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## Should You Sign On the Dotted Line? Advice For Sponsors of DB Plans in a "Post-PPA" World

If you're the sponsor of a defined benefit plan, you may have noticed that you've been recently spending a lot of time with your actuary engaged in fascinating discussions about "carryover balances" and "prefunding balances" (aka, "funding balances" in PPA-lingo or "credit balances" during the quaint, pre-PPA days) and whether or not you should "use" them, "burn" them, or do something else with them. We feel your pain. From a consultant's point of view, conversations with clients about these so-called funding balances are typically doomed, because the extraordinarily complex rules surrounding these balances are nearly impossible to explain to rational individuals.

So, why have these animals called "funding balances" crawled into a plan sponsor's world? We offer two explanations. First, pre-PPA credit balances (i.e., "accounting" entries resulting from contributions in excess of the minimum required amounts) were often abused, intentionally or unintentionally, and PPA was designed to marginalize these balances. Second, PPA purposely requires plan sponsors make the ultimate call on funding decisions, which includes the management of funding balances. Prior to PPA, sponsors simply let their actuaries obsess about these amounts.

We are left with many ironies. Plan sponsors want their actuarial valuation reports, not because the news is any good after what happened in 2008, but rather to get their auditors off their back. Actuaries politely respond that the valuation reports will be available once the plan sponsor (a) chooses one of five yield curves or one of five segment rates to discount their liabilities, (b) decides whether or not to "smooth" assets or stick with their crummy market value, (c) elects to keep/use/burn their carryover balances instead of using cash, and (d) agrees to set up a prefunding balance which simultaneously helps and destroys their funding results. Oh, and all of these decisions and elections are irrevocable and could torpedo next year's valuation which of course won't be known until all of these elections are made. Sound familiar?

As proponents of defined benefit plans, we can offer the following advice. Before making any "election", understand that most of these decisions involve tradeoffs. Uncertain future investment returns can certainly blur some of these tradeoffs, but plan sponsors have the right to know if they are making a rational decision or taking a "better" path based on what amounts and ratios can be calculated today. Some questions that could be asked include:

- If the timing of cash contributions is somewhat flexible, what are the benefits of "accelerating" contributions (i.e., making these payments prior to September 15th for calendar year plans)? Would the funded ratios improve? Would the PBGC variable rate premium decrease?
- If assets are "smoothed", what does this mean if investment returns exceed expectations over the next couple of years? Does this hamper your investment strategy? Will a return to market value be allowed?
- If an election is made to use a funding balance, what benefit does the plan get? If a funding balance is not created, is that really optimal?

The existence of many elections and tradeoffs actually presents opportunity. Get as much information as you can before making a decision. Then, when the dust settles, ask how the valuation results can be less onerous in the future.

## **CRG Retirement Plan Update - DB and DC Plans**

### Recent Guidance

- **July 1 (DB/DC):** In an effort to organize and simplify authoritative (nongovernmental) U.S. generally accepted accounting principles and related literature, the FASB Accounting Standards Codification™ was launched. While the Codification does not change U.S. GAAP, it will change (with the goal of improving) the way accounting issues are released, researched, and communicated. As an example, SFAS No. 87 will no longer be authoritative in its current form, but its content will be "reallocated" to one or more sections of the Codification structure. For a Q&A document on the Codification from the FASB, please click [here](#).

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

### Looking Ahead

- **July 28 (DB and DC):** Due date for sending Summary of Material Modifications for calendar year plans (i.e., 210 days after the end of the plan year in which a plan change was adopted).
- **July 31 (DB and DC):** Deadline for filing Form 5330 for calendar year plans (for reporting excise taxes on prior year excess contributions and on other prior year prohibited transactions).
- **July 31 (DB and DC):** Deadline for filing Form 5500 for calendar year plans (if no extension is desired) and deadline for filing Form 5558 (if an automatic 2½ month filing extension is desired).
- **September 11 (DC):** "401(k) Day": an annual celebration spotlighting the importance of employer-sponsored profit-sharing and 401(k) plans. As retirement follows work, 401(k) Day (Sept. 11) follows Labor Day (Sept. 7).

- **September 15 (DB):** Last day that a contribution can be made for the 2008 plan year (for calendar year plans). Contributions made by this date not only cover minimum contribution requirements for the 2008 plan year but also impact key funding targets for the 2009 plan year.
- **September 30 (DB):** Deadline for the final actuarial certification for the 2009 plan year (calendar year plans).

Market Summary - Total Returns Through July 17, 2009

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

	<b>Dow Jones Industrial Average</b>	<b>Standard &amp; Poor's 500 Index</b>	<b>Russell 2000 Index</b>	<b>MSCI EAFE International Equity Index</b>	<b>Lehman Brothers Aggregate Index</b>
<b>Year-to-date</b>	-0.4%	4.1%	4.0%	7.1%	2.3%
<b>Last 12 Months</b>	-23.9%	-25.4%	-25.1%	-30.2%	7.1%

Source: The Wall Street Journal

Investment Review

The President was elected on a platform of change, and the winds of change are swirling around every aspect of economic and geopolitical activity. Whether these winds will take the country in new directions or fall victim to the usual political wrangling is not clear. In the meantime, the U.S. economy appears to have bottomed but forward momentum is anemic. Globally, the major emerging economies have shown to have weathered the global crisis better than the developed economies and are recovering at a better pace. For additional insight and commentary, click [here](#).

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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 June 30, 2009 as calculated by Ryan Labs, Inc. (used with permission):

	<b>Ryan Labs, Inc. PPA Liability Index (Funding)</b>	<b>Ryan Labs, Inc. FAS 158 Liability Index (Accounting)</b>
<b>Qtr ending 6/30/2009</b>	14.9%	11.0%
<b>Year-to-Date</b>	6.9%	3.8%
<b>Last 12 Months</b>	11.1%	9.1%

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 year-to-date and 12-month change in the yield curve as of June 2009, please click [here](#). (Note that, in light of the IRS/Treasury guidance released on March 31, 2009, we have included the October 2008 spot rates on this graph.)
- **IRC §417(e)(3) Lump Sum Rates (DB Plans):** For a graph showing the year-to-date and 12-month change in lump sum interest rates as of June 2009, please click [here](#).

**Resources**

For more information on Cassidy Retirement Group, please visit [www.cassidyretirement.com](http://www.cassidyretirement.com).