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Upcoming Presentation

Dan will be speaking at the 5th Annual Managing Retirement Income Conference on February 11th at the Marriot Long Wharf in Boston, MA. The conference is produced by the Institute for International Research in partnership with the Retirement Income Industry Association. Dan's session is titled "Financial Advisor Perspective: Understanding Income Distribution From the Client Side to Heighten Potential Sales".

For more information, please click [here](#).

NEEBC Tradeshow

Cassidy Retirement Group will be an exhibitor at NEEBC's Annual Benefits Fair and Tradeshow on May 14, 2009 at the Waterfront Westin Hotel in Boston, MA.

For details, please visit www.neebc.com.

CRG Retirement Plan Update - DB and DC Plans

General Comments - DB Plans

Please be aware that **several key interest rates dropped significantly in December**, and this downward movement in interest rates may have a significant impact on pension plan liability measures and other calculations for 2009:

- The Citigroup Pension Discount Curve - a popular benchmark for setting accounting discount rates - decreased by over 100 basis points from November 30 to December 31. **For plans with a December 31 measurement date, this development may change year-end disclosures and 2009 expense levels.**
- The December PPA Corporate Bond Yield Curve also shifted downward by approximately 100 basis points at most (but not all) durations, relative to the November curve. For pension plans with a January 1, 2009 valuation date that use the yield curve for discounting benefit payments, this recent movement in interest rates is expected to **reverse most of the liability "gains"** that were expected as recently as a month ago (see details below).
- The IRS just announced that the 30-year Treasury rate for December is 2.87%, which, along with the decrease in corporate bond rates, has **decreased minimum lump sum interest rates for December sharply** (see details below).

Recent Guidance

December 23 (DB/DC): President Bush signed the Worker, Retiree, and Employer Recovery Act of 2008 ("WRERA") into law. This Act passed quickly through the House of Representatives and the Senate during December, and it contains: a suspension of the required minimum distribution rules for seniors for 2009, certain measures of relief for pension plan sponsors, and several technical corrections related to the Pension Protection Act of 2006. Key provisions in WRERA include:

- Required Minimum Distribution (RMD) Relief for 2009 - The Act provides a (one-year) suspension of the rule that requires individuals to take minimum distributions from their defined contribution plans and IRAs during 2009 (based on account balances as of December 31, 2008). [Note: as it stands today, this rule has not been suspended for 2008, and individuals attaining age 70½ during 2008 would still be required to take their 2008 minimum distribution by April 1, 2009.]
- Transition Funding Target Relief - In general, the minimum required contribution to pension plans under PPA contains a "shortfall amortization" if plan assets fall below the funding target (i.e., the liabilities). For plans that did not have a "deficit reduction contribution" for the 2007 plan year, PPA allowed for a transition to "100% funding" in that the shortfall amortization amount would be calculated by comparing plan assets to 92% of the funding target in 2008, 94% of the funding target in 2009, 96% of the funding target in 2010, and then 100% of the funding target in 2011+. Under PPA, if a plan's funded status dropped below any of these transition percentages prior to 2011, then the shortfall amortization amount for the current plan year (and all future years) would be based on comparing plan assets to 100% of the funding target. Without relief, many plans would likely fall short of a 94% funded status in 2009, resulting in increased contributions starting in 2009. WRERA removes this provision (that the target percentage shoots up to 100% if a plan's funded status misses a transition percentage prior to 2011) and therefore provides that the shortfall amortization amounts for 2008 through 2010 are to be based on the transition schedule listed above. Note that this relief does not apply to plans that had a deficit reduction contribution for the 2007 plan year.
- Relief on Requirement to Restrict Benefit Accruals - Under PPA, if the adjusted funding target attainment percentage (a.k.a., AFTAP) for a pension plan falls below 60%, then benefit accruals must stop. For plan years beginning between October 1, 2008 and September 30, 2009 (therefore, this relief applies to calendar year 2009 plans), WRERA allows plans to substitute the AFTAP from the first day of the prior plan year for the current year's percentage for the purpose of satisfying the 60% threshold so that benefit accruals do not have to be frozen. Note that WRERA does not contain any relief related to certain restrictions on paying lump sums and making benefit improvements if a plan's funded status falls below 80%.
- Asset Smoothing is Permitted - As a technical correction to PPA, WRERA permits sponsors to "smooth" (as opposed to "average") the value of pension plan assets over a period of up to 24 months, which allows sponsors to take into account expected returns on assets (capped at the PPA third segment rate). Note that the requirement that the smoothed value must fall within a range of 90% to 110% of the market value of assets was not changed. It is hoped that sponsors who elected to use the market value of assets for the 2008 plan year valuations will be permitted to use a smoothed asset value for 2009, but additional guidance is necessary.

- Target Normal Cost Must Reflect Plan Expenses - As another technical correction to PPA, WRERA requires that plan-related expenses be included in a plan's target normal cost for plan years beginning after December 31, 2008. Under WRERA, plan sponsors may elect to apply this provision to the 2008 plan year.
- Other Provisions - WRERA contains several other provisions, including: (1) permitting plans to pay involuntary cashouts of up to \$5,000 if the funded status drops below 80%, (2) clarifying the combined plan deductible limit for employers who have employees participating in both a DB and DC plan, and (3) correcting the vesting rules under PPA for cash balance plans.

December 18 (DB): The IRS released the covered compensation tables for 2009 in Revenue Ruling 2009-2. Please note that this Revenue Ruling was reissued prior to the end of the year with an update to the table in Attachment II. The following contains a link to the updated Revenue Ruling: <http://www.irs.gov/pub/irs-drop/rr-09-02.pdf>.

December 11 (DC): The IRS issued Notice 2009-3 which extends the deadline by which a 403(b) plan sponsor is required to have a written plan in place to December 31, 2009. The written plan document requirement for 403(b) plans will be satisfied if:

- On or before December 31, 2009, the sponsor of the plan has adopted a written 403(b) plan that is intended to satisfy the requirements of 403(b) (including the final regulations) effective as of January 1, 2009;
- During 2009, the sponsor operates the plan in accordance with a reasonable interpretation of §403(b) (taking into account the final regulations; and
- Before the end of 2009, the sponsor makes its best efforts to retroactively correct (in accordance with the principles set forth in the IRS's Employee Plans Compliance Resolution System) any operational failure during the 2009 calendar year to conform to the terms of the written 403(b) plan.

In the Notice, the IRS also signaled that the following 403(b) guidance is forthcoming:

- A revenue procedure on obtaining IRS approval for prototype 403(b) plans and sample plan language for prototype plans;
- Establishment of a determination letter program for individually designed 403(b) plan; and
- Provisions to allow sponsors to make retroactive remedial amendments of 403(b) plans for years after 2009.

For a list of past guidance, please click [here](#).

Looking Ahead

- **January 15 (DB):** Fourth quarterly contribution deadline for calendar year plans (for the 2008 plan year).
- **March 2 (DB):** PBGC estimated flat-rate (per participant) premium payments are due for large plans (i.e., generally, more than 500 participants during the prior plan year).

Market Summary - Total Returns for Calendar Year 2008

	Dow Jones Industrial Average	Standard & Poor's 500 Index	Russell 2000 Index	MSCI EAFE International Equity Index	Lehman Brothers Aggregate Index
Calendar Year 2008	-33.8%	-38.5%	-34.8%	-45.1%	5.2%

Source: The Wall Street Journal

Market Summary - Total Returns Through January 8, 2009

Year-to-date and one year returns for key market indexes are summarized below:

	Dow Jones Industrial Average	Standard & Poor's 500 Index	Russell 2000 Index	MSCI EAFE International Equity Index	Lehman Brothers Aggregate Index
Year-to-date	-0.4%	0.7%	0.5%	2.7%	0.2%
Last 12 Months	-32.0%	-35.9%	-30.3%	-41.3%	4.4%

Source: The Wall Street Journal

Defined Benefit Plans - Liability Returns

The return on assets in a pension trust is clearly a key driver of the funded status of a pension plan. However, pension liability values can also fluctuate significantly with changes in market interest rates. In essence, pension liabilities carry their own market returns. Plan sponsors should therefore focus on the net impact of changes in assets and liabilities on a plan's funded status. The following table provides the estimated return on pension plan liabilities as of December 31, 2008 as calculated by Ryan Labs, Inc. (used with permission):

	Ryan Labs, Inc. PPA Liability Index (Funding)	Ryan Labs, Inc. FAS 158 Liability Index (Accounting)
Last Month	16.2%	11.3%
Last 12 Months	1.8%	2.4%

Source: Ryan Labs, Inc.

Ryan Labs, Inc. Asset Management specializes in managing custom fixed income portfolios for pension plans and institutional clients. For more information on Ryan Labs, please visit <http://www.ryanlabs.com>, or call 800-321-2301.

Defined Benefit Plans - Key Interest Rates

- **IRC §430 Corporate Bond Yield Curve (DB Funding):** For a graph showing the change in the yield curve from December 2007 to December 2008, please visit the Industry Resources section of our website [here](#).

- **IRC §417(e)(3) Lump Sum Rates (DB Plans):** For a graph showing the December 2008 lump sum interest rates (and a comparison to rates as of the beginning of the year), please visit the Industry Resources section of our website [here](#). *(Note: the December 2008 lump sum rates for plan years beginning in 2009 - reflecting the next level of phase-in under PPA - are included in this graph.)*

Resources

For more information on Cassidy Retirement Group, please visit www.cassidyretirement.com.