



# Pentec

, INC.

PENSION ACTUARIES & CONSULTANTS

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To: Defined Benefit Plan Clients & All Advisors

From: Michael E. Callahan, FSPA, EA, CPC, MAAA

Re: New Strict Defined Benefit Rules

The next time you board a US Air or United flight, thank the folks in uniform for messing up your defined benefit plan.

The IRS has taken a very hard line stance on defined benefit plan valuation dates. We historically had a choice to prepare our work either at the beginning of the year or the end of the year. End of year was more convenient for most of our clients. That has changed. The new rules that Congress passed in August of 2006, coupled with the strict interpretations from the IRS, will force everyone to a beginning of year valuation.

In addition, the valuation and certifications must be completed in the first 3 months of the plan year, so by April 1, 2008 for calendar year plans. If they are not completed timely, benefits can be frozen, deductions may be impacted, notifications made to employees, cash outs restricted and a whole host of mean things happen.

We are in the process of changing all our valuation dates for 2007 to prepare for 2008. We will need to know your compensation and contribution intentions a year earlier than normal! You still have the same time line to make them, but you must state in writing your intentions.

We anticipate our fees will need to be increased for the 2008 plan year with all the new certifications and timing. We will be sending out fee quotes in late December for 2008 for calendar year plans so you know the impact. The new certification rules for the actuary are overwhelming.

We are now starting to see new regulations to administer the retirement plan, and the constructionist approach of the IRS has taken away the sanity and logic of the rules. For example, it may be better to be 79% funded rather than 81% funded except if you say your 81% funded and end up to be 79% funded. Our industry will be tested in the first three months of a year to complete all the 401(k) tests and now defined benefit plan valuations. Please bear with us, but if we are insistent upon data, it is because we want to make sure your plans run smoothly.

We will keep you informed as all this unfolds.