EAR

ENROLLED ACTUARIES REPORT

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DON FUERST

"Elevator Speech" From the New Senior Pension Fellow

Editor's note: Don Fuerst joined the Academy as senior pension fellow in September.

A SENATE FINANCE COMMITTEE HEARING on promoting retirement security, a letter to President Obama and congressional leaders urging them to address Social Security's long-term solvency as they look for ways to reduce the deficit, a Capitol Hill briefing on refundable tax credits, a draft advocacy statement on lifetime income, and interviews with a popular public radio news anchor and a Washington-based policy magazine: The first few weeks as the Academy's new senior pension fellow certainly have been busy and interesting.

During my 40 years in the actuarial profession, I've had the opportunity to get to know many *EAR* readers. But there are still a lot of you whom I've never met and who don't know much about me. So let me tell you a little about my background.

DON FUERST

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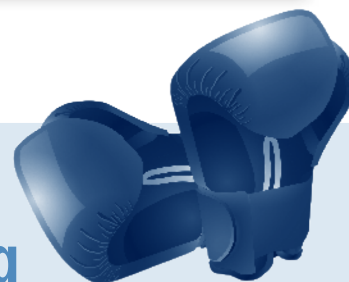
HAL TEPPER



The Rocky Road to Defeating FASB's Multiemployer Exposure Draft

LIKE A SCRAPPY CLUB FIGHTER (cue "Gonna Fly Now") who's been knocked down but bounces back off the canvas and back into the fight, contributing employers to multiemployer plans have withstood the punches of the Financial Accounting Standards Board's (FASB) exposure draft and won a close decision.

As you may remember, it's been roughly a year since FASB produced its draft disclosure about an employer's participation in a multiemployer plan (see the fall 2010 *EAR*). This exposure draft—which proposed an information requirement for employers that contribute to multiemployer plans—was met with anger, confusion, and annoyance from employers and actuaries, as evidenced by 330 mostly critical comment letters arriving at FASB.

This early round of sparring culminated with FASB going back to its corner and, in November 2010, delaying the planned implementation date of the new standard. FASB also started looking for a white towel of sorts, suggesting it would take the comments under consideration and produce a revised version of the proposal.

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Viewpoint

JAMES A. KENNEY

The Consequences of Error

ONE OF THE THINGS THE 2011 GRAY BOOK MAKES CLEAR is that the Pension Protection Act of 2006 (PPA) created tremendous opportunities for error. This is vividly illustrated by Question 2, which examines what happens when an enrolled actuary discovers that an error was made in a 2007 valuation. The possible repercussions of this error are grimly spelled out: A lower minimum required contribution creates an increased carryover balance at the end of 2007, which leads to a reduction in valuation assets in subsequent years, which, in turn, results in a failure to meet minimum funding and quarterly contribution requirements, which ultimately could throw the plan into an at-risk status. As in a Greek tragedy, the inexorable consequences of an innocent error ripple on in a way that would almost seem comic were they not so fraught with penalties.

Question 2 doesn't mention the possibility that this reduction in assets also might trigger unintentional Section 436 violations, such as the payment of prohibited lump sums. Question 36 remedies this by asking plaintively what a plan sponsor must do to correct the mistaken payment of a prohibited lump sum. The answer, unfortunately, is far from comforting: The sponsor first must attempt to recoup the overpayment (with appropriate interest) and warn the payee that the payment is not eligible to be rolled over into an IRA. It is fortunate that "there is no general requirement to bring a legal action," but assuming the participant does not voluntarily repay the prohibited payment, then the plan sponsor must contribute such an amount to the plan.

Just look at the numbers: Suppose a plan had erroneously paid a $100,000 lump sum, which was then rolled over by the recipient. Of this amount, $50,000 was ineligible for rollover, and there is a 50 percent penalty on that, equal to $25,000. In addition, that $50,000 is now taxable income. Assuming a modest 35 percent marginal tax rate (state and federal combined), an additional $17,500 in taxes is due (not to mention interest and penalties, which could be substantial because these things often are discovered years after the error was made), which brings the total to $42,500. One wonders if the luckless participant also would have to pay a 10 percent early withdrawal penalty upon removing the improperly deposited $50,000. If so, this would bring the total due the government to $47,500 out of $50,000.

Few participants are going to lend a sympathetic ear to a former employer asking them to return the $50,000 plus "appropriate interest." In fact, had the participant invested the erroneous payment in the stock market lately, the amount owed the government might well exceed what remains of the original erroneous payment. In this case, it is more likely that the employer will be the one sued—rather than the one suing—and it is likely the employer would settle with the participant and come after the actuary.

The employer then must refund the erroneous payment to the plan, which essentially amounts to paying the government 95 percent of the lump sum that was paid innocently though erroneously. It is hard to believe the framers of the PPA intended or even imagined such an outcome, but draconian rules lead to drastic consequences when errors are made.

The Internal Revenue Service's (IRS) response to Question 2 points the taxpayer to regulation 301.9100-3 for possible relief. "In general terms, Section 9100 relief is granted to enable a taxpayer to make a late election that has a regulatory (not statutory) deadline," it states helpfully, before adding ominously, "if… relief will not prejudice the interests of the Government." This distinction between regulatory and statutory strictures is vital here, given the way in which the PPA attempts to detail exactly what employers may and may not do.

Prior to the PPA, errors did have consequences, but they generally could be dealt with in a fairly reasonable manner. The whole "voluntary compliance" program was predicated on the idea that an employer that discovered an unintended infraction should be encouraged to correct it at a reasonable cost. But the PPA created a complex interplay among funding levels, credit balances, elections, and benefit restric-

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TOM SABLAK

JBEA Issues Final Regulations

THE JOINT BOARD FOR THE ENROLLMENT OF ACTUARIES (JBEA) issued **final regulations** under Section 3042 of the Employee Retirement Income Security Act (ERISA) that update the eligibility requirements for initial enrollment, rules for re-enrollment and continuing education, and standards of performance for enrolled actuaries. The regulations, which were issued on March 29, 2011, became effective on May 2.

During a June 22 audiocast cosponsored by the Academy and the Conference of Consulting Actuaries, John Moore, chief actuary at Aon Hewitt and chairperson of the Academy's Pension Committee, and Carolyn Zimmerman, an actuary with the Employee Plans and Ruling Agreements division of the Internal Revenue Service and a member of the Joint Board, provided an in-depth summary of the final regulations:

Eligibility for Initial Enrollment

- ***Qualifying experience:*** As in previous regulations, only experience within the 10-year period immediately preceding the application date is considered. While the number of months of experience required has not changed, the "responsible pension actuarial experience" now must be certified in writing by an applicant's supervisor—and by an enrolled actuary familiar with the applicant's experience if the supervisor is not an enrolled actuary.
- ***Basic actuarial knowledge:*** No changes were made to these requirements.
- ***Pension actuarial knowledge:*** The examination requirements remain the same, but the EA-2A and EA-2B examinations must have been successfully completed within the 10-year period immediately preceding the application date. All exams taken prior to the effective date of the new regulations will be grandfathered in, so no exams will expire before May 2021.

Eligibility for Renewal of Enrollment

- ***Renewal of enrollment:*** If required continuing education credits are earned by Dec. 31 of the last year of the prior enrollment cycle and the renewal application is postmarked by its March 1 due date, then the effective date of the renewal of enrollment is April 1. (For this year only, the typical March 1 filing deadline was extended to April 1.) If continuing education credits are not earned by the Dec. 31 deadline and/or the renewal application is not postmarked by March 1, the effective date of the renewal of enrollment is the later of April 1 or the date of the notice of renewal from the JBEA. Remember, actuaries will not receive a renewal reminder notice at the end of each enrollment cycle—the Joint Board discontinued sending them out in 2008.
- ***Continuing education:*** No changes were made to the total number of credit hours (36 hours per three-year cycle, prorated if initial enrollment occurs in the current cycle and application for renewal is timely filed), but the minimum number of core credit hours was lowered from 18 to 12 per cycle for individuals who have been enrolled for at least one full enrollment cycle. Credit hours will not be prorated for newly enrolled actuaries who miss the application deadline. That means that they will be required to complete the full 36 hours of continuing education for their enrollment to be renewed.
- ***Core credits:*** The definition of core subject matter was revised to cover actuarial certifications under ERISA and the Internal Revenue Code; examples of core material now include Titles I and II of ERISA.
- ***Ethics credits:*** For each enrollment cycle in which an enrolled actuary is required to earn a minimum number of core credit hours, an enrolled actuary now also must earn a minimum of two credit hours of continuing education relating to ethical standards (which also count toward the required core credit hours). According to the preamble, sessions covering "actuarial codes of conduct, actuarial responsibilities, and any actions discussed in Section 901.20 of the regulations" dealing with standards of performance would be eligible for ethics credit.
- ***Formal programs:*** Under the final regulations, at least one-third of an enrolled actuary's total minimum number of continuing education credit hours during a given enrollment cycle must be earned by participating in formal programs. The determination of whether a program is "formal" is not an all-or-nothing decision for all attendees; rather, it is made on an individual basis. A qualifying sponsor will issue formal credit to a specific program attendee if that individual "simultaneously participates in the program in the same physical location with at least two other participants engaged in substantive pension service, and the participants have the opportunity to interact with another individual qualified with respect to the course content who serves as an instructor, whether or not the instructor is in the same physical location."

During the June 22 audiocast, the presenters clarified (albeit informally) that "participants engaged in substantive pension service" need not be enrolled actuaries. If the program meets all the formal program requirements with respect to the instructor (including the requirement that at least three other individu-

JBEA REGULATIONS, PAGE 8

MARK SCHULTE

GASB Proposes Sweeping Changes

THE LIFE AND TIMES OF ACTUARIES working with public pension plans could get interesting in the next few years if the Governmental Accounting Standards Board's (GASB) recently released proposed amendments to public pension accounting standards are adopted. The proposed rules would transform the financial reporting of pension promises and bring public pension financial reporting closer to corporate pension accounting—with some important differences.

GASB released the proposed amendments, which will affect accounting and financial reporting for public pensions under both GASB 27 (employer accounting) and GASB 25 (plan accounting), in early July with a comment deadline of Sept. 30, 2011. The consensus seems to be that the major provisions in the exposure drafts will survive the comment round, so actuaries should begin examining the potential implications for their clients now.

What's the Big Deal?

Public pensions have been in the spotlight in recent years, and, in general, the coverage has not been flattering. The media have latched onto cases of pension "spiking," "pension envy," and lists of $100,000+ pensioners. Compounding these stories are claims that public pension liabilities are vastly undervalued by the use of unreasonably high discount rates and that current amortization methods defer cost recognition for too long.

There are a host of proposed changes in the GASB exposure drafts that address some of the accounting criticisms. Below is brief summary of what I believe are the top five changes for single-employer plans. The list is by no means exhaustive, but rather is intended to give a feel for what GASB is proposing. For a more detailed analysis of the planned changes, readers should consult one of the many fine summaries posted online by GASB and other public pension professionals.

1. Balance Sheet Liability

Current: Net Pension Obligation—the cumulative difference between annual accounting expense and contributions over the history of the plan (similar to the accrued/prepaid liability in pre-Statement of Financial Accounting [FAS] 158 for private pension plans).

Proposed: Net Pension Liability—equal to the plan's unfunded actuarial accrued liability. This will be a huge change for many plans and is a decisive break from the current practice of linking public pension accounting and funding.

2. Pension Expense

Current: Annual Pension Cost—equal to the annual required contribution (ARC) funding target (normal cost plus amortization of unfunded accrued liability) with some adjustments.

Proposed: Pension Expense—calculated similarly to the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 715 procedures. One of the biggest differences is the accelerated recognition of certain liability variations that previously were allowed to be amortized over periods of up to 30 years. Changes in inactive member liability, for example, would have to be expensed immediately, while non-plan amendment changes in active liability would be amortized over their future working lifetime. Asset gains and losses can be recognized over a five-year period.

3. Discount Rate

Current: Equal to the expected long-term return on trust assets.

Proposed: Effective interest rate would be based on a blend of two rates. Here's an abbreviated summary of how it would work:

- Plan assets and benefit payments are projected to depletion. Benefit payments are based on the current plan population and provisions. Projected assets will include expected future distributions and contributions (based on historical funding policy).
- The crossover point at which trust assets are expected to be depleted is determined.
- Benefit payments prior to the crossover point are discounted at the expected rate of return on trust assets. Payments after the crossover point are discounted using an index rate for tax-free, high-quality municipal bonds.
- The final discount rate is equal to the equivalent single rate that produces the same present value as determined in the prior step.

The proposed rules will require more work than usual to calculate the discount rate and associated pension liability. The changes also could cause the pension liabilities of poorly funded plans to explode because a greater portion of their liability will be calculated using bond index rates that currently are much lower than their assumed asset rate of return.

4. Funding Method

Current: Seven method choices. Some of the more popular methods are entry age normal, projected unit credit, and aggregate.

Proposed: Mandatory use of entry age normal (level percent of pay).

5. Asset Method

Current: Market value or a smoothed market value.

Proposed: Fair market value. Sorry, no smoothing. This could greatly affect the volatility of a plan's unfunded liability.

Timing

If adopted on schedule, the new rules are proposed to go into effect as follows:

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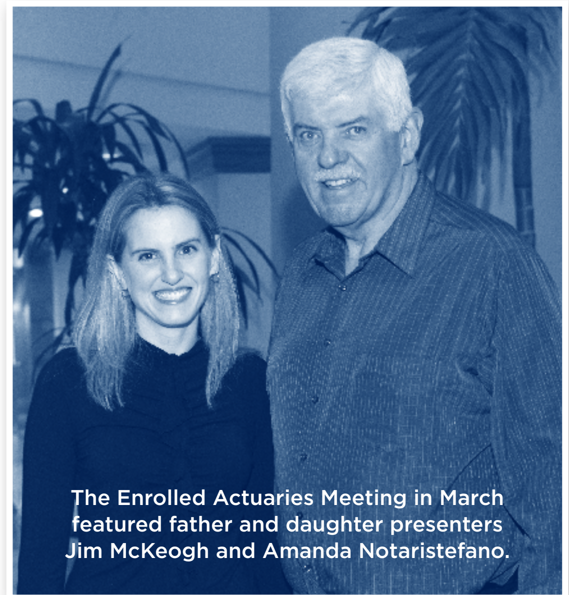
Like Father, Like Daughter



The Enrolled Actuaries Meeting in March featured father and daughter presenters Jim McKeogh and Amanda Notaristefano.

TO KEEP HIS KIDS AMUSED ON ROAD TRIPS, Jim McKeogh used to call out "cookie problems." The problems started out simple—"If you have three cookies and gave one to Sue and one to Bob, how many do you have left?" As the kids grew older, the problems became more complex. So it's little surprise that three of McKeogh's four children have careers in math-related fields.

McKeogh, the president of a consulting firm for sponsors of employee benefit plans, is a self-described math nerd. He started his career as a math teacher and said becoming an actuary was "dumb luck." One New Year's Eve shortly after he got married, a friend asked how he liked his job.

"I was restless," McKeogh said. "My wife, Margie, had just gone back to school, and I wasn't sure that teaching would provide the security we needed as we contemplated starting a family."

His friend suggested that he talk to her boss at the Wyatt Co. McKeogh took her advice and, during an informational interview, asked a lot of questions to find out what an actuary was. McKeogh, who has a B.A. in mathematics from LaSalle University and an M.A. in mathematics from Villanova, ended up getting a job with the company. By 1989 he was the managing consultant of Wyatt's Philadelphia office, the position held by the man who first interviewed him. He joined Towers Perrin in 1995. Four years later, he left Towers to found the McKeogh Co. and specialize in multiemployer plans.

"I wanted more control over my own destiny," McKeogh said. "So when the opportunity presented itself to start my own firm, I grabbed it."

McKeogh's oldest daughter, Amanda "Mandy" Notaristefano, 31, worked for the company part time while pursuing on her bachelor's in mathematics from St. Joseph's University. She joined the firm full time after earning her degree in 2001. His son, Jim, 29, teaches seventh-grade math, and his daughter, Bridget, 26, teaches high school math. His youngest daughter, Molly, 24, is currently working on her master's degree in sports management and student services, and is the only one of his children pursuing a non-math-related career.

"I think both nature and nurture played a part in my career path," said Notaristefano. "Both my parents were strong students who did well in school. So, I can't deny that part of my logical thinking is inherited.

"From the time I was very young," she continued, "my parents incorporated math and logic into our everyday lives through the cookie problems, as well as through card games, puzzles, and music lessons. My mom is a teacher. She taught us how to tackle homework, organize assignments, and work out problems on our own."

Notaristefano said that her mother believed in "education reinforcement" during summer vacations and set times for the kids to practice math in workbooks. As a result, she and her siblings all did well in math.

"I've always had a great love of math," said Margie McKeogh, "but Mandy has a real gift. Math just seems to come naturally to her."

When Notaristefano was considering a job offer from an investment company after graduation, Margie encouraged her husband to revisit his offer to their daughter to join the family firm on a full-time, permanent basis.

McKeogh admits to having some hesitancy about bringing his daughter into the business because the multiemployer actuarial field is shrinking. But he thought Notaristefano was a natural actuary and he knew that actuarial work could provide a comfortable living and a good work/life balance.

"Mandy is a big help, always willing to take ownership for what she does," he said, adding, "Plus, it is a delight to see your adult child every day."

Once onboard, Notaristefano said she worked hard to pass her first exam the first time around to avoid any possible suggestion that she got the job only because of nepotism. Today the McKeogh Co. has 13 employees, and according to McKeogh, it is run like an extension of the family.

Notaristefano—who calls her father "Jim" in professional settings and "Dad" at home—said that working for her father has allowed her to see a lot more of the business side of the profession than she would have if she worked for a bigger company.

"I really value the opportunity to know my dad as a peer, and I always feel comfortable asking questions and talking about the business," Notaristefano said when asked about the pros and cons of working for her father. "The worst part is when things go wrong and I make a mistake or fail an exam, because I know I've disappointed my dad *and* my boss."

With just two more exams to pass to become a fellow of the Society of Actuaries, Notaristefano is pleased with her decision to become a consulting actuary because it allows her to combine number-crunching and communications. And while she understands her father's concerns about the decline of defined benefit plans, she is op-

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‹FUERST, FROM PAGE 1

I graduated from Regis University in Denver with a B.S. in mathematics and a minor in economics. I was attracted to the actuarial profession because it involves practical business applications of both of these fields—and I haven't been disappointed. My first job was in the employee benefits department at Marsh & McLennan (which eventually became Mercer) in St. Louis. After spending several years learning the basics of our business and studying for exams, I became an enrolled actuary in 1976, a fellow of the Society of Actuaries and a member of the Academy in 1978, and a fellow of the Conference of Consulting Actuaries in 1985.

Although I was with the same employer for nearly 40 years, I moved around within the company quite a bit. After starting in St. Louis, I worked at Mercer offices in New York, Stamford, Conn., and Los Angeles before settling in Denver about 20 years ago. While most of my experience was consulting with large corporate single-employer and multiple-employer plans, I also have quite a bit of experience working with state and local public pension plans.

When I retired from Mercer last year, I thought I would spend my time skiing, mountain biking, and playing bridge. But shortly after I retired, I learned the Academy was looking for a new senior pension fellow. I was intrigued. The opportunity to come to Washington and work with other Academy members in affecting the evolution of retirement policy for our nation was something I couldn't resist.

I have big shoes to fill. Both of my predecessors—Frank Todisco and Ron Gebhardtsbauer—established outstanding reputations for delivering clear, objective, and nonpartisan analysis on the actuarial aspects of many pension-related issues. I will do my best to continue and expand on their work.

There is still much to do. Social Security faces difficult financial challenges, public pension plans are in the midst of a great debate, the recent recession and slow economic recovery continue to change the way Americans view the future, retirees and future retirees are facing more new and different risks than they expected, and there is the seemingly never-ending challenge of dealing with complex, continually changing regulations. The Academy's Pension Practice Council oversees nearly a dozen committees, subcommittees, task forces, and work groups that deal with these issues. I'll be working with a great Academy staff in Washington supporting these volunteers and getting the message of the actuarial profession to the public and policymakers. I look forward to working with many of you on these tasks.

‹GASB, FROM PAGE 4

- Large single-employer plans*: Implement for reporting periods beginning after June 15, 2012.
- Other plans: Implement for reporting periods beginning after June 15, 2013.

This schedule gives public plan sponsors some time to digest the changes. But many plans (especially severely underfunded plans) may need all of that time to prepare for the financial ramifications and to develop new funding policies.

*Plan net position (i.e., assets) of $1 billion or more in the first fiscal year ending after June 15, 2010.

What About Funding?

Beyond the technical accounting changes, public pension plans and actuaries are left to figure out how to deal with the decoupling of public pension accounting and funding concepts. The two previously were linked (at least symbolically) with the calculation of the annual required contribution (ARC). This measure served as a de facto funding policy for many public pension plans and was also the basis for the accounting expense calculations. Public employers now are faced with the question: How much should we be contributing to the pension plan each year?

I suspect that many sponsors will continue to use a funding measure similar to the ARC because it's familiar and because, in many cases, it is a reasonable funding goal. There are, however, a couple of important considerations:

- If the pension plan is severely underfunded (i.e., there is a crossover point at which trust fund assets are expected to run out), then the ARC is clearly not a sufficient funding target.
- This is an ideal opportunity for pension actuaries to develop alternative funding strategies for public pension plans. We have the knowledge and experience to work with plan sponsors to develop long-term, principles-based approaches for funding their pension plan promises.

Any actuary working with public plans should get up to speed on the proposed rule changes now. There's a lot to digest—and your clients will want to know sooner rather than later how their financial reporting will be affected.

MARK SCHULTE *is a consulting actuary at Van Iwaarden Associates in Minneapolis.*

‹FASB, FROM PAGE 1

As this bout moved into the final rounds, contributing employers and their advisers scored some body blows with the content of their comments, causing FASB to stagger away from its original position.

The effect of these jabs and counterpunches by the multiemployer community was seen when FASB met three times in mid-2011. The exposure draft was (technically) knocked out when FASB decided to throw in the towel during its July meeting.

The most important part of the victory was that **the final standard no longer requires an employer to show its "withdrawal liability" in its financial statements** for all multiemployer defined benefit plans in which it participates. This is a significant change from the original draft's intent and is great news for all multiemployer plans.

FASB formally released an update to the multiemployer standard on Sept. 21. A summary of the changes is listed below.

Required Disclosures

1. Each employer would be required to disclose the following information, most of which has been and will continue to be available on a "planwide" basis:
   - **a.** The legal name of the plan.
   - **b.** The employer identification number (EIN) of the plan.
   - **c.** The most recent certified zone status (safe, endangered, or critical) as of the date of each annual balance sheet presented, if available, as required by the Pension Protection Act of 2006. If that information is not available at the time the employer's financial statement is produced, the employer is to note the "funded percent" of the plan in broad ranges (under 65 percent; 65 to 80 percent; over 80 percent).
   - **d.** If the plan is endangered or critical, the employer should note whether a funding improvement plan (endangered status plan) or rehabilitation plan (critical status plan) has been implemented or is pending.
   - **e.** Contributions made to the plan by the employer (employer specific).
   - **f.** Whether the employer paid a surcharge (the result of a critical status certification) to the plan.
   - **g.** The expiration date of the plan's associated collective-bargaining agreements.
   - **h.** Whether the employer's contributions represent more than 5 percent of total contributions to the plan (employer specific).
   - **i.** Any minimum contributions to the plan required by agreement (employer-specific).

2. Each employer would be required to disclose the total contributions made to all multiemployer plans, the contributions made to each individually material plan (see Item 1 above), and the total contributions made to all other plans in the aggregate.

3. Each employer would be required to describe the nature and effect of any changes affecting comparability from period to period for each period for which a statement of income is presented, including a business combination or a divestiture, the rate of employer contributions, and the number of employees subject to multiemployer pension plans.

4. Each employer would be required to disclose information about plan assets and liabilities and total contributions to the multiemployer plan from all employers if the information is not available in the public domain.

5. In an important change from the original draft and the interim discussion material, an employer would *not* be required to disclose the following information:
   - **a.** The known trends in future contributions.
   - **b.** The estimated amounts of future contributions.
   - **c.** The percentage of its employees covered by multiemployer plans.

6. The required disclosures would apply only to multiemployer pension plans. For multiemployer health and welfare plans, certain aspects of the existing disclosure requirements will be clarified. FASB in the future may address other aspects of the disclosure requirements related to multiemployer health and welfare plans.

Effective Dates

The new disclosure requirements will be effective for public entities for periods ending after Dec. 15, 2011. Nonpublic entities will be subject to the new disclosure requirements effective for periods ending after Dec. 15, 2012. Early adoption is permitted.

So, much like the club fighter who looked to be knocked out early in the match only to have his hand raised for the win, employers who contribute to multiemployer plans have scored an impressive—if unexpected—victory.

HAL TEPFER, *principal for the Savitz Organization in Newton, Mass., is a contributing editor of the* EAR.

‹FATHER/DAUGHTER, FROM PAGE 5

timistic about the future.

"Many people are questioning the value of defined contribution plans after seeing their 401(k) take a hit when the stock market collapsed," Notaristefano said. "I think people are starting to realize the value of DB plans."

Notaristefano, who became an enrolled actuary in 2008, attended her second Enrolled Actuaries Meeting last March and was a panelist for the Multiemployer PPA Zone Review session. McKeogh, who has been an enrolled actuary since 1979 and is a member of the Academy's Multiemployer Subcommittee, served as a panelist for the Withdrawal Liability Refresher session.

‹GRAY BOOK, FROM PAGE 2

tions that easily can ensnare employers and participants in an inescapable net, like the one Clytemnestra used to entrap her husband, Agamemnon, when he returned from the Trojan War.

Before the passage of the PPA, discovering you had overstated the minimum required contribution in a prior year was embarrassing but not fatal. The error simply would have increased the credit balance, and any necessary adjustments in subsequent years automatically would have been added to or subtracted from that credit balance, leading to a cascade of self-correcting fluctuations in the balance until the present, when everything could be straightened out. The law now requires that in order to use a credit balance, a timely election must be made that must specify a particular amount of the credit balance to be applied on a specific date. This new election-driven approach interrupts the self-correcting nature of the previous law, and can lead an employer into a cul-de-sac of miserable alternatives.

The answer to Question 2 shows that the IRS is clearly sympathetic but that there is little it can do when the entire edifice of the PPA is so firmly founded on its many mandates of meticulous minutiae.

JAMES KENNEY, *a pension consultant in Berkeley, Calif., is a contributing editor for the* EAR*.*

‹JBEA REGULATIONS, FROM PAGE 3

als engaged in substantive pension service must be in the same physical location as the instructor), he or she would receive one credit hour of formal program credit for each credit hour of a qualifying program (not four credit hours of formal program credit). The instructor still would receive the additional three credits for each credit hour of the program (subject to the limit on number of instructor credits), but these credits would not count toward the formal program requirement.

- ➜ ***Program instructors:*** The only real change to the rules for awarding instructors' credit is a clarification that the instructor must prepare "substantive subject matter" to receive such credit. The number of continuing education credits earned while serving as an instructor is still limited to 50 percent of required credits in a given enrollment cycle.
- ➜ ***Qualifying sponsors:*** The three-year sponsor enrollment cycles no longer coincide with the three-year enrollment cycles for enrolled actuaries. Organizations recognized as qualifying sponsors as of Dec. 31, 2010, receive an automatic extension of such status to Dec. 31, 2011. Qualifying program sponsors can apply for renewal of their status for subsequent sponsor enrollment cycles covering Jan. 1, 2012, to Dec. 31, 2014, and each three-year period thereafter by contacting the Joint Board. (Sponsors that already have applied for renewal for the 2011–2013 cycle do not need to make another request for renewal for 2012–2014.) Renewal reminder notices will not be sent to sponsors at the end of each sponsor enrollment cycle. Sponsors, and not program participants, are now responsible for maintaining copies of program handouts and materials, and the content requirements for certificates of completion and instruction have been expanded to include the new formal program and ethics requirements.
- ➜ ***Renewal of enrollment from inactive status:*** The final regulations have revamped the rules pertaining to renewals from an inactive status. Enrolled actuaries who do not renew their enrollment become inactive and may remain on the inactive roster for up to three enrollment cycles (i.e., up to nine years) before enrollment terminates. Before applying for re-enrollment, inactive enrolled actuaries must complete the specified number of continuing education credit hours, which generally increases with the number of inactive cycles. If inactive enrolled actuaries renew their enrollment after their first inactive cycle, they also must have certified responsible pension actuarial experience. The final regulations specify that regardless of the total number of core hours required, a minimum of two hours of continuing education must relate to ethical standards.

The "inactive retirement status" was eliminated in the final regulations; these actuaries are now subject to the same rules as other inactive enrolled actuaries. The final regulations include a grandfather provision that stipulates that anyone whose status was "inactive" or "retired" on April 1, 2010, will be treated as if the 2011–2013 enrollment cycle is his/her first inactive cycle. The grandfathering rule does not apply to anyone whose enrollment was terminated as of April 1, 2010; he/she would have to apply as a new actuary even if he/she had not been inactive under the three cycles allowed for inactive actuaries under the new regulations.

Standards of Performance

- ➜ Expansion of standards: The final regulations strengthen the rules pertaining to professional standards of performance that address professional duty, conflicts of interest, assumptions, calculations, and reporting, and add rules similar to those in Treasury Department Circular No. 230.

The JBEA has indicated that it will be issuing further guidance in FAQ format on the final regulations. In anticipation of this forthcoming guidance, in a June 29 letter to the JBEA, the Academy requested clarification on the application of the rules for continuing education completed in 2011 before the regulations were issued.

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