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EA-2L Exam

Solutions

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ABOUT THIS MANUAL

The solutions in this manual represent the author's interpretation of the correct method of solving each of the questions from the 2021 EA-2L examination. The solutions follow the rules of ERISA and the Internal Revenue Code as of November, 30, 2020. Note that some of these rules may have changed for subsequent years.

The actual examination questions are available on ASM's web site at www.studymanuals.com.

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Question 1

ERISA regulation 2520.101-5(j) states that there is no requirement to provide the annual funding notice to the PBGC if plan liabilities do not exceed plan assets by more than $50,000,000 for the notice year. There is no requirement to combine plans that are part of a controlled group, so each plan in this question can be treated separately.

Plan A: Funding target of $850,000,000 is less than the actuarial value of assets of $870,000,000, so the annual funding notice does not need to be provided to the PBGC.

Plan B: Funding target of $950,000,000 exceeds the actuarial value of assets of $890,000,000 by $60,000,000 so the annual funding notice must be provided to the PBGC.

Plan C: Funding target of $50,000,000 exceeds the actuarial value of assets of $45,000,000 by only $5,000,000, so the annual funding notice does not need to be provided to the PBGC.

The statement is false.

Answer is B.

Question 2

ERISA regulation 4043.29(a)(1) states that a reportable event occurs when there is a transaction that results in one or more entities ceasing to be a member of a plan's controlled group. In this question, Company B is sold to Company C, and is no longer a member of Company A's controlled group. As a result, a reportable event has occurred due to the sale of Company B. It is irrelevant that Company B is not a contributing sponsor of the plan.

The statement is true.

Answer is A.

Question 3

Treasury regulation 1.410(b)-2(b)(6) states that a plan passes the 410(b) coverage requirement if it only benefits <u>non</u>-highly compensated employees. There is no similar rule if the plan only benefits highly compensated employees. The statement is false.

Answer is B.

Question 4

Treasury regulation 1.401(a)(4)-3(b)(6)(xi)(D)(2) states that a formula does not fail to be a safe harbor for purposes of the nondiscrimination requirements if it is not available to any HCEs but is available to some or all NHCEs. Each formula in this question satisfies the 133⅓% rule of IRC section 411(b), and so is a safe harbor for purposes of the nondiscrimination requirements under Treasury regulation 1.401(a)(4)-3(b)(3)(i). Therefore, each of the formulas for Group A and Group B satisfy the nondiscrimination requirements.

The statement is true.

Answer is A.

Question 5

IRC section 417(g)(2)(A) describes the applicable percent for the qualified optional survivor annuity (QOSA). According to that section, if the qualified joint and survivor annuity (QJSA) percent is less than 75%, then the QOSA percent is 75%. (The QOSA percent is never equal to 100%.)

The statement is false.

Answer is B.

Question 6

ERISA regulation 4007.9(a) states that the failure to pay premiums will not result in a loss of PBGC coverage for basic benefits guaranteed under ERISA section 4022.

The statement is false.

Answer is B.

Question 7

PBGC Form 500 for a standard termination is due to the PBGC within 180 days after the proposed termination date, not 120 days. PBGC Form 600 for a distress termination is due to the PBGC within 120 days after the proposed termination date, so that part of the statement is correct. See the instructions for forms 500 and 600.

The statement is false.

Answer is B.

Question 8

IRC section 4980(d)(2)(B)(i)(I) provides that as long as at least 25% of the amount eligible for employer reversion is transferred to a qualified replacement plan, then the excise tax on the amount that reverts to the employer is taxed at a 20% rate. The minimum amount required to be transferred to the qualified replacement plan in this question is $37,500 (25% of $150,000). With $100,000 being transferred to the qualified replacement plan, the 25% requirement is satisfied. The excise tax paid on the actual employer reversion is:

$20\% \times (\$150{,}000 - \$100{,}000) = \$10{,}000$

The statement is true.

Answer is A.

Question 9

ERISA section 4022A(b)(1)(A) provides that a benefit or benefit increase in effect for less than 60 months is not eligible to be guaranteed by the PBGC upon plan termination, in the case of a multiemployer plan.

The statement is true.

Answer is A.

Question 10

ERISA section 4211(b)(2)(E)(ii) provides that only employer contributions are used in the fraction that allocates a proportional share of unfunded vested benefits to a withdrawing employer. Employee contributions are not used for this purpose.

The statement is false.

Answer is B.

Question 11

ERISA regulation 2550.408c-2(b)(2) does not allow payment of "reasonable compensation" to a fiduciary who is also being paid as a full-time employee of the employer

The statement is false.

Answer is B.

Question 12

The statement in this question is essentially a direct quote from section 10.3(d)(1) of Treasury Circular 230.

The statement is true.

Answer is A.

Question 13

Joint Board regulation 901.20(j)(1) requires that an enrolled actuary return all records to a client needed to comply with the client's legal obligations. This would include records related to minimum funding determinations. This is a requirement even if there is a dispute over unpaid fees.

The statement is true.

Answer is A.

Question 14

When a range certification is made, the specific AFTAP certification must be made by the end of the plan year. Otherwise, the AFTAP is deemed to be less than 60% as of October 1 of that year. So for a range certification issued on 3/31/2021 of at least 80%, the specific certification must be made by 12/31/2021 (not 9/30/2021) in order to avoid benefit restrictions for 2021. See Treasury regulation 1.436-1(h)(4)(ii)(B).

The statement is false.

Answer is B.

Question 15

IRC section 415(b)(2)(E)(ii) provides that in the case of a benefit payable in a form of benefit subject to IRC section 417(e)(3), such as a lump sum, the interest rate used to convert the benefit is the greatest of 5.5%, the interest rate specified in the plan, or a rate that provides a benefit equal to the 105% of the benefit using the applicable interest rate under IRC section 417(e)(3) .

The statement is false.

Answer is B.

Question 16

Treasury regulation 1.416-1, Q&A T-6 requires that if plans are aggregated for purposes of IRC section 410(b) (as well as IRC section 401(a)(4)), then they must be part of the required aggregation group for purposes of top heavy determination.

The statement is true.

Answer is A.

Question 17

I. ERISA section 101(d) requires a 60 day notice to plan participants if there is a failure to make a timely minimum required contribution. This includes late quarterly contributions. The statement is true.

II. ERISA regulation 4043.25(c) provides a waiver of a reportable event notice upon failure to satisfy minimum funding (or failure to timely make a quarterly contribution) if the plan has no more than 100 participants (not the case in this question) or if the quarterly contribution is made within 30 days of the due date (not 60 days, as the statement indicates). The statement is false.

Only statement I is true.

Answer is B.

Question 18

Regulation 54.4980F-1, Q&A 1, states that an ERISA 204(h) notice must be provided to affected participants when there is a plan amendment that results in a significant reduction in the rate of future benefit accrual, or that eliminates or significantly reduces an early retirement benefit or retirement subsidy.

I. This proposed amendment increases the rate of future benefit accrual from $120 per year of service to $125. This is not a reduction in the rate of future benefit accruals but rather in increase, so no ERISA 204(h) notice is required.

II. This proposed amendment increases the early retirement reduction from 3% per year to 5% per year, thus reducing the early retirement benefit. This amendment <u>does</u> require that Smith receive an ERISA 204(h) notice.

III. Smith's status is changed to hourly, resulting in a decrease in future benefit accruals to $100 from $120. However, this reduction is not a result of a plan amendment, so no ERISA 204(h) notice is required.

Only event number II would require Smith to receive an ERISA 204(h) notice.

Answer is E.

Question 19

I. Regulation 54.4980F-1, Q&A 9, states that an ERISA 204(h) notice must be provided to affected participants at least 15 days before the effective date of the amendment for plans with fewer than 100 participants (not 45 days). The statement is false.

II. Regulation 54.4980F-1, Q&A 3, states that an ERISA 204(h) notice does not need to be provided if the plan is a government plan, a church plan, or a non-qualified plan. There is no exemption for a multiemployer plan. The statement is false.

III. Regulation 54.4980F-1, Q&A 3, states that an ERISA 204(h) notice does not need to be provided if the plan is a government plan, a church plan, or a non-qualified plan. There is no exemption for a collectively bargained plan. The statement is false.

None of the statements are true.

Answer is A.

Question 20

Treasury regulation 1.410(b)-6(b)(2) states that when plans are aggregated for purposes of satisfying the minimum coverage requirement, the determination of non-excludable employees is based upon the shortest eligibility period of the two aggregated plans. In this question, the hourly plan eligibility requirements of age 18 and 6 months of service would be a shorter requirement than the salaried plan eligibility of age 21 and 1 year of service. So for purposes of determining the non-excludable employees for purposes of the ratio percentage for the aggregated plan, only the hourly plan eligibility requirements are considered (even though there are more strict requirements for purposes of the salaried plan). For purposes of determining the participants who are benefiting, the actual eligibility requirements are applied. The following chart illustrates the number of employees deemed non-excludable as well as those deemed to be benefiting.

	Salaried		Hourly	
	HCEs	NHCEs	HCEs	NHCEs
(1) Total employees	40	200	10	800
(2) Under age 18 and/or less than 6 months of service	3	25	1	350
(3) Nonexcludable employees [(1) – (2)]	37	175	9	450
(4) Other statutory excludable*	7	70	0	0
(5) Excluded by classification	0	25	0	50
(6) Benefiting [(3) – (4) – (5)]	30	80	9	400

* These are the salaried employees who worked between 6 months and a year and/or are between the ages of 18 and 21, who are actually excluded from the salaried plan.

Treasury regulation 1.410(b)-9 defines the ratio percentage as the ratio of the percentage of non-highly compensated employees benefiting under the plan to the percentage of highly compensated employees benefiting under the plan. Only nonexcludable employees are considered for this purpose.

$$\text{Ratio percentage} = \frac{\dfrac{80+400}{175+450}}{\dfrac{30+9}{37+9}} = 90.58\%$$

Answer is C.

Question 21

The regulations under IRC section 410(b) require that for purposes of the average benefit percentage, benefits from all plans of the employer (including accrued benefits from defined benefit plans, salary deferrals in 401(k) plans, matching contributions and profit sharing plan contributions) be aggregated (the entire accrued benefit is used, so the vested percentages can be ignored). In this question, the average benefit percentage is determined by testing on an allocations basis, so the defined benefit accruals must be taken as present values, using the testing assumptions. As of 12/31/2020, Smith is age 63.

The present value (using testing assumptions) of the defined benefit accrual for Smith is:

$$12{,}000 \times \ddot{a}_{65}^{(12)} \times v_{7.5\%}^{2} = 12{,}000 \times 11.19 \times 0.865333 = 116{,}197$$

The benefit percentage is equal to the ratio of the present value of the defined benefit accrual plus the sum of the salary deferral and matching contribution (there is no profit sharing contribution in this question) to the 2020 salary paid (limited, if necessary, to the 2020 IRC section 401(a)(17) compensation limit of $285,000).

$$\text{Benefit percentage as of 12/31/2020} = \frac{116{,}197 + (19{,}500 + 11{,}400)}{285{,}000} = 51.61\%$$

Answer is E.

Question 22

IRC section 417(a)(1) requires a defined benefit plan to offer a qualified joint and survivor annuity (QJSA) option to married participants, with a minimum survivor annuity for the spouse of 50% and a maximum survivor annuity of 100% of the benefit that would be payable over the joint lives of the participant and the spouse.

IRC section 417(c)(1)(A) states that the qualified preretirement survivor annuity (QPSA) percentage cannot be less than the qualified joint and survivor annuity percentage. The QJSA percentage is given to be 50% in this question, so the minimum QPSA percentage that could be provided in this plan is equal to 50%.

The preretirement death benefit payable to a spouse as a QPSA upon the death of the participant is payable at the earliest possible retirement age had the participant not died (IRC section 417(c)(1)(A)(ii)). The benefit payable to the spouse is the spousal benefit that would have been paid if the participant had elected to retire at that earliest retirement age and then died.

Note that no QPSA benefit is required to be paid if the participant and spouse have been married for less than one year as of the date of death (IRC section 417(d)). The question states that the participant and spouse had been married for over one year at the time of death.

Smith has died at age 61 and had 9 years of service, so the earliest retirement age at which Smith could have retired had Smith not died is age 65 (Smith did not satisfy the 10 years of service requirement for early retirement and future service with the employer had Smith not died cannot be assumed for purposes of the QPSA). The accrued benefit as of the date of death, payable beginning at age 65, is $1,225.

Equivalent joint and 50% survivor annuity benefit = $1,225 × 0.868 = $1,063.30

50% of this amount is the QPSA benefit payable to Smith's spouse.

$X = 50% × $1,063.30 = $531.65

Answer is C.

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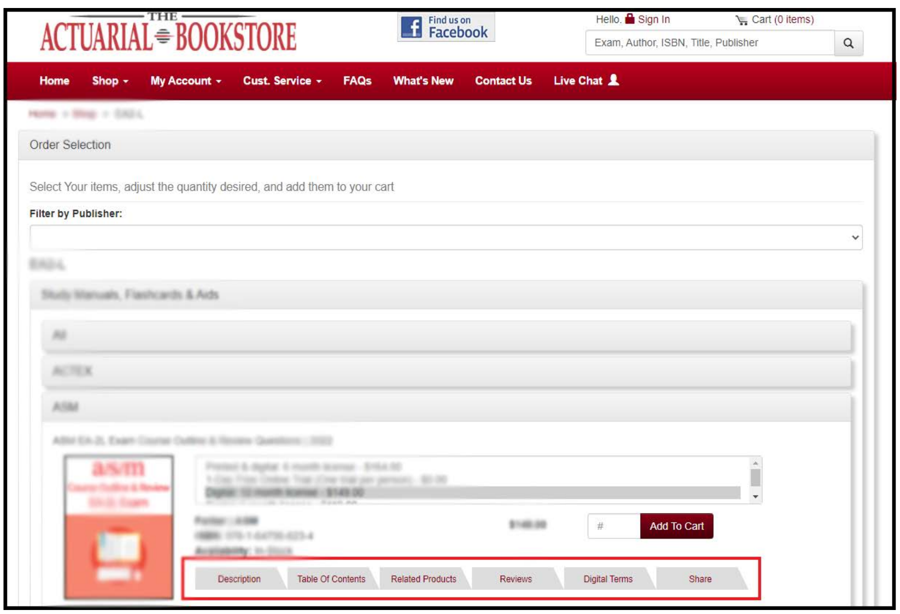

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