules for these QPSA and QJSA explanations were provided in 1988 in Treasury Regulations at §1.401(a)-11(c)(3).

Pursuant to Congress' concern that participants were not receiving adequate communications of the relative value of their benefit options (especially with a lump sum option that looks more attractive, even though QJSA options might be subsidized), Treasury published final regulations §1.417(a)(3)-1 in 2003. These regulations added much more stringent and specific parameters for the disclosure of relative values to the existing statutory requirements of IRC §417(a)(3). The new requirements were to be effective for all QJSA and QPSA explanations delivered to explain optional forms of benefits for annuity starting dates after September 1, 2004.

After Treasury received requests for an extension of the deadline, they did extend it via IRS Announcement 2004-58. Under the Announcement, optional forms of benefits not subject to minimum valuing under IRC §417(e) (such as lump sums) did not need to meet the new disclosure rules until annuity starting dates on or after February 1, 2006. Additionally, the Announcement clarified ambiguities in the 2003 final regulations, such as allowing certain estimates and allowing a lump sum form of benefit to be more valuable than the QJSA form of benefit if the lump sum is calculated, as required, under IRC §417(e).

The Announcement was the quickest way for Treasury to extend the effective date and make clarifications. The only legal way to amend regulations, however, is through subsequent regulations. Therefore, a new round of proposed regulations was published in February 2005, which basically put the provisions of the Announcement



The QJSA and the QPSA explanations “must be written in a manner calculated to be understood by the average participant.”

into regulation form. After public comments Treasury issued final regulations on March 24, 2006, which amended parts of §1.417(a)(3)-1. Herein, they will be referred to as the 2006 Final Regulations, if differentiation between the 2003 and the 2006 regulations is appropriate.

General Rules

The plan must provide compliant QJSA and QPSA explanations. Although a QJSA is generally the actuarial equivalent of a single life annuity (LA), plans may provide a subsidized QJSA for a married participant. If the subsidized QJSA, even if not waived, always provides benefit payments over the life of the participant at least as great as those that would be paid under a single LA option, then the plan does not need to comply with these QJSA explanation requirements. [See Treasury Regulations §1.401(a)-20, Q&A-37 and Q&A-38.] Otherwise, the plan must timely provide QJSA and QPSA explanations to plan participants. [See Regulations §1.417(e)-1(b)(3)(ii) for the timing of QJSA explanations and §1.401(a)-20, Q&A-35 for the timing of QPSA explanations.] First class mail or hand delivery methods are acceptable. Posting a notice, however, is not acceptable.

The QJSA and the QPSA explanations “must be written in a manner calculated to be understood by the average participant.” The QPSA explanation must contain a general description, the availability and circumstances of the QPSA and a description of the financial effect of the QPSA on the participant’s benefits (in terms of the reduction in the estimated normal retirement benefit that would result from an election of the QPSA).

The focus of this article is on the content of the QJSA explanations, which must provide either participant specific information or generally applicable information.

Participant Specific Information in a QJSA Explanation

The QJSA explanation must contain:

- A description of each optional form available to the participant (including optional forms with a prospective annuity starting date and those with a retroactive annuity starting date);
- A description of the eligibility conditions for each optional form of benefit;
- A description of the financial effect of the QJSA on the participant’s benefits (in amount and timing of payments during the participant’s life and after death);
- In a defined benefit plan, a description of the relative values of the optional form of benefit compared to the value of the QJSA; and
- A description of any other material features of the optional forms of benefits.

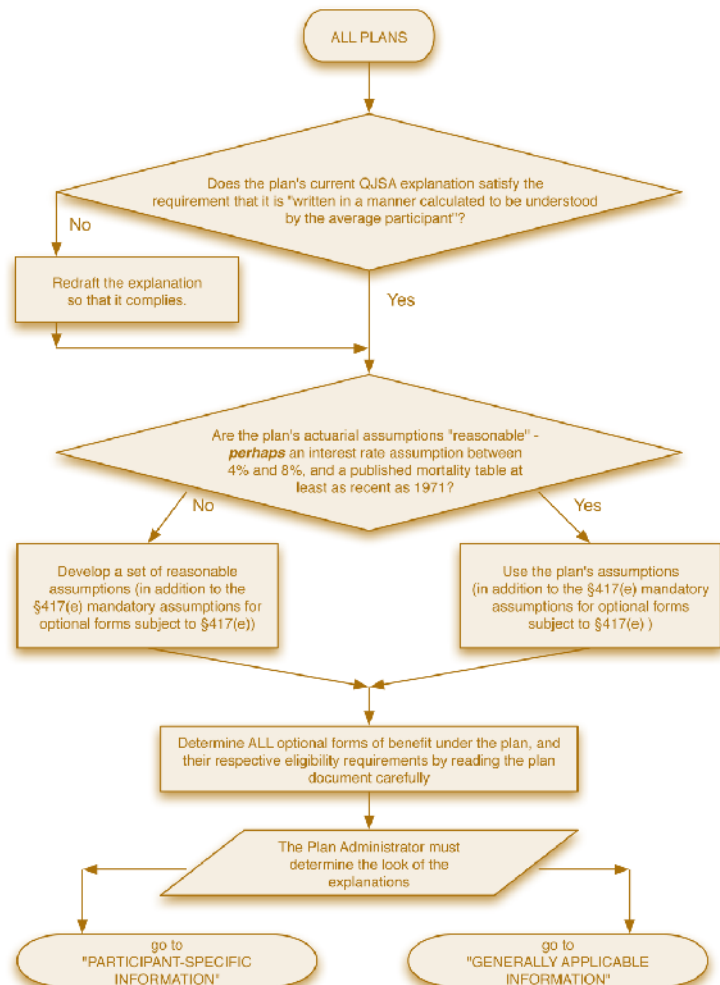
The numerical comparison of relative values must provide a “meaningful comparison of the relative economic values of the two forms of benefit without the participant having to make calculations using interest or mortality assumptions.” The benefits must be converted, taking into account the time value of money and life expectancies, so that the values of both optional forms are expressed in the same form. The regulations do not provide limits, but suggestions of acceptable comparisons include: expressing the actuarial present value of the optional form of benefit as a percentage of the present value of the QJSA; stating the amount of the annuity that is the actuarial equivalent in form and timing as the QJSA; or comparing present values.

A plan may prepare separate QJSA elections for married participants and for unmarried participants. If an LA is available to married participants, however, then a single QJSA explanation can be used that assumes all participants are unmarried, comparing all optional forms of benefit to an LA. Similarly, if the QJSA form is available to unmarried participants, then a

single QJSA explanation can be used that assumes all participants are married, comparing all optional forms to a QJSA.

The following simplifications are allowed:

- Two or more optional forms that have approximately the same value (*i.e.*, the present values are within five percentage points of each other) may be grouped together. The relative value of any one of those optional forms can be disclosed, and the other optional forms of benefit can indicate that they are “of approximately the same value” to the disclosed form. If one of the optional forms being grouped is a single sum distribution, however, then that must be the optional form actually disclosed.
- In addition to the grouping described above, a representative value for the grouped optional forms of benefit is allowed as long as it is consistent and within the range of actual values. For example, if optional form X is 87.5% of the QJSA, optional form Y is 89% of the QJSA and optional form Z is 91% of the QJSA, then all three can be described as being “approximately equal to 90% of the QJSA.”
- Under the 2003 Final Regulations, there was a distinction as to whether the optional forms were being compared to the QJSA or if they were being compared to the LA. If optional forms of benefits were being compared to a QJSA, then any optional form that was at least 95% of the QJSA could be described as “approximately equal” to the QJSA. If optional forms of



According to the 2006 Final Regulations, a generally applicable QJSA or QPSA explanation can be a hybrid, containing some participant specific data as well.

benefits were being compared to an LA, then any optional form that was at least 95% of the LA, but no more than 102.5% of the LA, could be described as “approximately equal” to the LA.

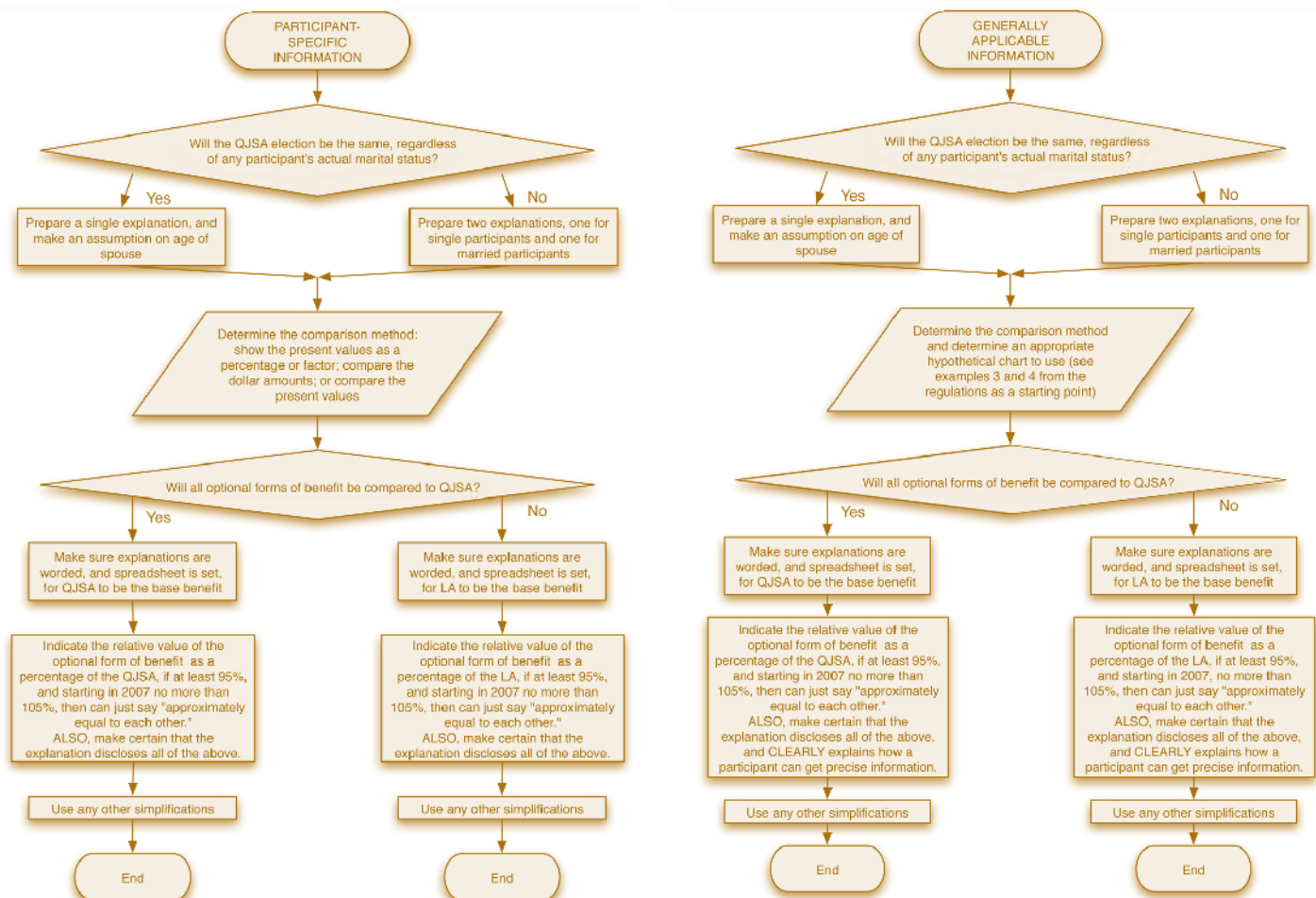
According to the 2006 Final Regulations, however, the distinction is eliminated and the ranges are harmonized. For QJSA explanations relating to distributions starting on or after January 1, 2007, if optional forms of benefits are being compared to either a QJSA or LA, then any optional form that is at least 95% of the QJSA (or LA), but not more than 105% of the QJSA (or LA), can be described as “approximately equal” to the QJSA (or LA).

The actuarial assumptions to be used:

- For any optional form of benefit subject to IRC §417(e) (such as lump sums), the required GATT §417(e) interest rate and mortality table must be used.
- For all other optional forms of benefit, a single set of interest and mortality assumptions that are reasonable and applied uniformly must be used. According to the 2006 Final Regulations,

the reasonableness of interest and mortality assumptions is determined without regard to the circumstances of the individual participant. Additionally, the GATT §417(e) interest and mortality assumptions will always be deemed reasonable, even for optional forms of benefits not subject to §417(e).

The QJSA explanation must include an explanation of the concept of relative value. Suggested language (extracted directly from the regulations) is “the relative value comparison is intended to allow [you], the participant, to compare the total value of distributions paid in different forms, ... the relative value comparison is made by converting the value of the optional forms of benefit presently available to a common form, [namely the QJSA], ... this conversion uses interest and life expectancy assumptions, ... all comparisons provided are based on average life expectancies, and the relative value of payments ultimately made under an annuity optional form of benefit will depend on longevity.” The interest rate, mortality and other actuarial assumptions



that are used to develop the comparison must be disclosed on the QJSA explanation, or, in the alternative, it must include an offer to provide the actuarial assumptions upon request.

The QJSA explanation is permitted to provide reasonable estimates [such as reasonable estimates of the age of the participant's spouse or reasonable estimates of the GATT §417(e) interest rate]. If an estimate is used, then it must be disclosed that upon the participant's request, the plan will provide a more precise calculation. If the precise calculation materially changes the relative value of an optional form, then the revised relative value must be disclosed.

Simplified presentations to enhance clarity are allowed as well (this provision was added by the 2006 Final Regulations to clarify ambiguities discovered in the 2003 Final Regulations through public comment).

- If a plan offers a significant number of substantially similar optional forms of benefit, and if complying with the QJSA explanation rules would have the effect of "overwhelming the participant instead of assisting him," then the financial effect and relative value of those optional forms can be disclosed by a representative range of examples. Optional forms of benefits will be deemed substantially similar if they are identical in all aspects except for a particular feature. For example, if the plan offers a joint and survivor annuity where the participant can select any remainder percentage from 50% to 100%, then those 51 optional forms of benefits are substantially similar. Another example is a form of benefit that is available on the first day of any month for up to three years before retirement, then those 36 optional forms of benefits are substantially similar.
- The representative range of examples must include examples at both extremes of its linear range, plus one example at an intermediate point (or enough intermediate points sufficient to illustrate the financial effect and relative value). For example, if a plan offers a joint and survivor annuity (J&S) where the participant can select any remainder percentage from 50% to 100%, and if they will all be deemed to be "approximately equal to the QJSA," then the QJSA explanation can simply show the 50% J&S, the 75% J&S and the 100% J&S. If a representative illustration is used for substantially similar optional forms, then the QJSA explanation must indicate how the participant may readily obtain participant specific data for any optional form that he or she is interested in receiving financial effect and relative value.

- If a plan allows a participant to make separate benefit elections to different parts of his or her accrued benefit, then separate presentations are allowed.


In the regulations, Examples 1 and 2 show the disclosure of relative values and the proper statements to be included in QJSA explanations that comply with these participant-specific rules. Please note, however, that these were the original explanations from the 2003 Final Regulations, and they have not been updated for any clarifications or additional simplifications allowed under the 2006 Final Regulations.

Generally Applicable Information in a QJSA Explanation


In lieu of participant specific information, the QJSA explanation can contain general information about optional forms of benefits available, but then the QJSA explanation must indicate how the participant may readily obtain participant specific data. According to the 2006 Final Regulations, a generally applicable QJSA or QPSA explanation can be a hybrid, containing some participant specific data as well.

The QJSA explanation is permitted to include a chart or other comparable device. Each example in the chart must show the financial effect of electing the optional form of benefit. Reasonable assumptions must be used for the age of the hypothetical participant's spouse and any other variables that affect the financial effect. The chart or other comparable device must be accompanied by a general statement describing the effect of significant variations between the assumed ages or other variables on the financial effect of electing the optional form of benefit and the comparison of the relative value of the optional form of benefit to the QJSA.

Each generalized QJSA explanation must include the amount payable to the participant under the normal form of benefit. For example, if the normal form is an LA, then the deferred or immediate LA must be disclosed. According to the 2006 Final Regulations, reasonable estimates as to the normal form of benefit are allowed. Each QJSA explanation must



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indicate how a participant can request a statement of financial effect and a participant specific comparison of relative values.

In the regulations, Examples 3 and 4 show the disclosure of relative values and the proper statements to be included in QJSA explanations that comply with these general information rules. Please note, however, that these were the original explanations from the 2003 Final Regulations, and they have not been updated for any clarifications or additional simplifications allowed under the 2006 Final Regulations. Although plans do not need to use the same style and manner of charts as in the regulations, it is prudent to review the charts used in Examples 3 and 4 and use them as a starting point.

Does the QJSA Need to be the Most Valuable Form of Benefit?

In the case of a married participant, the QJSA must be at least as valuable as any other optional form of benefit payable under the plan at the same time. The 2006 Final Regulations now provide that if an optional form of benefit is more valuable than the QJSA only due to the required use of the GATT §417(e) rates, then for the disclosure of relative values only, this provision is not violated. According to the preamble, this new provision applies as if it had been included in the 1988 regulations at §1.401(a)-20, Q&A-16.

Effective Dates

The effective date for the disclosure of relative values for optional forms of benefits subject to IRC §417(e), which are less than the actuarial present value of the QJSA, did not get an extended compliance date. Therefore, in accordance with the 2003 Final Regulations, these optional forms were effective for annuity starting dates on or after September 1, 2004. Please note that according to the preamble of the 2006 Final Regulations (at Treasury Decision 9256), these regulations purposely do not list, or even provide examples, of those optional forms of benefits that are subject to IRC §417(e). The example provided in the proposed regulations has been wholly removed in the final regulations.

The disclosure of relative values for other optional forms of benefits has the extension granted through IRS Announcement 2004-58 and the 2006 Final Regulations. These provisions are effective for annuity starting dates on or after January 1, 2007. (The intended effective date was to be February 1, 2006. Since the regulations were not actually published until March 24, 2006, there is now a reasonable good faith period for compliance for QJSA explanations for annuity starting dates on or after February 1, 2006, but on or before January 1, 2007.) Additionally, the new provision that deems optional forms of benefits as “approximately equal to each other” and that now has the upper limit of 105% is not effective for QJSA explanations until annuity starting dates on or after January 1, 2007.

Regarding these effective dates, the retroactive annuity starting date is substituted for the annuity starting date where appropriate. As opposed to the dual effective dates for QJSA explanations, there is only a single effective date for QPSA explanations, and all provisions in these regulations apply to QPSA explanations provided on or after July 1, 2004 (since no substantial changes were made to those rules through the 2006 Final Regulations).

So You Were Expecting a Sample QJSA Notice in this Article...

Unfortunately, since QJSA and QPSA explanations “must be written in a manner calculated to be understood by the average participant,” and since the regulations are about what needs to be stated in the explanation depending on choices made at the plan sponsor level, there is no way to provide a sample (or samples) of a good election notice. A careful reading of paragraphs (a), (b), (c) and (d) of the §1.417(a)(3)-1 regulations, however, as well as the examples in paragraph (e), provide a laundry list of the required information that must be included, even if examples of proper wording are absent.

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Nick Paleveda MBA J.D. LL.M. is a member of the Florida bar Association and has been licensed to practice before the Tax Court for over 20 years. He is also licensed to practice before the 11th Circuit Court of Appeals. Mr. Paleveda received his B.A. and his M.B.A. degrees from The University of South Florida in Tampa. He received his Jurist Doctorate in Law from the University of Miami and his Masters of Law in Taxation from the University of Denver. Mr. Paleveda is currently the CEO of Executive Benefits Design Group, a company that specializes in 412(i) Defined Benefit Pension Plans.

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Integrity



Labor to keep alive in your breast that little spark of celestial fire called conscience.

George Washington (1732–1799)




To begin, perform a review of each plan's existing benefit disclosure forms. Make sure that they are written in a manner calculated to be understood by the average participant, and that a numerical comparison of relative values provides a meaningful comparison of the relative economic values of the various forms of benefit without the participant having to make calculations using interest or mortality assumptions. The regulations are all about simplifications and associated disclosures, which are necessarily going to be different for each plan and possibly even for different participant groups within the same plan.

Outstanding Issues

The author presented this topic at ASPPA's 2006 Advanced Actuarial Conference in Boston in June, and there was a nice open discussion in the room. The following represents some of the outstanding issues for which no one had any answers, but which might need to be resolved on a plan-by-plan basis.

- What if the QJSA is not the most valuable benefit due to the plan's actuarial chart, not due to the GATT §417(e) rates?
- If old assumptions are updated to more current assumptions under the §411(d)(6) regulations, how will wear-away be handled?
- What if a plan's actuarial charts and assumptions are prepared by prior actuaries and there is no way to determine if they are reasonable?
- If another form of benefit is more valuable than the QJSA, but is no more than 105% of the QJSA, is the difference *de minimis* (based on logic suggested in these regulations) so that §1.401(a)-20 is not violated?
- What if a 50% J&S is more valuable than a 100% J&S, but the QJSA is the 100% J&S?
- How do you justify reasonable assumptions that differ from the plan assumptions?
- How are grandfathered benefits handled (e.g., a frozen lump sum in the §417 transition)?
- How do we determine how much disclosure information is too much, thus overwhelming the participants?



Please forward any ideas or comments on the above issues or on any other issues regarding relative values to 6kozak@jmls.edu. 



Barry Kozak, MSPA, EA, ChFC, is an associate director of the graduate Employee Benefits programs at The John Marshall Law School in Chicago and an Adjunct Professor of Law. Barry was also an ASPPA Technical Education Consultant for the PFC-2 examination for ASPPA's Qualified Plan Financial Consultant credential. He serves as Chair of The ASPPA Journal Committee and on ASPPA's Government Affairs Committee, ASPPA asap Subcommittee. Barry is an attorney, an Enrolled Actuary and a Chartered Financial Consultant. (6kozak@jmls.edu)

Notice of ASPPA's Annual Business Meeting

The ASPPA Annual Business Meeting will be held during the 2006 ASPPA Annual Conference at the Washington Hilton and Towers in Washington, DC, on Sunday, October 22, at 3:45 p.m.

The Business Meeting will include an address by ASPPA's 2005-2006 President, Sarah E. Simoneaux, CPC, and a look toward the future by ASPPA's incoming President, Chris L. Stroud, MSPA.

All ASPPA members are strongly encouraged to attend this important meeting.



Employee Stock Ownership Plan Basics

by Elliot D. Raff, APM, and Jack Stewart, QKA

Like other qualified plans, an Employee Stock Ownership Plan (ESOP) accomplishes a wide range of financial and employee relations objectives. It provides an option for company succession planning, increases company productivity¹, serves as an employee recruitment and retention tool and provides employees the opportunity for ownership and sharing in the growth of the company, which can instill pride and company loyalty.

Over ten million Americans—ten percent of the private sector workforce—have stock ownership through an ESOP², evidence that ESOPs have grown to represent a significant portion of our retirement savings dollars.

What is an ESOP?

An ESOP is a 401(a) qualified defined contribution plan, just like the profit sharing and 401(k) plans that we are all familiar with. There are, however, two primary differences. First and foremost, an ESOP must, by statute, invest primarily in stock of the sponsoring company. Secondly, an ESOP may borrow money (or take a loan) to purchase the stock of the sponsoring company. When this strategy is used, the ESOP is called a leveraged ESOP.

ESOP Plan Administration Anomalies

Some elements of the annual plan administrative process are different for an ESOP than your typical 401(k) or profit sharing plan. The most common are:

Stock Valuation

Publicly-traded companies typically have a daily market or stock value; privately-held or thinly-traded public companies do not. The ESOP's plan



trustee must engage the services of a valuation firm to conduct a valuation of the company stock held by the plan at least once each year.

Diversification of Company Stock

Participants in an ESOP must be allowed to diversify a portion of the stock allocated to their account once they have reached age 55 and have at least ten years of participation in the plan. This provision does not apply to stock that was allocated prior to December 31, 1986.

Contribution Types

The company contribution to an ESOP may come in the form of cash or an in-kind contribution of stock. Company contributions in cash are allocated

Why Do Companies Establish ESOPs?

A company may establish an ESOP for any one, or a combination of the following reasons below.

Corporate Succession Planning

Creates a buyer for the selling of shares and keeps the ownership of the company local and personal.

Additional Employee Benefit Tool

Enhances or compliments an existing retirement plan program and other company-sponsored benefits and rewards employees for their productivity.

Tax Advantages

Permits tax deductibility of contributions, loan and dividend payments [§§404(a) and 404(k)].

to participant accounts and invested in company stock at a later date—or invested in other available investment options. In the case of a leveraged ESOP, the cash contribution is used to repay the ESOP loan. An in-kind contribution is a transfer of stock directly from the company to the ESOP.

Distribution Timing Rules and Form of Payment

ESOPs, in general, follow the same distribution rules as 401(k) and profit sharing plans. ESOPs, however, have some built in flexibility. Specifically, distributions can be delayed for five years, then, at the discretion of the company sponsor, installment payments can be made for up to five years (or longer than five years for large ESOP account balances). Additionally, the company is not required to begin making distributions of any stock acquired with the proceeds of an ESOP loan until the end of the plan year in which the ESOP loan is paid in full.

Repurchase Obligation

It is inevitable. Someday participants in an ESOP will be eligible to receive their benefits from the plan. For publicly-traded companies with a daily market price for the stock, it is typical for the stock to be sold on the open market. But for privately-held or thinly-traded public stock, ESOP companies must develop a plan for repurchasing stock from the accounts of participants when they leave the company. There are several strategies that can be used for repurchasing, and they revolve around two premises: (1) the plan purchases the stock from participants or (2) the company purchases stock from participants.

What Does an ESOP Company Look Like?

There is nothing typical about an ESOP company, but here are some common characteristics of a *successful* ESOP company.

- Regular stock corporation, with a stable earnings history;
- Some or all owners are selling a portion of their company ownership, but have a desire to keep the company local;
- Succession management is in place for when the owner or owners retire, or could be put in place, to keep the company strong and viable; and
- A willingness to commit to communicating about the ESOP and an employee ownership culture.

Statistically Speaking...The Benefits of an ESOP

There are a number of studies about the impact of employee ownership through ESOPs. The following are significant conclusions.

- Employee ownership has positive effects if employees value ownership.³
- All other things being equal, companies who sponsor an ESOP experience 2.3–2.4% higher sales than their non-ESOP counterparts.¹

Combine the benefits of an ESOP with participative management and the growth rate can reach 8–11%.⁴

What is a KSOP?

A KSOP is a qualified plan that has both 401(k) and employee stock ownership plan components combined in one plan. IRS regulation 54.4975–11(a)(5) allows a 401(k) plan to designate a portion of the plan as an ESOP. This designation allows the ESOP component of the KSOP to continue to satisfy the requirement to be “primarily invested in stock of the sponsoring company.”

What is the Purpose of a KSOP?

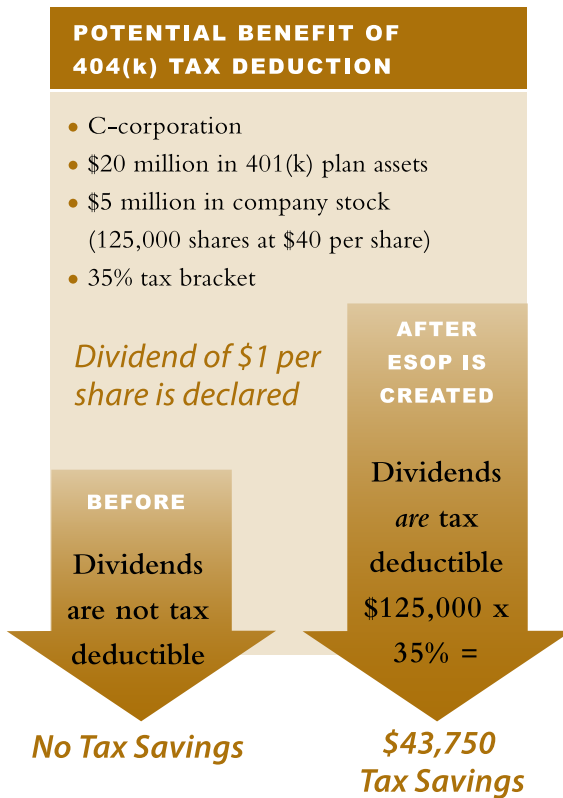
There are two basic reasons for combining plans to form a KSOP. A company with publicly traded stock will add an ESOP component to its existing 401(k) plan in order to take advantage of the enhanced deduction opportunities available to companies that pay dividends to an ESOP, or an ESOP component of a KSOP. This capability is governed by IRC Section 404(k). The amount that can be taken as a deduction is based on the amount of dividends paid to the plan and the company’s tax rate.

For a company with privately held stock, the reason is generally to reap the benefits of

ESOP Trivia

1. How many ESOPs are there in the US?
2. What percent of ESOPs are public/private?
3. How many companies are 100% owned by the ESOP?
4. Can you set up an ESOP for a unionized group?
5. What industry sponsors more ESOPs than any other?
6. What percentage of ESOPs are leveraged (borrow money to purchase stock for the plan)?
7. What were the total assets owned by ESOPs at the end of 2004?

All ESOP Trivia information taken from the ESOP Association Web site.



the cost savings from anticipated administrative and operational efficiencies, such as using one recordkeeping and reporting platform.

Finally, all KSOP plan sponsors expect cost savings as a result of maintaining a single plan document with a single tax return.

Additional Considerations Regarding KSOPs

Companies with privately held stock should note that because of the difference in the valuation cycles—the 401(k) component has a daily value and the ESOP component does not—each component of the KSOP is administered separately. The two separate records are combined on an annual basis for company reporting and reporting to plan participants. The 401(k) component can be reported daily where Web site access is available, and the ESOP component can have a static value that is updated annually. Given these circumstances, the plan sponsor may ultimately realize little cost savings for recordkeeping and administration.

Finally, the communication required to address the differences in the valuation process and its impact on the timing related to distributions from

the plan will also result in additional costs that may override the savings anticipated as a result of combining the two plans.

Conclusion

In our profession, both companies and employees call upon us to help them achieve their retirement planning goals. ESOPs provide company owners a succession planning and personal retirement planning tool, as well as an opportunity to reward employees with ownership in their company. Because ESOPs are, in most cases, paired with another plan of the employer, ESOP participants may very well be more prepared financially for retirement than their peers.

There are many baby boomer business owners nearing retirement who will be searching for business succession options. Given the overall benefits of an ESOP to both a company and its employees, we, as service providers, consultants and advisors, should bring the ESOP idea to our clients when circumstances are appropriate. It can be a win-win situation for everyone.

Because ESOPs are, in most cases, paired with another plan of the employer, ESOP participants may very well be more prepared financially for retirement than their peers.



Elliot D. Raff, APM, is a member of Flaster/Greenberg's Employee Benefits Practice Group. As an employee benefits lawyer, he provides advice to clients that ranges from local professional corporations to Fortune 500 companies concerning tax and ERISA compliance, fiduciary duty and prohibited transaction issues. Elliot regularly consults on the design and implementation of all matters of qualified and non-qualified retirement plans. He also regularly handles submissions to the IRS and DOL and represents plan sponsors and fiduciaries in audit, investigation and enforcement actions. (elliott.raff@flastergreenberg.com)



Jack Stewart, QKA, APA, RPA, is the director, RIS – Plan Services and leads the retirement plan document services for The Principal. He directs a staff of over 55 employees who provide custom plan, prototype, trust and summary plan description (SPD) drafting services to nearly 30,000 full service clients of The Principal. Jack's prior assignments include establishing and leading The Principal's RIS Market Research and Government Compliance areas. He has spoken at numerous industry events and testified on key retirement issues before the United States Congress, the IRS and the DOL. (stewart.jack@principal.com)

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 1 2000 Rutgers Study - Douglas Kruse and Joseph Blasi
 2 ESOP Association Web site, ESOP statistics link
 3 Douglas Kruse, Testimony before the Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, US House of Representatives, February 13, 2002
 4 1986 NCEO Study by Michael Quarrey and Corey Rosen

Pension Protection Act of 2006—The Culmination of Good Work

by Ilene H. Ferenczy, CPC

Congress always seems to be considering one piece of pension legislation or another these days, and last February was no exception.

When ASPPA's Government Affairs Committee (GAC) gathered in Washington, DC, in mid-February, our members had all heard Brian Graff's speech about the President's ERSA, RSA and LSA proposals several times, and had attended ASPPA's Visit to Capitol Hill the prior October to convince our members of Congress not to "Take Away My 401(k)." We had attended fundraisers and donated to ASPPA PAC in an attempt to further educate Congressional members.

GAC representatives meet with members of Congress and their staffs every February to discuss pension legislation. These meetings generally include people from the Senate Finance Committee, the Senate Committee on Health, Education, Labor and Pensions, the House Committee on Ways and Means and the House Committee on Education and the Workforce. We also meet with members of Congress and their staffs who historically have played a significant role in retirement plan legislation, such as former Congressman Portman (before he left to join the Administration's cabinet), Cardin, Boehner, Rangel, and Senators Baucus and Kennedy.

At the time, pending pension legislation had been developed in both the House and the Senate. We examined the various proposals for changes and considered what suggestions we could make for inclusion, with an eye to what was best for ASPPA members and their clients. Our list of issues seemed like an impossible wish list, and our best hope was to influence someone in a way that would help a favorable pension reform bill come up for a vote (see Your GAC in Action—Capitol Hill Meetings Go Well, *The ASPPA Journal*, May-June 2006, pp 29-31). Our key issues included such pie-in-the-sky items as:

- First and foremost, and the most expensive issue of all, EGTRRA permanency;
- A favorable resolution of the cash balance plan conundrum;



President George W. Bush signs into law H.R. 4, the Pension Protection Act of 2006, Thursday, Aug. 17, 2006. Joining him onstage in the Eisenhower Executive Office Building are, from left: Secretary of Labor Elaine Chao; Rep. Buck McKeon of California; Rep. John Boehner of Ohio; Senator Blanche Lincoln, D-Ark.; Senator Michael Enzi, R-Wyo., and Rep. Bill Thomas of California. Said the President, "Americans who spend a lifetime working hard should be confident that their pensions will be there when they retire." White House photo by Kimberlee Hewitt.

- A DB plan that could have a 401(k) provision [*i.e.*, the DB(k) idea that ASPPA originated and has floated to Congress for several years];
- Laws that would permit the reasonable provision of investment advice to participants charged with the direction of their accounts' investments;
- 401(k) simplification;
- Discussion of how to make the impending DB funding rules more palatable, especially for small plans; and
- Requests for a higher DB deduction limit, as well as relief from the 25% of pay combination DB/DC plan limit.

Brian cautioned us that it was doubtful that any of these items would actually be legislated in 2006. It is, after all, an election year, and Congress has its mind on reelection and on the war in Iraq. Little did we know, however, that this was the beginning of a major push that would end with the near-miracle called the Pension Protection Act of 2006.

The meetings were both the culmination of significant lobbying efforts already expended by ASPPA and ASPPA PAC and a kickoff to what would be a massive lobbying push for the next six months. The lobbying process is much more extensive and complex than it might appear at first blush. Getting face time with various members of Congress and their staffs is dependent on having built relationships in the past, and having garnered a reputation for integrity and knowledge. Brian H. Graff, Esq., APM, Executive Director/CEO; Teresa T. Bloom, APM, Chief of Government Affairs;

ASPPA's leadership; and the members of GAC have done this type of work year after year. On behalf of ASPPA, we visit with the various Congressional aides and members of Congress whenever possible. As part of ASPPA PAC, we attend or host political fundraisers for individuals who are in a position to have a meaningful impact on pension legislation. We prepare succinct and meaningful position papers to assist them in identifying benefits issues that are important, particularly to small businesses. We file comment letters and give testimony in relation to law and regulations.

In meeting with Congressional leaders and staff on both sides of the aisle, ASPPA helps the parties reach a consensus, something not readily available anywhere on Capitol Hill these days. We provide realistic advice to Congressional representatives and senators suggesting what provisions work best for practitioners and clients, and what ideas are not practical.

A real example of this effort is the original form of the Internet disclosure provision as it existed in February. The provision would have required a company to post its Form 5500 on its public *Internet*, where it could have been seen by clients and others. Spearheaded by Peter Gould, CPC, QPA, QKA, of GAC's Reporting and Disclosure Subcommittee, we pointed this out to those with whom we spoke, and we were eventually successful in working with them to change the language to refer instead to a company's internal *Intranet*. This win may seem like a small inroad, but it was very material for many businesspeople who were questioned about the effect this provision would have on their sponsorship of a plan.


We were told by everyone with whom we met that EGTRRA permanency was likely out of the question. It would be too expensive. We took great pains to describe how much the looming EGTRRA sunset provisions deterred the creation of retirement plans, as well as the addition of features, such as Roth provisions. Furthermore, we talked about the fact that the cost estimates of EGTRRA permanency by the Congressional Budget Office (CBO) were overstated; they ignored or undervalued the amount of taxes that would be collected when participants took distributions from plans more than ten years in the future. [ASPPA is working currently to persuade the CBO to modify the manner in which the cost estimates are scored for future pension legislation (see *The ASPPA Journal*, July-August 2006, pp 15-16).]

Sometimes we have to decide what compromise is best for our clients. Many other organizations lobbied in relation to cash balance plans in a different manner than we did. Some organizations insisted that no cash balance legislation should be put forward unless it resolved the status of existing cash balance plans (including conversions) and the legality of newly created plans. ASPPA grudgingly took another

position. Knowing that the potential political fallout from a resolution of conversions would prevent any cash balance legislation to take place if we insisted that conversions be addressed, we encouraged Congress to resolve cash balance plans going forward, with "no implication" language—making it clear that although existing plans were not addressed in the legislation, it does not imply that such plans were illegal. When other groups protested that such a provision would not be binding, David A. Pratt, APM (then head of GAC's Legislative Relations Committee), drafted a brilliant memo to pass around Congress to show how "no implication" language had been effective in other situations. We believe that his memo was integral in getting the cash balance provision in PPA.

After our meetings and for the next six months until the legislation passed on August 3, Brian and Teresa met with or spoke to our contacts on the Hill on a daily basis, providing information, working to change people's minds, getting votes and keeping votes.

It is hard to say exactly how much impact ASPPA's efforts had. It is easy, however, to point to PPA's provisions and see how many of the items on our original agenda in February actually came to pass. In fact, with the exception of the fact that the bill does not provide for a flat 5.5% interest rate for valuing lump sums for IRC §415 purposes, we got just about everything we had asked for in February. We cannot help but believe that such a high correlation between the provisions that we requested and those that were ultimately legislated means that our efforts had significant effect.

ASPPA is proud of all the Government Affairs accomplishments of Brian, Teresa and our committee of volunteers, and we are pleased to have effectively represented ASPPA's members to have helped produce such a favorable result. 



(PS While we are celebrating accomplishments, we are very pleased that the IRS and Treasury have rethought the provisions of the proposed Section 415 regulations in relation to the calculations of maximum benefits when there are multiple annuity starting dates. GAC wrote several comment letters and had several special meetings with the regulators about the ill effects of the proposed regulations. We were very pleased to hear that the IRS is not finalizing that portion of the regulations, but is rethinking and reissuing it in proposed form.)



Ilene H. Ferenczy, Esq., CPC, APA, is an attorney with The Law Offices of Ilene H. Ferenczy, LLC, in Atlanta, GA, where she consults on all types of employee benefit plans. She is a Government Affairs Committee

Co-chair and serves on the ASPPA Board of Directors. She is a nationally known speaker on benefits issues and has authored more than 40 articles for various publications. (iferenczy@ihflaw.com)

We cannot help but believe that such a high correlation between the provisions that we requested and those that were ultimately legislated means that our efforts had significant effect.

Happy 40th Birthday **ASPPA!**

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Birthday gifts to ASPPA:

- EGTRRA permanency
- Auto enrollment
- Higher deduction limits
- Cash balance plans
- DB(k)
- Corrective distribution relief

Come celebrate with us at the
ASPPA 2006 Annual Conference!



Contributing to ASPPA PAC for the Very First Time

by Andrew J. Molzahn, QPA

As professionals in the retirement plan industry, it is our job to know the tax laws and apply them to our everyday work. But who is watching out for us when proposals are made to change these laws?

The Pension Protection Act of 2006, recently passed by Congress, contains a number of significant changes that are considered a victory for the pension community. This accomplishment is due, in part, to the efforts and contributions made by ASPPA's Political Action Committee (ASPPA PAC).


As a pension professional, it is easy to get caught up in the daily routine. You spend the day in your office or cube (or "box" as my daughter calls it) preparing 5500s, doing non-discrimination testing or working on a plan termination. You moan about new legislation that is passed and how it will affect not only you, but also your clients and their employees. You hear rumblings about potential legislation and wonder how it can be stopped. ASPPA PAC provides a conduit for you to make your voice heard. It allows you to be a part of the legislative process and to make a difference.

My eyes were opened to the benefits of ASPPA PAC at the 2005 ASPPA Annual Conference. I had the unique opportunity to be a part of ASPPA's Visit to Capitol Hill "Don't Take Away My 401(k)" campaign and visit with one of my members of Congress. During this visit, I realized the level of awareness within Congress about the potential negative impact of this proposed legislation was very limited. Although I felt like the visits by ASPPA members to their respective representatives made an impact, I knew the work was far from done. I needed to be assured the process continued after I returned to my box. ASPPA PAC was the obvious solution.

I was one of almost 100 ASPPA members that contributed to ASPPA PAC for the *first time* in 2005. I have talked with some of those new members and the sentiment is the same. We want to make sure that ASPPA's ideas and philosophies are heard by Congress. We want to make sure new

legislation proposed by Congress has a positive impact on the retirement system. We want our members of Congress to be fully informed. We want the retirement plan system protected. And finally, we want to insure that our careers as retirement professionals are secure. We feel that ASPPA PAC is the organization to be that voice.

Many ASPPA members, however, are unaware of the important work done by ASPPA PAC. Perhaps you think you need to be a high roller and contribute thousands of dollars. The fact is ASPPA PAC needs everyone from business owners to cube farmers like myself, and even a small contribution makes a huge difference. As one person with whom I spoke put it, "I decided to contribute to PAC because after 25 years in the business and just about as long complaining about pension legislation, I finally decided it was time to take some responsibility."

ASPPA's voice is continuing to grow louder, but in order to continue that growth, ASPPA PAC needs your support. I urge you to make a contribution to ASPPA PAC and help make a difference in the future of the retirement system and your future. Information on ASPPA PAC can be found at www.asppa.org/government/gov_pac.htm or by contacting Jolynne Flores, ASPPA PAC Manager, at jflores@asppa.org. 



Andrew J. Molzahn, QPA, has been in the pension industry since 2000. As a senior pension analyst, Andy is responsible for all areas of defined benefit plan administration. Andy can be found working away in his box at Coble Pension Group, LLC, in Phoenix, AZ. (andy_molzahn@coblepension.com)

I decided to contribute to PAC because after 25 years in the business and just about as long complaining about pension legislation, I finally decided it was time to take some responsibility.

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1

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The RPF exams are online, open-book exams. To register for the RPF examinations, please visit www.asppa.org/exam. 2006 RPF exams must be completed online by December 31, 2006 (Midnight, ET).

2

Register for PFC examinations.

The PFC exams are proctored exams that are available during two exam windows each year. The 2006 fall exam window is November 1-December 15. Online registration and a downloadable registration form are available online at www.asppa.org/education/ed_dcdb_reg.htm. Grades from the fall exam window will be available to candidates by February 28, 2007, and will be eligible for continuing education credit for the 2005-2006 ASPPA CE cycle.

3

Order Study Materials.

You can order study materials online through the ASPPA Bookstore at <http://store.asppa.org>.

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4

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After you have passed the required examinations and have met the requirements for the QPFC credential, you can submit your Credentialed Membership Application to ASPPA. Once your application is approved by the ASPPA Board of Directors, you will need to earn 40 hours of ASPPA continuing education (CE) credit during each two-year CE cycle.** If you are currently an ASPPA credentialed member, you can add an additional credential by submitting the ASPPA Credential Addition or Upgrade form.

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*Candidates who have already passed ASPPA's Pension Administrator exams, Parts 1-3 (PA-1, PA-2, PA-3) will be exempt from taking the RPF examinations. Visit the Education & Examination pages of the ASPPA Web site for more information about examination waivers.

**For the initial CE cycle, the number of CE credits required is prorated based on the date of admittance or designation within the two-year CE cycle. See the Continuing Education section of the ASPPA Web site for a detailed schedule.

Dealing with the Gateway Issues of Cross-tested Plans

by William G. Karbon, MSPA, CPC

Code §401(a)(4) imposes minimum allocation or gateway test requirements on cross-tested defined contribution (DC) plans and certain multiple plan designs. What are these gateway requirements and when are they applicable?

The requirements for demonstrating that a DC allocation or defined benefit (DB) formula is nondiscriminatory on a cross-tested basis are included in the regulations under Code §401(a)(4). Compliance with these nondiscrimination requirements can be demonstrated on a cross-tested basis by converting DC allocations to DB accruals or DB accruals to DC allocations. Effective for plan years commencing after 2001, these regulations were amended to add a gateway test that imposes minimum gateway contribution requirements for DC plans that use these cross-testing rules. In addition, the amended regulations impose a separate gateway test requiring minimum benefits if a DC plan and a DB plan are aggregated and tested on a benefits basis to meet the nondiscrimination requirements of Code §401(a)(4).

This article will review the requirements of the gateway test as well as identify plan designs that will avoid these gateway requirements.

The Gateway Test for DC Plans

DC plans that take advantage of the Code §401(a)(4) cross-testing rules must meet a gateway test prior to complying with the Treasury Regulation §1.401(a)(4)-8 cross-testing rules. For a DC plan to meet the gateway test, the allocation rate for any non-highly compensated employee (NHCE) must equal or exceed the lesser of the following:

- One-third of the allocation rate of the highly compensated employee (HCE) with the highest allocation rate; or
- 5% of the NHCE's compensation.

The compensation used to demonstrate compliance with the two components of the gateway test may be different. To comply with the one-third test, the plan may use any nondiscriminatory definition of compensation that satisfies Code §414(s). The 5% test, however, must be met by using Code §415 compensation.



A plan can take advantage of Code §401(a)(4) cross-testing rules without complying with the gateway test requirements if certain conditions are met.

Further, if an employee becomes eligible for plan participation after the plan year has commenced, the compensation for the partial year of participation may be used for both the one-third test and the 5% test.

It should be noted that employer matching contributions cannot be used to meet the gateway test requirements.

Triggering a Gateway Contribution

Minimum gateway contributions that are required by the gateway test must only be provided to an employee who benefits under the plan for coverage testing purposes. Therefore, if a DC plan requires 1,000 hours of service and employment on the last day of the plan year to receive a contribution, only those employees who meet these two requirements are required to receive a gateway contribution.

Certain types of contributions may inadvertently trigger a minimum gateway contribution even though the plan imposes a 1,000-hour and/or last day rule to receive an employer contribution. These contributions include top heavy minimum contributions, safe harbor contributions and QNECs (qualified non-elective contributions). Therefore, practitioners must be careful in using safe harbor contributions or QNECs to solve for ADP or ACP testing problems as such a solution may trigger unintended minimum gateway contributions.

Adding allocation groups in a cross-tested plan that is not top heavy can be advantageous. If the plan sponsor does not want to make a contribution for a certain group of participants, a separate allocation group can be established for these employees. If the plan sponsor does not make any contribution for this group, they will not benefit under the plan and therefore will not be entitled to a gateway contribution. As always, if participants do not benefit from an employer contribution, careful attention should be given to the Code §410(b) minimum coverage requirements.

Avoiding Gateway Contributions

A plan can take advantage of Code §401(a)(4) cross-testing rules without complying with the gateway test requirements if certain conditions are met. To avoid the gateway test, a plan must satisfy one of the following conditions:

- The plan has broadly available allocation rates; or
- The plan has age-based allocation rates that are based on either a gradual age or service schedule or a uniform target benefit allocation for the plan year.

The broadly available test requires each allocation rate to meet a coverage test similar to the currently available test that must be satisfied by a plan's benefit, right or feature. In other words, the coverage ratio for each allocation rate will be based on the percentage of participants who are NHCEs. The greater the percentage of plan participants who are NHCEs, the lower the threshold for the coverage ratio at each allocation rate. As detailed in Treasury Regulation §1.410(b)-4, the coverage ratio (dependent on the percentage of participants who are NHCEs) for each allocation rate must be within a range of 20% to 50%.

For example, assume that an employer sponsors a profit sharing plan that has differing allocation rates for the hourly employees versus the salaried employees. For the 2006 year, the hourly employees receive an allocation of 5% of pay and the salaried employees receive an allocation of 9% of pay. If the coverage ratios for the hourly employees and salaried employees are 100% and 30% respectively, the plan will satisfy the broadly available test and avoid the gateway test if at least 87% of participants are NHCEs.

Under the age-based allocation rate rules, an allocation formula must be based on a participant's age, years of service or sum of age and years of service. Such an allocation schedule must define the age or service allocations using uniform intervals (bands). For an interval to be considered uniform, each age or service band must be the same length. For instance, if each age band was

three years, the uniform interval requirement would be satisfied. If allocations are based on age or age and service, the first band would be considered uniform if it is 25 or less. If allocations are based on service only, the initial band would be considered uniform if it is one year or less.

Further, the age-based allocation rules require a schedule of allocation rates to increase smoothly. To be considered to increase smoothly, the following rules must be met:

- An allocation rate cannot exceed the allocation rate of the previous band by more than 5%;
- The ratio of the allocation rate for any band to the rate for the immediately preceding band cannot exceed 2.0; and
- The ratio of the allocation rate for any band to the rate for the immediately preceding band cannot exceed the ratio of the allocation rates between the immediately two preceding bands.

If a minimum uniform allocation is required because a plan is top heavy, the smoothly increasing requirement will not be violated.

The age-weighted allocation approach that was prevalent after the Code §401(a)(4) regulations were initially issued may still be very useful, as it would automatically meet the above age-based allocation rules. The uniformity requirement would be met, as each age (one-year interval) would have its own allocation rate. The smoothly increasing requirement would be met, as each age allocation rate would be one plus the interest rate multiplied by the allocation rate of the previous age. As illustrated below, since there is no gateway requirement, employee demographics may result in a situation where an age-based allocation may be more cost-efficient than a cross-tested approach.

In analyzing the viability of a plan design that avoids the gateway test, a determination should be made on whether the plan design would require the additional expense of a customized plan document.

Examples of the Gateway Requirements

Applying varying allocation formulas to a sample participant census may bring perspective to the gateway test requirements. Assume that we are provided with the following 2006 calendar year census and the plan sponsor would like to adopt a profit sharing allocation formula that would maximize the contribution to the sponsor's owner.

Name	Age	Service	W-2 Pay
Owner	47	9	\$220,000
Sarah	25	3	\$30,000
Chris	26	3	\$30,000
Steve	30	2	\$40,000
Brian	31	2	\$40,000

As there is significant age disparity between the owner and the rest of the employees, the common approach would be to implement a cross-tested plan with two allocation groups. The first group would include the owner and the second group would include the rest of the employees. The results of the approach are as follows:

Name	Age	Service	W-2 Pay	Allocation	Allocation %
Owner	47	9	\$220,000	\$44,000	20.0%
Sarah	25	3	\$30,000	\$1,500	5.0%
Chris	26	3	\$30,000	\$1,500	5.0%
Steve	30	2	\$40,000	\$2,000	5.0%
Brian	31	2	\$40,000	\$2,000	5.0%
Total				\$51,000	

As 86.3% of the contribution is being allocated to the owner, this plan design appears to be very efficient. The employees, however, are required to receive a gateway contribution equal to 5% of pay because the owner's allocation exceeds 15% of pay.

Is there another approach that could alleviate the need for a gateway contribution. As discussed above, an age-weighted allocation would automatically meet the "age-based" allocation rules and would not be subject to the gateway requirements. The following illustrates the results of an age-weighted allocation approach:

Name	Age	Service	W-2 Pay	Allocation	Allocation %
Owner	47	9	\$220,000	\$44,000	20.0%
Sarah	25	3	\$30,000	\$919	3.1%
Chris	26	3	\$30,000	\$997	3.3%
Steve	30	2	\$40,000	\$1,842	4.6%
Brian	31	2	\$40,000	\$2,169	5.4%
Total				\$49,927	

The age-weighted approach is an improvement over the traditional cross-tested allocation as the owner is now receiving 88.1% of the contribution. The contributions to the employees, however, exceed top heavy minimums and Brian's contribution exceeds the 5% gateway requirement.

Is there another approach that could further meet the employer's objective? Using a more sophisticated age-based allocation approach may be the solution.

An allocation schedule based on age plus service will work. The following schedule details such an approach:

Age Plus Service	Allocation Rate	Ratio of Rate Increases
22 – 28	1.00%	
28 – 34	1.75%	1.75
34 – 40	3.00%	1.71
40 – 46	5.00%	1.67
46 – 52	8.25%	1.65
52 – 58	13.25%	1.38
58 – 64	18.25%	1.27
64 – 70	23.25%	1.22

This schedule meets the age-based allocation uniformity requirement as each age plus service band is six years in length. The smoothly increasing requirements are met as the ratio of any two consecutive allocation rates does not exceed 2.0 and such ratios decrease as the age plus service bands increase. Further, no allocation rate exceeds the prior rate by more than 5.0%.

The following details the allocations under this schedule:

Name	Age	Service	W-2 Pay	Allocation	Allocation %
Owner	47	9	\$220,000	\$44,000	20.0%
Sarah	25	3	\$30,000	\$900	3.0%
Chris	26	3	\$30,000	\$900	3.0%
Steve	30	2	\$40,000	\$1,200	3.0%
Brian	31	2	\$40,000	\$1,200	3.0%
Total				\$48,200	

Since the plan is top heavy, this schedule satisfies the top heavy minimum contribution and allocates 91.3% of the contribution to the owner.

A last day requirement could be used in implementing the above allocation schedule. This provision would permit a revision to the allocation formula mid-year if there is a significant change to the employee demographics that could otherwise reduce the effectiveness of this schedule.

In analyzing the viability of a plan design that avoids the gateway test, a determination should be made on whether the plan design would require the additional expense of a customized plan document.



Multiple Plan Gateway Test

Often optimal plan design is achieved by having a plan sponsor implement both a DB plan and a DC plan (DB/DC plan). If the DB/DC plan must be aggregated for nondiscrimination testing purposes under Code §401(a)(4) and such testing is satisfied on a benefits basis, the DB/DC plan is subject to a special gateway test.

The special gateway test for a DB/DC plan is met by providing a minimum combined normal allocation rate to all NHCEs benefiting under the DB/DC plan. The combined normal allocation rate is determined by adding a participant's allocation rate under the DC plan to his or her equivalent allocation rate under the DB plan. The special gateway test requirement is automatically met if each NHCE has a minimum combined normal allocation rate of 7.5% of Code §415 compensation. Alternatively, the special gateway test may be met by using the following table which is based on the highest combined allocation rate for any HCE benefiting under the DB/DC plan:

Highest HCE Combined Allocation Rate	Minimum NHCE Combined Allocation Rate
15% or less	1/3 of highest HCE rate
16% - 25%	5%
26% - 30%	6%
31% - 35%	7%
36% - 40%	8%
41% - 45%	9%
Each additional 5% increment	Add 1%

Like the one-third test under the regular gateway test, the minimum combined allocation rates for the above table can be determined by using any nondiscriminatory definition of compensation that satisfies Code §414(s). Also like the regular gateway test, if an employee becomes eligible for plan participation after the plan year has commenced, the compensation for the partial year of participation may be used for both the 7.5% test and the test detailed in the above table.

Avoiding the Multiple Plan Gateway Test

A DB/DC plan is not subject to the special gateway test if:

- The DB/DC plan is considered to be primarily defined benefit;
- The DB/DC plan meets the "broadly available" test; or
- The DB/DC plan is considered to be a safe harbor floor-offset arrangement.

The primarily defined benefit test is satisfied if for more than 50% of the NHCEs benefiting under the plan, their accrual rate from DB benefits exceed the equivalent accrual rate from DC plan contributions.

The broadly available test is met if the DB plan and the DC plan can independently meet the minimum coverage requirements of Code §410(b) and nondiscrimination testing requirements of Code §401(a)(4). In other words, the plans do not rely on each other to meet the Code's coverage and nondiscrimination testing requirements.

The safe harbor floor-offset test is met if the account balances resulting from employer contributions under the DC plan are used to offset the benefits promised under the DB plan. Further, the floor-offset arrangement must satisfy the safe harbor requirements described in the Treasury Regulation §401(a)(4)-8.

Example of the Multiple Plan Gateway Requirement

Applying the special gateway test to a specific employee census may enhance the understanding of these rules. Assume we have the following 2006 calendar year census:

Name	Age	Service	W-2 Pay
Owner	52	10	\$220,000
Owner's Spouse	50	5	\$60,000
NHCEs 1 - 2	35	3	\$35,000
NHCEs 3 - 6	45	5	\$50,000

A DB plan covers the owner and NHCEs 1 and 2 while a DC plan covers the owner's spouse and NHCEs 3 through 6. The DB plan does not meet the requirements of the Code §410(b) ratio test. Therefore, the two plans must be aggregated for coverage purposes and, if tested on a benefits basis, are subject

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to the special gateway test unless the primarily defined benefit test is met. The DB/DC plan fails to meet the primarily defined benefit test since two-thirds of the NHCEs do not benefit at all under the DB plan.

The DB plan provides a benefit of 8.0% of average pay times years of service up to ten, which yields the following results:

Name	Age	W-2 Pay	Annual DB Accrual	Equivalent Allocation Rate
Owner	52	\$220,000	\$17,500	32.8%
NHCEs 1 – 2	35	\$35,000	\$2,800	8.2%

The DC plan uses a cross-tested allocation formula with the following results:

Name	Age	W-2 Pay	Annual DC Contribution	DC Allocation Rate
Owner	52	\$60,000	\$6,300	10.5%
NHCEs 3 – 6	35	\$50,000	\$3,500	7.0%

The highest allocation rate for any HCE is the owner's equivalent allocation rate of 32.8%. Using the above table, an allocation rate between 31% and 35% requires a special minimum gateway allocation of 7.0%. Since the 7.0% is less than the safe harbor 7.5% allocation rate described above, each NHCE must receive a minimum combined allocation rate of 7.0%. As shown in the prior results, each plan provides an allocation rate that is equal to or greater than 7.0%, therefore the requirements of the special gateway test have been satisfied.

Conclusion

The gateway test requirements can be very onerous. In many situations, however, employee demographics and careful planning will allow a plan design that can avoid the gateway test and optimally meet the objectives of the plan sponsor. ↗



William G. Karbon, MSPA, CPC, MAAA, EA, is a vice president and director of compliance with CBIZ Benefits & Insurance Services, Inc., located in Plymouth Meeting, PA. Bill is the vice-chair of The ASPPA Journal Committee and also serves on ASPPA's Annual Conference and Professional Conduct Committees. He has been a featured speaker for professional organizations, including ASPPA. He has also authored the Pension Roundup on www.freeerisa.com, technically reviewed books on 401(k) plans and has been an instructor for advanced consulting classes sponsored by ASPPA. Bill is a Member, Society of Pension Actuaries, a Certified Pension Consultant, a Member of the American Academy of Actuaries and an Enrolled Actuary. (wkarbon@cbiz.com)

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Marketing Through Communications

by Nancy M. Michael

Have you ever wanted to see your firm as others do? Put yourself in your clients' shoes. Recognize that every item that comes out of your office—a letter, fax, e-mail, etc.—is an opportunity to show off your high quality pension operation. Use your written client communications to project your firm's excellence. You will build your firm's image and build trust in your firm. Flawless client communications creates a halo effect for your pension firm's operations.

How do you create flawless communications with clients? First, you need a communications plan or policy for written material—and it does not have to be fancy or intricate. It can be as simple as “All written communications that comes out of this office will be polished, professional and high quality. Communications will be clear and reflect the image we want to convey. We will build standards for consistency and uniformity and we will stick to them. We will communicate honestly and sincerely.” Done! Now, commit to it. It is going to take some time to do this, so be prepared.

Letterhead

Think of the message your letterhead conveys. You want everything that goes out of your office to carry the message of high quality and value. Good, printed letterhead is a must-have! If you have not already done so, get a graphic artist to design your logo and set up a letterhead system. Make it consistent, from envelopes to stationery to report covers. Nothing shouts amateur like letterhead you have created yourself on copy paper. You may be cutting costs, but you are communicating to your clients that you are stingy. Worse, they will think you cannot afford letterhead and thus, may not be in business for the long haul.

Letters

Set up a formatted, master letter page, including type fonts and appropriate type sizes and boundaries such as margins, indents and justified or unjustified type. Nothing looks worse than one administrator using 8-point justified Arial type and another using unjustified 12-point



Times New Roman type. I received a letter from a TPA firm recently printed in 9-point type. When I asked why the type was so small, the administrator told me the letter had to fit on one page. Frankly, it made me suspect that the administrator did not have much common sense. This level of intelligence is administering my plan?

Make a Letter System

One way to insure uniformity and consistency in your letters to clients is to set up a form letter system. Look at the types of letters that go out. Then, divide them into categories, such as Census Requests, Termination Packets, Billing and the like. Develop sample letters for each category. Once you have these letters, your staff will not be continually recreating the wheel. A letter for just about every occasion or request will exist.

Now, collect your current letters and have someone who is not involved in pensions read them (probably not your spouse, who hears pension mumbo jumbo everyday). You will find the vast majority of them are unreadable to the layperson. Keep “pension-eze” to a minimum. Remember, it took

Welcome New Members and Recent Designees

▲ CPC

Milton D. Heber

▲ QPA

Damien M. Callahan
Todd E. Heller
Katherine E. Hernandez
Joel L. Mee
Sean E. Miller
Kelli M. Reed
Lisa Marie Roberto
Sharon Marie Rodenberg
Amy C. Speas
Addison L. Wolfe

▲ QKA

John R. Andresen
David Arko
Thomas N. Bagwell
Jeffrey R. Belfiore
Vanessa Berkoski
Karl Breice
Stephen Coombs
Todd A. Cornilsen
Brooke K. Cozort
Luke J. Cunnane
John H. Dingle, Jr.
Bonita K. Ellis
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Nathan Glassey
Todd E. Heller
Karen Hogan
Justin S. Ingraham
Matt D. Irwin
Joni L. Jennings
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Karnail Kooner
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Jill S. Morris
Chau M. Ngo
Thomas Roback
Sharon Marie Rodenberg
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Kimberly L. Sheek
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F. Kim Stephens
Steven J. Stout
Joseph E. Tobin

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Michelle R. Wittekind
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Clayton Lindsey
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Christa J. Nelson
Karen Oveson
Geoffrey Parker
Teresa Rutigliano
Edward J. Shanahan
Brian Smith
Ronald Snyder
Michael Tudor
Elaine M. Vallant
Marcella A. Weaver
Palmer Whitney

you years to learn the lingo. Most of your audience still thinks SPDs are a type of bathing suit. So write letters in simple, plain English and explain the terms you use.

Use the active voice when writing. If you cannot remember what the active voice is from those ancient English classes, here is an example: “I have enclosed three forms.” Passive voice: “Enclosed are three forms.” Active voice conveys immediacy and is often perceived as more personal. Passive voice is stilted, boring and awkward.

Check your written correspondence to make sure the tone is cordial and businesslike. I see too many harshly written letters—especially third and fourth requests for census data. Never miss the opportunity to thank clients for their business in some way in each letter when possible. In addition, sign your letters legibly. A scrawl says, “I do not have time to sign this communication. Thus, you are not important.”

Once you have developed a system of perfect form letters for every occasion, lay down the law. Everyone must use the form letters. Sure, they can tweak them here or there, but using the letter system insures that the right information is communicated in a consistent, uniform manner.

Finally, proof all letters and run them through spell check. Poor grammar or misspellings reflect on your firm. You would not send out an incorrect valuation—so why would you send out an error-filled, poorly written letter? Your clients recognize a hastily written, badly constructed letter. And, what do they assume? They assume it reflects the quality of the rest of your firm’s work.

If you are using Microsoft Word®, use the readability statistics that show when spell check finishes. You will see the percentage of passive versus active voice sentences, the grade level you are writing at and much more. If this option is not currently running on your machine, go to “Tools” and then “Options.” From there, you can select from a list of settings.

Fax Cover Sheets

Generally, fax cover sheets are as different as night and day from their letterhead counterparts—made for scribbled notes and cryptic scrawls. Not so! Here is a great opportunity to show a “family” look and convey the high quality of work your



firm does. Your standard fax cover sheet should look similar to your letterhead, including your logo and appropriate type fonts and sizes. Why? So that your clients and their other advisors know instantly that the fax is from your firm. Make sure your firm's faxes have a clear format and demand that all faxes be sent on the official fax form. A fax should include only a few short paragraphs. As always, use the active voice when writing and avoid pension buzzwords.

E-mail

Some of the pension folks I know are not the most "people-oriented" types. One, Bob, would prefer to not deal personally with people. Bob envisions a world where all communications are via e-mail. He e-mails his co-workers across the hall, advisors, CPAs, his partners and even his mother. Going too far? Yes! There are a couple of problems with going to an all-e-mail communication system. First, e-mail can be a cold and impersonal way to communicate. Second, you run the risk of becoming another piece of spam in someone's e-mail inbox.

E-mail, however, is here to stay because it offers immediacy and the authority of the printed word. Before you go hog wild, make sure your clients want to get e-mail communications from you. Get their permission. In addition, include an "opt out" or unsubscribe line at the end of each e-mail. If you are sending vital information, set your e-mail system for a "return receipt" to make sure the e-mail has been received. (Beware! There are computer settings that delete all receipts or reply to all requests without opening the e-mail.)

Develop a standard format for an e-mail and have everyone use this format. Specify common typefaces—preferably ones that will always be reproducible, such as Times New Roman or Verdana. Put your firm name in the subject line, followed by a clear description regarding the e-mail. For example, "Acme Pensions: Census Request." Note: Some words, like "loan" may immediately throw your e-mail into the spam pile.

Writing E-mail

Writing e-mail is different from writing a letter because people tend to scan e-mail. Keep e-mail short, business-like and to the point. Write short sentences and use the active voice. Use only three to four sentences in a paragraph. And, put the most important pieces of information first. As readers scan your e-mail, they pay less and less attention as they move through the message. Use subheadings, bullets or dashes to break up and emphasize the copy. Remember, white space is your friend.

If your e-mail program allows you to set the line length on your e-mail, set it to wrap at 65–68 characters. You may end up with a little white space on the right side, but your message will display correctly in most applications at this line length.

Once the reader has opened and scanned the e-mail, you have one more opportunity to get a point across—the postscript. People are used to looking for the "PS" at the end of the e-mail. Use the PS as an opportunity to reiterate your call to action. For example, "Please return the signed copy by February 12, 2007."

Finally, proof before you hit the send button. Do not ruin the effect of your e-mail by allowing it to contain careless grammatical errors and misspellings. In addition, if you are sending an attachment, remember to attach it the first time! No one enjoys receiving an e-mail with "OOPS" in the subject line.

Conclusion

Your client communications are your best marketing tool. Make sure that they reflect the image you want to project. Keep tweaking and adjusting to keep communications fresh and inviting. Let your written communications be vibrant and dynamic—an effective reflection of your high quality operation. 📧

Nancy M. Michael has over 20 years in the pension arena. She is presently a principal in Communications Ink, a marketing and communications firm based in Glendale, CA. Nancy's work includes outrageous employee communications for a variety of companies as well as communications and strategic marketing plans for small businesses.

Your client communications are your best marketing tool. Make sure that they reflect the image you want to project. Keep tweaking and adjusting to keep communications fresh and inviting.



The ASPPA Benefits Council of Greater Cincinnati

by Thomas E. Collett, CPC

The ABC of Greater Cincinnati is in its fourth year of existence and has continued to grow.

Our membership consists mainly of corporate members with a few individual members. In total, we have approximately 190 members representing many of the major companies in the area that provide retirement plan administrative services as well as a number of attorneys from various law firms.

Our ABC normally sponsors 11 meetings per year. These consist of our more formal quarterly meetings with national speakers and our brown bag luncheons with local speakers. We have also been a contributing sponsor to the Cincinnati Employee Benefits Conference held each June. This year we sponsored a booth and also held a reception for our current and prospective members as well as other conference attendees. Over 250 people attended the conference and our reception was well received.

Some of our national speakers include Craig P. Hoffman, APM, and S. Derrin Watson, APM, of SunGard; Richard A. Hochman, APM, of McKay Hochman; and Brian H. Graff, Esq., APM, ASPPA Executive Director/CEO. These speakers generally make their presentations in conjunction with a breakfast or lunch meeting. We have consistently had approximately 75 attendees at each function.

Our local speakers have included representatives from the local IRS and DOL offices, as well as members of our council. These presentations are generally made during a brown bag luncheon held at one of several local sites.

In April, we sponsored our first annual "Membership Appreciation Day," which was a cocktail hour after work to show our members our appreciation for their involvement in the ABC.

We have recently taken a poll of our members to determine the interest level of providing assistance for those taking ASPPA exams. We also asked for volunteers to help teach various sessions

ABC of Greater Cincinnati programs for the remainder of 2006 include:

October 22

Discretionary Authority
Ed Schutzman

November 28


2006 Testing
Shawn M. Scott, CPC, QPA, QKA
John P. Stebbins, QKA

December 12

TBD
Richard A. Hochman, APM

of the courses. Once the results are compiled, we plan to implement the requests of our members.

We have also taken steps to improve the transition from one set of outgoing officers and board members to the incoming officers and board members. We are preparing detailed summaries and responsibilities of each position. In addition, to ease the transition in programming for an upcoming year, speakers are committing to annually address our ABC.

It has been a busy year so far, but we anticipate that the hard work of this year will result in a stronger, more viable ABC in the future. 



Thomas E. Collett, JD, CPC, APA, is a regional technical services manager with Invesmart, Inc, a wholly owned subsidiary of StanCorp Financial Group. Tom is an ERISA attorney with over 35 years of experience in plan design and consulting on qualified plans. He is a member of the Employee Benefits Committee of the Cincinnati Bar Association and served as chairman for the 2003-2004 year. He is also an emeritus member of the Great Lakes TE/GE Council. tom.collett@invesmart.com

The ABC of Dallas/Ft. Worth Approaches Its Fifth Anniversary

by Ginny Boggs, QPA, QKA

The ASPPA Benefits Council of Dallas/Ft. Worth was launched in January 2002 and continues to gain momentum, thanks to the hard work and dedication of the ABC's board of directors and the enthusiasm of our members. The ABC's membership now includes several corporate members and 64 individual members.

Although we tried different approaches the first few years, our ABC's annual meeting line-up has evolved into what seems to best suit the needs of our membership—namely, three two-hour breakfast meetings during the year and one full-day workshop toward the end of the year.

Over the years, we have been honored to host a number of nationally recognized speakers, including Sal L. Tripodi, APM; Craig P. Hoffman, APM; Ilene H. Ferenczy, CPC; Tom Foster; Richard Carpenter, CPC; Janice M. Wegesin, CPC, QPA; John Griffin; and Brian H. Graff, Esq., APM; as well as key IRS and DOL personnel and a number of local favorites.

In an effort to promote ASPPA's new Qualified Plan Financial Consultant (QPFC) credential, our August 22 meeting targeted the financial community. During the meeting's introduction, we gave a short presentation about the new QPFC credential and handed out promotional materials. The program topic was "Increasing 401(k) Participation." Anne Boozer with MassMutual Retirement Services spoke about "Improving Participant Education," and Robert J. Cruz with Alliance Bernstein Investments spoke about "Implications of Participant Behavior for Plan Design and Target-Date Retirement Funds."

Our final meeting this year will be a full-day workshop on December 7 featuring the ever-popular Sal Tripodi. Given Sal's popularity, the meeting is sure to be a big draw and crowd pleaser.

On a personal note, I have cherished my tenure as ABC president and ASPPA liaison this past year. My role has allowed me to participate in the ASPPA liaison meeting at the 2005 ASPPA Annual Conference in Washington, DC, and the 2006 ABC Leadership Conference in Atlanta, GA,

The 2006 ABC of Dallas/Ft. Worth Board of Directors

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in April. I have met some great people and we have had a valuable exchange of experiences and ideas. Beyond that, in June of this year, I was invited to speak to an existing local benefits group in my hometown of San Antonio, TX, which was considering making a change to becoming an ASPPA Benefits Council. They were such a great group of people and they truly made me feel at home. I spoke from the heart about my devotion to ASPPA and the special benefits that a local ABC can bring to one's own backyard, not only as an extension of the national organization, but also as a way to tailor the local council to fit the needs of the local membership. As a proud native Texan and devoted ASPPA member, I was thrilled to learn afterwards that the group had enough petitions to convert to an ASPPA Benefits Council. I am also excited to learn that one or two additional Texas ABCs are in the works.

Last, but not least, I want to extend a special thanks to the ASPPA staff for all they do to support the local ABCs, especially Denise Calvert, Director of Membership, and Becky Gurzo, ABC/Marketing Coordinator. They are fantastic people working behind the scenes to make it all happen. ↗



Ginny Boggs, QPA, QKA, is senior compliance consultant for Milliman's Employee Benefits Southern Region. She has been in the employee benefits field for 24 years. Ginny has been involved with the ABC board since 2003. (ginny.boggs@milliman.com)

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Introducing New Retirement Plan Fundamentals (RPF) Webcourses

ASPPA is pleased to introduce two new webcourses: RPF-1 and RPF-2. The webcourses are designed to help candidates prepare for the 2006 RPF examinations by addressing the most challenging topics on the examinations. The webcourses also provide excellent training for retirement plan professionals who are new to the industry – regardless of whether or not they are pursuing an ASPPA credential.

Viewing all sessions of the RPF-1 webcourse can earn you six CE credits and the RPF-2 webcourse can earn you five CE credits.

The registration fee for each webcourse is \$110. Access to the webcourses will be available until December 31, 2006, for registered participants. For more information, or to register today, visit <http://www.asppa.org/education/2k6rpfwc.htm>.

DC-1, DC-2, DB, C-3 and C-4 Webcourses

Don't forget that webcourses are also available to help candidates prepare for the DC-1, DC-2, DB, C-3 and C-4 examinations. These webcourses have seven-eleven sessions, each lasting 100-120 minutes. Participants earn two CE credits per session, with a maximum of 20 credits per webcourse. The registration fee for each webcourse is \$200 for members and \$250 for nonmembers. For more information and to register, visit http://www.asppa.org/education/ed_online.htm.

2006 Fall Examinations

The final registration deadline for the DC-1, DC-2, DC-3, DB, C-3, C-4, PFC-1 and PFC-2 fall examinations is October 31, 2006. The exam window is November 1 – December 15, 2006. Exam candidates will earn 20 CE credits for passing scores of 7, 8 or 9, and 15 CE credits will be awarded for viable (but not passing) scores of 5 or 6. To register, visit http://www.asppa.org/education/ed_dc-db_reg.htm.



ASPPA Calendar of Events

Date	Description	CE Credits
Oct 22 - 25	2006 ASPPA Annual Conference • Washington, DC	20
Oct 31	Regular registration deadline for fall examinations	
Nov 1 - Dec 15	Fall 2006 examination window (DB, DC-1, DC-2, DC-3, PFC-1 and PFC-2)	
Nov 10	Postponement deadline for C-3, C-4 and A-4 examinations	
Nov 15	C-3 examinations	
Nov 15	A-4 examinations	
Nov 16	C-4 examinations	
Dec 1	Postponement deadline for DB, DC-1, DC-2, DC-3, PFC-1 and PFC-2 fall examinations	
* Dec 31	RPF 1-2 examination deadline for 2006 online submission (midnight, EST)	
2007		
Jan 25 - 26	Los Angeles Benefits Conference • Universal City, CA	15
Feb 25 - 27	The ASPPA 401(k) SUMMIT 2007 • San Diego, CA	15
Mar 20 - 21	Benefits Conference of the South • Atlanta, GA	15
Apr 13	Early registration deadline for spring examinations	
* May 13	Final registration deadline for spring examinations	
May 14 - Jun 29	Spring 2007 examination window (DB, DC-1, DC-2, DC-3, PFC-1 and PFC-2)	
May 24 - 25	DOL Speaks: 2007 Employee Benefits Conference • Washington, DC	15

* Please note that when a deadline date falls on a weekend, the official date shall be the first business day following the weekend.

ABC Meetings Calendar

October 17

ABC of Greater Cleveland
Washington Legislative Update
Brian H. Graff, Esq., APM

October 18

ABC of Delaware Valley
Downtown Luncheon Meeting
TBD

October 22

ABC of Greater Cincinnati
Discretionary Authority
Edward Schutzman

October 25

ABC of Great Northwest
4th Annual EA Exam Review
Colin E. Southcote-Want, MSPA

November 16

ABC of Northern Indiana
Annual Board Meeting

November 28

ABC of Greater Cincinnati
2006 Testing Workshop
Shawn Scott, CPC, QPA, QKA
John P. Stebbins, QKA

November 28

ABC of North Florida
ASPPA Annual Conference Update
Craig P. Hoffman, APM

December 1

ABC of South Florida
Washington Legislative Update
Brian H. Graff, Esq., APM

December 6

ABC of Western Pennsylvania
Washington Legislative Update
Brian H. Graff, Esq., APM

December 7

ABC of Chicago
What's New with the DOL
TBD

December 7

ABC of Dallas/Fort Worth
Keeping Current—All-day ERISA
Seminar
Sal L. Tripodi, APM

December 12

ABC of Greater Cincinnati
TBD
Richard A. Hochman, APM

December 12

ABC of Greater Cleveland
Independence Luncheon Meeting
TBD

December 14

ABC of Atlanta
Washington Legislative Update
Brian H. Graff, Esq., APM



For a current listing of ABC meetings, visit www.asppa.org/membership/member_local.htm.

Fun-da-Mentals

Sudoku Fun

Every digit from 1 to 9 must appear:

- In each of the columns,
- in each of the rows,
- and in each of the nine mini-boxes

	5			6				4
		6		5		1		8
					4	5		
				8				4
6		3				9	8	
	2	5	7		3			
					2			1
			1	7	6			
					8	6		7

Answers will be posted on ASPPA's Web site in the Members Only section. Log in and select the link under "Check out the latest issue of *The ASPPA Journal*." Scroll down to "Answers to Fun-da-Mentals."



"If you ask me, they're carrying the virtual workplace a little too far."

Word Scramble

Unscramble these four puzzles—one letter to each space—to reveal four pension-related words.

RENT RAP — □ □ — — — — □

ROPE RAT □ — □ □ — — — —

RAN GAME □ — — — — □ — — —

DE CROP JET □ — □ — — — — — — □

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

Mystery Answer:

Because he was in the " — — — — " — — — — .

Answers will be posted on ASPPA's Web site in the Members Only section. Log in and select the link under "Check out the latest issue of *The ASPPA Journal*." Scroll down to "Answers to Fun-da-Mentals."



Why the paratrooper continued to jump after he retired.



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