Extra! EGTRRA!

ProVal

ProVal version 2.17 update | **August 2001, revised April 2002**

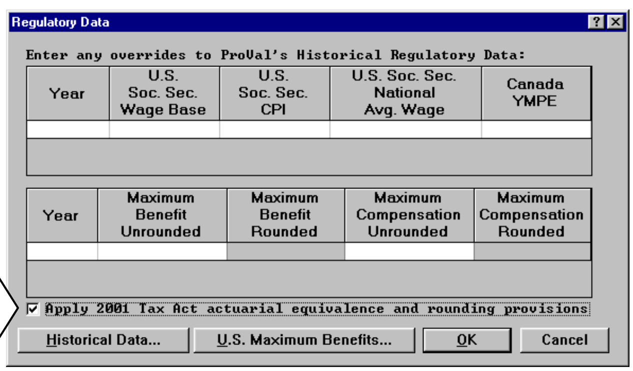
ProVal version 2.17 has been enhanced to support the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Two new parameters have been added that allow you to calculate liabilities and contributions, respectively, with and without the EGTRRA provisions. Please see below for more details.

Liabilities under EGTRRA

The first EGTRRA parameter is found in the Regulatory Data topic of Valuation Assumptions. This checkbox controls:

- §415(b) maximum benefit actuarial equivalence and
- §401(a)(17) maximum compensation rounding.

If this box is checked *and the (initial) valuation date for a valuation or a core projection is on or after 1/2/2001*, then these EGTRRA provisions will be applied during the valuation. Specifically, the §415(b) maximum benefit will be unadjusted for decrement ages 62 through 65 inclusive (actuarially reduced or increased outside of that range) and the §401(a)(17) maximum compensation limit will be rounded down to the nearest $5,000 increment.

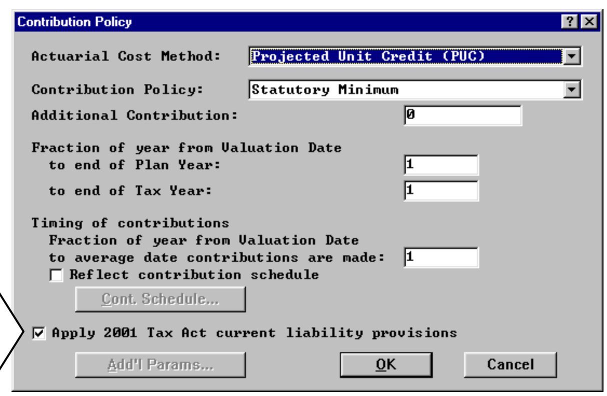


If the box is not checked, the §415(b) maximum benefit is reduced or increased dependent on Social Security Normal Retirement Age and the §401(a)(17) maximum compensation limit is rounded down to the nearest $10,000 increment.

Contributions under EGTRRA

The second EGTRRA parameter is found in the Contribution Policy topic of Asset & Funding Policies. If this checkbox is checked *and the calculations involve a relevant plan year*, ProVal will:

- increase the current liability minimum contribution full funding limit to 165% in 2002, 170% in 2003, and repeal it thereafter; and
- apply the 100% of unfunded current liability maximum tax deduction for small and multi-employer plans.



The pages that follow discuss specific situations and types of plans:

Plan Change Bases

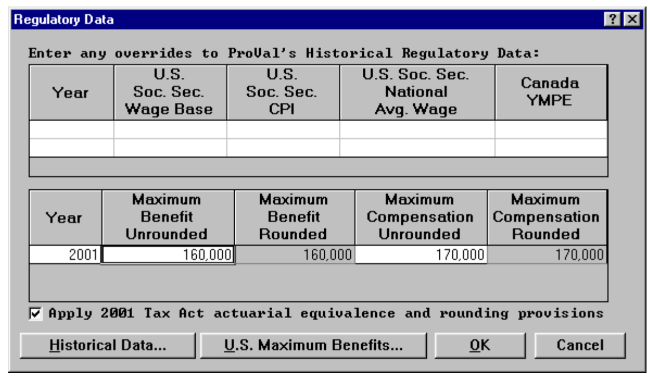
EGTRRA's changes to:

- §415(b) actuarial equivalence,
- §415(b) maximum benefit limit (from $140,000 in 2001 to $160,000 in 2002), and
- §401(a)(17) maximum compensation limit (from $170,000 in 2001 to $200,000 in 2002)

will create a plan change base for many plans. To value this, run one valuation with the regulatory data EGTRRA box checked and another with it unchecked (both with a valuation date of 1/2/2001 or later). Then, under Execute | Valuation Sets, include the non-EGTRRA valuation in the baseline gain or loss event and the EGTRRA valuation in an additional plan change event.

Non-Calendar Plan Years

EGTRRA's §415(b) $160,000 limit and actuarial equivalence changes apply to plan years *ending* in 2002. Thus, the changes apply to valuations of non-calendar plan years beginning in 2001. To reflect this:



1. **Use** a valuation date between 1/2/2001 and 12/31/2001.
2. Check the Valuation Assumptions | Regulatory Data EGTRRA checkbox.
3. Override the 2001 maximum benefit with $160,000.
4. Override the 2001 maximum compensation limit with $170,000 (funding assumptions only). When assuming a 0% increase in the limit, this avoids rounding the 2001 limit of $178,125 to $175,000 in 2002 and later years.
5. If you wish to reflect the 2002 maximum compensation limit of $200,000 in an accounting valuation, set the Increase & Crediting Rates | Regulatory Items | Maximum Compensation increase rate to 0.122807018 (200,000 / 178,125 – 1) for 2001 and set the increase rate to your current assumptions for 2002 and later years.

Theoretically, you should continue the practice of overriding the maximum benefit for valuation dates beyond 2001. However, as a practical matter, the year-end limit is not generally known as of the valuation date.

Accounting Valuation for Calendar Plan Year 2001

If EGTRRA's changes are to be reflected for pension expense and/or end-of-year disclosure in the accounting valuation for the 2001 plan year, then follow the preceding instructions for Non-Calendar Plan Years and use a valuation date of 1/2/2001 instead of 1/1/2001. (Note: The one day shift in valuation date may shift the rounded age of some participants by one year and thus produce a difference from funding valuation results not attributable to EGTRRA's changes.)

Sunset Provisions

ProVal does not directly value the EGTRRA sunset provisions. If you want, for example, to run an accounting valuation assuming that the §415(b) actuarial equivalence provisions will revert back to SSNRA-based reductions and the maximum benefits and compensation limits will drop to the pre-EGTRRA levels, you can:

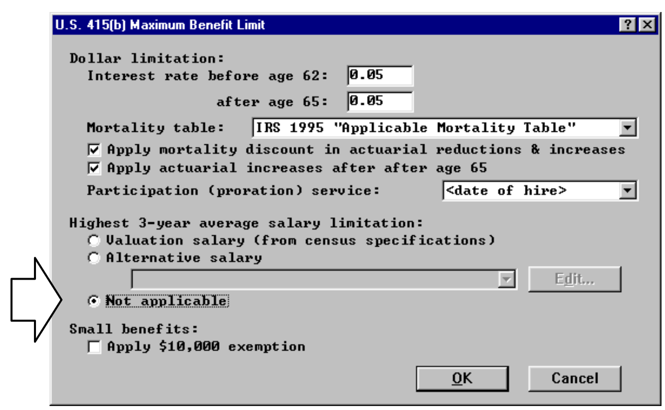
1. Uncheck the Valuation Assumptions | Regulatory data EGTRRA checkbox so that ProVal calculates the more complicated pre-EGTRRA §415(b) maximum benefit early retirement reductions.
2. Uncheck the Benefit Definition | 415(b) Maximum Benefit Limit "Apply 415(b) maximum benefit limit" checkbox.
3. Construct a calendar year dependent benefit formula (using ProVal's calendar year operators) that references #MAXBEN for post-2010 years and an appropriate benefit formula table component for pre-2011 years. The benefit formula table component must have increase rates applied that are consistent with the regulatory limit increase rate assumption.
4. You may wish to include a minimum post-2010 benefit in the benefit formula to ensure no accrued benefit reduction.
5. Set the regulatory data (and maximum benefit formula table component) increase rates to be calendar year dependent and appropriate for your assumption about the 2010 decrease in the limits, adjusted for the different CPI measurement periods.

If you want to reflect the sunset in a forecast, you can take a similar approach in which you value the sunset as a negative plan change.

Please note that the effect of the $5,000 rounding on the maximum compensation limit will be lost with this technique; using pre-EGTRRA law will result in $10,000 rounding.

Multi-Employer Plans

The repeal of the 100% of compensation §415(b) limit for multi-employer plans can be reflected by selecting "Not applicable" for this provision in the Valuation Assumptions | Regulatory Data | U.S. 415(b) Maximum Benefits topic.



Small Plans

A warning will be issued for small plans (actually, employers with fewer than 101 participants in all plans) for which 100% of the RPA unfunded current liability drives the maximum tax deduction. This may or may not represent the correct value under the §404(a)(1)(D) restrictions with respect to recent plan amendments affecting highly compensated employees and plans maintained by professional service employers.

TRA'97

The TRA '97 Asset & Funding Policy parameter has been retired. If you are inadvertently not applying TRA '97, you can apply it by opening the ERISA Minimum Funding Amortization Bases dialog box and then clicking "OK".

Police & Fire

No change was made with respect to removal of the $75,000 minimum §415(b) limit for police & fire because, as of yet, public plan §415(b) limits are not directly calculated in ProVal**.**

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