

Employee Benefit News

April 23, 2010

CELEBRATING 25 YEARS OF SERVICE

Jackie Salmon is celebrating 25 years of service with McCready and Keene in 2010, and is our own "Jack of All Trades!" Jackie started as an inside actuary for her first 5 years with the firm, then she moved into defined contribution allocation work with heavy emphasis on ESOPs. Later, she was one of three associates who trained on the Daily Accounting software to get that line of business up and running. Now she is one of our lead Consultants who has hands-on experience in every aspect of her work.



"Our purpose here at MCAK is to help clients with the complexities of their plan administration in such a way that is understandable, which leads them to keep and improve their plans for the benefit of participants. I love helping clients with this in mind!"

**Jackie Salmon, A.S.A.,
Vice President and Consulting Actuary**

Jackie enjoys success at McCready and Keene in her new business efforts. Through her efforts, the firm was recently hired on the Steak n Shake 401(k) plan, a well-known, public company. She also speaks 3-4 times a year at various regional ESOP seminars through her work on the Advisory Committee for the Indiana Chapter of the ESOP Association. In the community, she works with foster parents as Chair of the Fostering Families Committee for the Indianapolis Downtown Kiwanis Club, spear-heading an annual luncheon to recognize foster parents. Congratulations, Jackie!

LOWERING MATCH RATHER THAN ELIMINATING IT CAN HAVE ADVANTAGES

If your budget cannot support the level of match you have contributed in the past, lowering the match rather than eliminating it may be worth considering. For example, the current national average match is a 50% match on the first 6% of pay. Instead of eliminating the match, lowering it to a 10% match on the first 6% of pay would mean that you provided a match of 10 cents for every \$1 deferred up to 6% of compensation. However, for the participants a 10% match rate is still very good news. Where else could they get a 10% return on their dollar? Certainly not in fixed income funds, and the stock market has no guarantees. So, if your company is under budget constraints, before you eliminate the match completely, you may want to consider a 10% match. It just may keep your participants deferring!

APRIL 30th DEADLINE FOR MANY DEFINED CONTRIBUTION PLANS

If your defined contribution plan is on a prototype or volume submitter format, the most recent restatement (which we mailed to you in 2008, 2009, or 2010) MUST be signed on or before April 30, 2010. The April 30th deadline applies even if your plan was submitted to the Internal Revenue Service ("IRS") and the IRS has not yet issued a determination letter. Failure to sign by April 30th will affect the qualification of the plan, subjecting the plan to the IRS compliance program.

MULTIEMPLOYER PLANS

Effective April 1, 2010, there are new rules on information requests that apply to multiemployer defined benefit and money purchase plans. A participant, beneficiary, employee representative, or contributing employer may make a written request for one of the following financial reports:

- Actuarial report for defined benefit plan
- Actuarial study for defined benefit plan
- Financial report for defined benefit plan or money purchase plan prepared by the plan's investment manager or advisor
- An application for defined benefit plan to extend the period required to amortize any unfunded liability.

The plan sponsor may impose a reasonable charge for the cost of furnishing the documents and has 30 days to supply the documents. The plan sponsor is not required to include any individually identifiable information with respect to a plan participant or contributing employer.





FROZEN DEFINED BENEFIT PLANS

If you froze the benefits in your defined benefit plan to help curtail funding costs and now you are waiting until the plan has sufficient assets to terminate, here are some things to consider during the interim period:

1. Let your investment advisor know that the plan is frozen and that you want to terminate it as soon as there are sufficient assets. You will want to review the investment portfolio with your advisor to determine if it is appropriate for your situation.
2. There are many annuity providers suggesting that annuities be purchased for retirees and/or deferred vested participants even if the plan is not ready to begin the plan termination process. There are a couple of important considerations: (1) will it be possible for annuitants to have the option to elect a lump sum at plan termination, if the employer wants to provide that option, and (2) is the purchase of annuities a good investment decision. Purchasing annuities prior to the plan termination process is primarily an investment decision. You will want to contact your investment advisor for his or her advice.
3. The annual valuation for your plan prepared by McCready and Keene, Inc. includes an Adjusted Funding Target Attainment Percentage ("AFTAP"). For 2010 and 2011, if the AFTAP is near 100%, then you may want to request a plan termination study to obtain a more accurate picture of what the funding status would be at plan termination. A plan termination study can only provide a rough approximation of funding status at plan termination because of all the variables that impact the final liabilities. However, it may give you enough information to help you decide whether to begin the process. Beginning in 2012, when the segmented rates for calculating lump sum benefits are fully phased in, the AFTAP will provide a preliminary indication of what the plan termination liabilities would be assuming everyone took a lump sum distribution.
4. Consider asking us to calculate the frozen accrued retirement benefits even if your plan is not ready to terminate. Once the benefits are calculated, it will make the plan termination process (which can be long and involved) go more quickly and smoothly. We have found that the longer you wait to calculate frozen plan benefits, the more difficult it is to locate participants and obtain any missing information needed to complete the calculations.

DEFINED BENEFIT FUNDING CONCERNS

Unfortunately, there is no good news regarding funding of defined benefit plans. Here is what we are seeing:

2010-

- Although there was positive investment growth in 2009, many plans chose to use asset averaging in the 2009 valuation. The asset averaging anticipated up to a 10% increase over market value. As a result, only a portion of any asset gains experienced in 2009 will be reflected in the 2010 valuation.
- For the 2009 valuation, plans could choose to use 3 segment interest rates or a full yield curve. (See our October 19, 2009 newsletter.) Calendar year plans that used the full yield curve were able to take advantage of unusually high corporate bond rates in October and November of 2008 (resulting in lower liabilities). The lower 2009 bond rates are resulting in increased funding requirements in 2010 for plans that used the full yield curve in 2009.
- More clients have been required to waive credit balances to keep their funding levels above 80% and avoid benefit restrictions or at-risk status.
- More clients will be subject to quarterly contributions in 2010. The failure to make timely quarterly contributions:
 - ✓ will result in additional interest on the underpayment,
 - ✓ will require reporting the missed contributions to the PBGC (Form 10) if the contribution is not made within 30 days of the due date (there is an exception in 2010 for plans with less than 100 participants if the failure to make the contributions was not for financial reasons), and
 - ✓ will require notifying participants of the missed contributions if the contribution is not made within 60 days of the due date.
- Failure to make required annual contributions by the final due date for the plan year is also reportable to the PBGC on Form 10 and requires notice to participants. In addition, there is a 10% excise tax due to the IRS on aggregate unpaid required contributions (Form 5330).
- If the unpaid contributions exceed \$1 million, PBGC Form 200 must be filed within 10 days, and the PBGC will have a lien against the employer's assets.

2011-

- Even though investment returns are positive so far for 2010, the downtrend in interest rates will tend to increase funding requirements for 2011. In addition, employers will be required to amortize any shortfall from 100% in 2011 (rather than 96% in 2010).

If you have questions or would like additional information about the items presented in this newsletter, call your McCready and Keene consultant.

Employee Benefit News is not intended as legal advice. Readers should seek legal advice before acting on any of these subjects.