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EAR
ENROLLED ACTUARIES REPORT

Will Defined Benefit Plans Go Full Circle?

BY JOHN PARKS

It seems like I've been here before,
I can't remember when;
But I have this funny feeling
That we'll all be together again.
No straight lines make up my life
And all my roads have bends.
There's no clear-cut beginnings
And so far no dead ends.

HARRY CHAPIN'S LOVE SONG "CIRCLE" is about the cyclical nature of life and romance. But this phenomenon also occurs in nature, business, economics, and, in fact, all aspects of our universe. We all (well, at least those of us who remember Harry Chapin) remember the day when defined benefit (DB) plans were the mainstay of this country's private retirement system. At their peak in 1985 there were 114,400 plans. Today there are a mere 35,200 (as published in the 2001 PBGC report). Will they return and complete the circle?

Well, let's first take a look at what happened to DB plans. While we don't know all the reasons as provable theorems, generally accepted beliefs point to some of the following factors for their decline.

New Mobility of the Workforce

The career employee working for the same employer from graduation to retirement is rare today. What we see instead is a workforce that glides easily from one opportunity to another. The dot-com bubble (and its implosion) amplified this trend. Intrinsic with employment mobility is the logical need to easily transfer retirement accumulations. The account balance approach of the defined contribution (DC) plan lends itself to this need for mobility more easily and readily than the deferred vested benefit of a DB plan. Employee independence, as well as a desire for control and a belief in one's own ability to plan and invest for the future, also favors the DC approach.

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EAR
ENROLLED ACTUARIES REPORT

The *Enrolled Actuaries Report* is a quarterly publication of the American Academy of Actuaries (www.actuary.org).

IRS Comments on Use of New Mortality Table

ON NOV.12 the Internal Revenue Service (IRS) released a statement that cash balance pension plans adopting the new mortality table published in Rev. Rul. 2001-62 do not violate Internal Revenue Code (IRC) §411(d)(6), which prohibits a decrease of accrued benefits by plan amendment.

Cash balance plans, therefore, are not required to provide participants with advance notice of substantial reductions in accrued benefits as a result of the substitution of the new mortality table.

In its statement, the IRS said, "It is the Service's position that an amendment to a cash balance pension plan adopting the new table as described in Rev. Rul. 2001-62 would not violate section 411(d)(6) and that advance notice to participants is not required under a good faith interpretation of section 204(h) of ERISA and section 4980F of the Code."

Rev. Rul. 2001-62, issued in December 2001, provided a new mortality table for determining the present value of benefits under §417(e)(3) and modifying benefits or limitations under §415(b)(2) of the IRC. The new table is the 1994 Group Annuity Reserving Table (94 GAR), which is adjusted to a unisex basis, using 50 percent blended male and female rates, and projected to year 2002. The table replaces

MORTALITY TABLE continues on Page 8 ►

ABCD GUIDANCE ON CASH BALANCE

Letter Perfect

BY DAVID FLAGG

DOES AN ACTUARY ever have a professional responsibility to demand to see employee communications materials drafted by his or her client?

To what extent should an actuary establish tighter control of his or her work product if it includes the delivery of unhappy news or involves controversial matters?

At what point should an actuary consider resigning an engagement in lieu of delivering a requested work product?

> There is seldom a bright line for the ABCD to follow, and judgment is required to interpret particular facts and circumstances.

These and similar challenging questions were openly discussed and debated at the November annual meeting of the Conference of Consulting Actuaries during a session exploring recent guidance from the Actuarial Board for Counseling and Discipline (ABCD) on a hypothetical cash balance pension plan conversion. Both the ABCD's guidance and the letter seeking it were published in the Fall 2002 *EAR* (to read both letters online, go to **www.actuary.org/ear/pdf/fall_2002.pdf**). Session panelists included Vince Amoroso and me, two of four co-authors of the letter requesting guidance, Dan McCarthy, the Academy's immediate past president, and Ed Burrows, representing the ABCD.

Ed Burrows provided the audience with an overview of the ABCD's thinking on two areas of the actuarial Code of Conduct: acting with integrity (Precept 1) and control of work product (Precept 8). With respect to a hypothetical case involving an actuary helping his or her client design a cash balance plan conversion, Burrows suggested that Precept 1 would generally be met if the actuary acted competently and honestly, and the services rendered were not being used by a client to violate the law.

In the case of Precept 8, Burrows provided the audience with a list of questions that the ABCD might need to examine in determining whether an actuary had taken reasonable steps to ensure that the client wasn't using his or her work products to mislead others. These questions centered on examining what actions the client took, and the extent to which the actuary might have anticipated those actions.

Burrows emphasized that there would seldom be a bright line for the ABCD to follow, and that judgment would be required to interpret the particular facts and circumstances.

To view slides from the session online, go to **www.ccactuaries.com/library/onsites/2002am/11-B.pdf**.

David Flagg is a consulting actuary for Watson Wyatt Worldwide in New York and a member of the Academy's Council on Professionalism.

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FULL CIRCLE *continued from Page 1*

The Regulatory Environment

Perhaps it all started with the infamous Studebaker case, but congressional desire to protect the retirement benefits of employees has led us to an era of complex overregulation, especially in the DB arena. Leveling the playing field between DB and DC arrangements has become a strategic initiative of the Academy's Pension Practice Council. The council believes that the best retirement program for both plan sponsors and employees is a DC plan superimposed on a DB plan. As we learned in Pensions 101, this combination of plans offers the best of both worlds — the security of a DB plan and the opportunity of a DC plan.

Visual Perspicacity

We can easily see a DC account balance but struggle with the real value of a deferred monthly benefit paid at some distant and often unthinkable time in the future. It's no surprise that the phenomenal growth in 401(k) arrangements paralleled a time of unprecedented stock market returns (watching your money grow is considerably less thrilling when the market performs as it has in the past three years). At the same time, DB plans were being terminated in large numbers — especially in small to mid-sized businesses.

Marketing and Administrative Costs

Marketing by financial institutions and others also drove the DC plan surge. Naturally lured by a new source of revenue advertising, 401(k) arrangements became so prevalent that they became the most quotable (and most recognized) section of the Internal Revenue Code in the history of our country. Coupled with this was the appeal of reduced administrative costs as daily valuation systems became efficient, common, and tied directly to the overall costs of asset investment.

Global Competition

As our world grows smaller, competition grows fiercer. A traditional DB plan brings with it high funding costs. Coupled with rapidly growing payrolls and generally more expensive employee benefit packages (led in great part by the cost of health care), sponsors who could make a choice naturally opted for a DC plan.

What Does the Future Hold?

Will DB plans make a robust recovery with the same characteristics of decades past? Not exactly. But there is hope.

There are four reasons why it's generally believed DB plans will return, although perhaps not in the same form as in the past.

- The recent stock market decline has made it apparent that DC plans alone will not provide for adequate replacement ratios for many who are near or at retirement.
- The baby boom generation is approaching retirement, and many are beginning to realize that a DB plan is the only way to make up assets they have not previously accumulated for retirement.
- Recent regulatory changes, prompted largely by the Economic Growth and Tax Relief Reconciliation Act of 2001, have provided some additional tax incentives for DB plans including significantly increased benefit maximums beginning as early as retirement at age 62.
- Enron has taught us that guarantees are important and DB plans with PBGC guarantees are valuable.

Of course the stock market has also had a collateral negative effect on existing DB plans.

In my opinion, there will be a revitalization of the DB segment of the retirement plan universe. However, the new DB plans will not look like your father's DB plan. For those sponsors who venture in this direction, caution will abound. Rich formulas around final pay plans will be replaced by lesser magnitude multipliers and career-average formulas. Once regulatory issues are overcome, cash balance plans will become more commonplace. Bundled products will be developed providing simplified benefits and reduced administrative costs. There is even hope that concepts such as DB-K Plus plans (see story on Page 6), combining the advantages of DB and DC plans into one plan and trust, will at long last be approved by regulators. A marriage made in Heaven! How wonderful it is to imagine the endless creative opportunities for overcoming the challenges of effective retirement plan design for the multiple needs of diverse employee groups.

The DB circle will, I believe, be completed. It may be larger or smaller, concentric or Möbius, perfect or contorted, but it will go around again.

All my life's a circle;
Sunrise and sundown.
Moon rolls thru the nighttime,
Till the daybreak comes around.

All my life's a circle,
But I can't tell you why.
Seasons spinning round again;
The years keep rollin' by.

JOHN PARKS, president of MMC&P Retirement Benefit Services, Inc., in Pittsburgh, is the editor of the *EAR* and the Academy's vice president for pension issues.

Updated Social Security and IRS Amounts for 2003

These three tables list updated figures for IRS pension limits, Social Security amounts, and covered compensation for 2003.

The tables were compiled by Andrew Eisner of the Research Department of Buck Consultants, Inc.

Covered Compensation, 2003

2003 Wage Base $87,000

YEAR OF BIRTH	AGE IN 2003	SSRA	YEAR OF SSRA	COVERED COMPENSATION ROUNDED TO: $1*	$12	$600**	$3,000
1936	67	65	2001	37,214	37,212	37,200	36,000
1937	66	65	2002	39,451	39,444	39,600	39,000
1938	65	66	2004	43,977	43,968	43,800	45,000
1939	64	66	2005	46,240	46,236	46,200	45,000
1940	63	66	2006	48,503	48,492	48,600	48,000
1941	62	66	2007	50,731	50,724	51,000	51,000
1942	61	66	2008	52,909	52,908	52,800	54,000
1943	60	66	2009	55,017	55,008	55,200	54,000
1944	59	66	2010	57,100	57,096	57,000	57,000
1945	58	66	2011	59,149	59,148	59,400	60,000
1946	57	66	2012	61,163	61,152	61,200	60,000
1947	56	66	2013	63,143	63,132	63,000	63,000
1948	55	66	2014	64,974	64,968	64,800	66,000
1949	54	66	2015	66,720	66,720	66,600	66,000
1950	53	66	2016	68,357	68,352	68,400	69,000
1951	52	66	2017	69,917	69,912	70,200	69,000
1952	51	66	2018	71,383	71,376	71,400	72,000
1953	50	66	2019	72,789	72,780	72,600	72,000
1954	49	66	2020	74,143	74,136	74,400	75,000
1955	48	67	2022	76,663	76,656	76,800	78,000
1956	47	67	2023	77,863	77,856	78,000	78,000
1957	46	67	2024	78,977	78,972	79,200	78,000
1958	45	67	2025	79,997	79,992	79,800	81,000
1959	44	67	2026	80,957	80,952	81,000	81,000
1960	43	67	2027	81,857	81,852	81,600	81,000
1961	42	67	2028	82,697	82,692	82,800	84,000
1962	41	67	2029	83,451	83,448	83,400	84,000
1963	40	67	2030	84,189	84,180	84,000	84,000
1964	39	67	2031	84,883	84,876	84,600	84,000
1965	38	67	2032	85,500	85,500	85,800	87,000
1966	37	67	2033	86,031	86,028	85,800	87,000
1967	36	67	2034	86,443	86,436	86,400	87,000
1968	35	67	2035	86,751	86,748	87,000	87,000
1969	34	67	2036	86,940	86,940	87,000	87,000
1970	33	67	2037	87,000	87,000	87,000	87,000

*Represents exact average of wage bases, as permitted by law and regulations.

** After 1993, IRS does not authorize the use of covered compensation tables rounded to $600 multiples under 401(l). Thus, integrated plans using this table are not safe-harbor plans.

Social Security—2003 Factors

On Oct. 18 the Social Security Administration announced updated factors for 2003.

Wage Base The maximum amount of earnings taxable in 2003 is $87,000 for Social Security purposes.

COLA The cost-of-living increase in benefits is 1.4% applicable to December 2002 benefits, payable in January 2003.

Wage Index The average annual wage figure of $32,921.92 will be used in computing benefits for workers who become eligible in 2003. This figure is based on data for the last complete year (2001) and was used to determine other wage-indexed numbers given in the table below.

FACTOR	2002	2003
Wage base:		
for Social Security	$84,900	$87,000
for Medicare	No Limit	No Limit
old-law wage base, for indexing PBGC maximum, etc.	$63,000	$64,500
Cost-of-living increase (applies to December benefits, payable in January)	2.6%	1.4%
Average annual wage (based on data 2 years earlier)	$32,154.82	$32,921.92
PIA formula, 1st bend point	$592	$606
PIA formula, 2nd bend point	$3,567	$3,653
Maximum family benefit, 1st bend point	$756	$774
Maximum family benefit, 2nd bend point	$1,092	$1,118
Maximum family benefit, 3rd bend point	$1,424	$1,458
Retirement test exempt amount (annual):		
below SSNRA	$11,280	$11,520
year of SSNRA	$30,000	$30,720
Wages needed for one quarter of coverage	$870	$890
FICA (employee) tax rate:		
Social Security (OASDI)	6.20%	6.20%
Medicare (HI)	1.45%	1.45%
Total	7.65%	7.65%
SECA (self-employed) tax rate, total	15.30%	15.30%

IRS Pension Limits for 2003

Here are the official 2003 pension limits. The Job Creation and Worker Assistance Act of 2002 changed the inflation-adjustment method beginning in 2003 for the Section 409(o)(1)(C) ESOP limits and the Section 408(k)(2)(C) SEP limit to conform with the EGTRRA inflation-adjustment method.

Principal Limits

		LIMITS		TO PROJECT FUTURE VALUES		
IRC §	LIMIT	2002 ROUNDED	2003 ROUNDED	2003 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
415(b)(1)	Defined benefit plan limit	$160,000	$160,000	$162,544	$165,000	1.5%
415(c)(1)	Defined contribution plan limit	40,000	40,000	40,636	41,000	0.9%
401(a)(17)	Limit on includible compensation*	200,000	200,000	203,180	205,000	0.9%
402(g)(1)	Limit on 401(k)/403(b) elective deferrals**	11,000	12,000	12,000	13,000	N/A
414(q)	HCE definition	90,000	90,000	91,808	95,000	3.5%
414(v)(2)	401(k)/403(b)/457(b) Catch-up deferral limit**	1,000	2,000	2,000	3,000	N/A

Other Limits

		LIMITS		TO PROJECT FUTURE VALUES		
IRC §	LIMIT	2002 ROUNDED	2003 ROUNDED	2003 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
457(b)	Limit on nonqualified deferrals**	$ 11,000	$ 12,000	$ 12,000	$ 13,000	N/A
409(o)(1)(C)	ESOP payouts, 5-year limit	800,000	810,000	812,720	815,000	0.3%
409(o)(1)(C)	ESOP payouts, additional 1-year limit	160,000	160,000	162,544	165,000	1.5%
408(k)(2)(C)	SEP pay threshold	450	450	457	500	9.4%

**Governmental plans have special rules for eligible participants as defined in OBRA '93.*

*** The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) prescribed $1,000 annual increases in the 401(k), 403(b), and 457(b) limits and the 414(v) catch-up deferral limit through 2006. Thereafter, these limits will be adjusted for inflation.*

DB-K Plus: A Defined Benefit Plan With

The following is the draft executive summary of a new issue brief due to be published this winter by the Pension Committee of the Academy's Pension Practice Council. The committee is very interested in hearing your comments. Contact Heather Jerbi, the Academy's pension policy analyst (202-223-8196; jerbi@actuary.org).

IN THE WAKE OF ENRON AND WORLDCOM, many policy-makers have asked why there aren't more defined benefit (DB) plans.[1] The answer is obvious. The playing field for retirement plans is not level. Plans with 401(k) features can have pre-tax employee contributions, matches (from the employer and the federal government), phased retirement at age 59½, market returns, and many other items that DB plans cannot have. In addition, pension laws over the past two decades have made DB plans much more complex to administer than defined contribution (DC) plans. Furthermore, employees appreciate the larger benefits at young ages and the simplicity inherent in 401(k)s. Thus, even though DB plans were the most common pension plan through the 1970s (and 401(k)s were only seen as a supplemental savings plan), as of today many more employees are covered by 401(k)s than by DB plans.

However, while younger employees understand and value the cash nature of DC plans, many older employees and retirees will still tell you that cash does not equal retirement security — a stable lifetime pension does. Thus, there are advantages to having both types of plans, and many large employers do just that — they have a DB plan and a 401(k).

Some Advantages of DB Plans Are:

- For employees, DB plans are more likely to provide a secure, stable income for life. Employees won't have to worry about a bear market when they want to retire, or after they retire.
- For employers, DB plans provide contribution flexibility and help keep a stable workforce.
- For the nation, DB plans help reduce poverty rates better at older ages.

But DB plans need a level playing field to survive.[2] The American Academy of Actuaries Pension Practice Council suggests a way to greatly level this playing field with one change — allow DB plans to have 401(k) features.[3] This "DB-K Plus" plan could have many of the advantages of DB and DC plans in one plan. For example, it could look like a 401(k) to employees (with pre-tax employee contributions and employer matches) but also allow employers funding flexibility. Employers might also promise investment returns based on bond rates. The assets of the 401(k) portion could be held separately from the DB assets or merged with them. The following ideas contemplate one trust fund where all assets are available to pay all benefits. However, these ideas are compatible with other DB-K proposals that contemplate a separate pool of assets.

DB-K Plus could have some features that DC plans already have, such as:

- Pre-tax employee contributions or deferrals (government DB plans have them through §414(h) pickup rules)
- Matches[4] (hospitals and other non-profits can have matches in their DB plans)
- Additional matches from the government for low-income employees (as in DC plans)[5]
- A small business tax credit for starting new plans (just like the one for new DC plans)[6]
- Better returns than Treasury rates,[7] including returns based on stock and bond indexes
- Safe harbors (using benefits or pay-related credits in cash balance plans, and/or cash matches), which could provide some regulatory relief [8]
- Immediate participation at hire without affecting ADP and ACP rules,[9] automatic elections
- Phased retirement at age 59½, which a 401(k) can have pursuant to IRC§401(k)(2)(B)[10]
- DC accrual rules and the ability to test greater-of-benefit formulas separately.

DB-K Plus could have features from DB plans in which policy-makers have expressed a renewed interest, such as:

- Automatic qualified joint and survivor annuities as the default option
- Reduced administrative expenses
- Funding, investment,[11] and design[12] flexibility
- Guarantees (if the employer so desires, possibly for a charge)
- PBGC guarantees.

Other rules will be needed to ensure that these plans are viable for employers and employees, such as:

- Separately applied maximums to DB and DC parts[13]
- Ability to revise investment credits/guarantees in the future
- Ability to move benefits from the DB to the DC side and vice versa
- Rules on conversions from current plans
- Simple funding rules appropriate for account-based plans.

This will create a more level playing field. And it's important that we act soon, because the earliest baby boomers have already started to reach retirement age. Let's help them have a more secure retirement.

The American Academy of Actuaries' Pension Practice Council has written a detailed document on this subject, and will be glad to assist policy-makers in the development of these DB-K concepts. For more information, contact Heather Jerbi, the Academy's pension analyst, or Ron Gebhardtsbauer, the Academy's senior pension fellow, at 202-223-8196.

NOTES

1. Defined benefit plans (DB plans): Retirement plans where the employer promises a benefit. In defined contribution plans (DC plans) the employer just specifies the contribution and the benefit depends on how well the investments perform.

2. In our governmental, non-profit, and church sectors where the playing field is more level, DB plans are more prominent. In addition, a paper in the *North American Actuarial Journal (NAAJ)* noted that a more level playing field is why Canada has more DB plans. See Professor Rob Brown's paper discussing this in the July 2001 issue, and discussions in the April 2002 *NAAJ*.

3. Congress could revise IRC 401(k) to allow 401(k) features in DB plans. For example, add the words "defined benefit plan" to the first sentences of IRC §401(k)(1), §401(k)(2), §§401(k)(2)(B)(i)(III) and (IV), and §401(m)(1), and add a sentence to 401(k) that the Treasury Department will specify in regulations how the words "contributions" and "deferrals" can include pay credits to DB plans. Other sections of the law may also need revisions.

4. Revise IRC §401(k)(4)(A) to include DB plans.

5. Revise IRC §25B to include pay-related credits in DB plans.

6. Revise IRC §45E to include DB plans.

7. Revise IRC §417(e) to allow account-based DB plans with market-related returns to pay just the account at termination of employment. Another way to do this is to define the account as the accrued benefit.

8. Include DB plans in the IRC §401(k)(12)(C) safe harbor, with the same rules for account-based DB plans, and allow Treasury to define the equivalent accrual for traditional DB plans (e.g., a 3/4 percent pension accrual could be equivalent to the 3 percent rule in the 401(k) safe harbor).

9. Include DB plans in IRC 401(k)(3)(F).

10. We suggest allowing phased retirement at age 55, or after 30 years of service.

11. For example, it is difficult for a DC plan to invest in real estate and other hard-to-value assets. The move from DB plans to 401(k)s hurts the industries thus affected.

12. For example: early retirement windows, good benefits for all employees through an account-based formula at young ages and a traditional DB pension formula at older ages (using a greater-of-formula), portability credits (cash or benefits) from prior jobs or prior service, COLA purchases from the account side, transfers from account side to pension side at benefit commencement to buy a level pension.

13. Clarify IRC §414(k)(2) so that employers could designate whether a pay credit is tested as DB or DC for 415 purposes.

PBGC Sets 2003 Maximum Guarantee

In a November announcement, the Pension Benefit Guaranty Corp. set the maximum benefit for retirees in underfunded single-employer defined benefit plans terminating in 2003 at $3,664.77 per month, or $43,977.24 per year.

Under ERISA, the maximum guaranteed amount must be adjusted annually based on changes in the Social Security contribution and benefit base. The maximum guarantee applies to workers who retire at age 65. Maximum guarantees are reduced for those who retire at younger ages or who elect survivor benefits. In some instances, where a pension plan has adequate resources or PBGC recovers sufficient amounts, a participant may receive benefits in excess of the maximum guarantee. A participant's benefit may also be reduced, even though it doesn't exceed the maximum guarantee. For example, limits on PBGC coverage of early retirement supplements and recent benefit improvements could cause a reduction.

The maximum monthly guaranteed amounts for plans terminating each year for the past 10 years are:

Year of Plan Termination	Maximum Monthly Guarantee	Maximum Annual Guarantee
2003	$3,664.77	$43,977.24
2002	3,579.55	42,954.60
2001	3,392.05	40,704.60
2000	3,221.59	38,659.08
1999	3,051.14	36,613.68
1998	2,880.68	34,568.16
1997	2,761.36	33,136.32
1996	2,642.05	31,704.60
1995	2,573.86	30,886.32
1994	2,556.82	30,681.84

LETTER TO THE EDITOR

Be a Tax Volunteer

GREETINGS FROM THE RETIREE SIDE of the pension world.

This letter is to encourage retired actuaries, and others, to volunteer for tax preparation assistance projects, such as the AARP Tax-Aide program or similar programs administered by the IRS. I have volunteered for several years and find it to be an interesting task that is clearly appreciated by the clients.

Training materials are provided by the IRS, with a clear message that the purpose is to help people with the procedural aspects of completing their tax forms correctly. The volunteer is neither a financial adviser nor an IRS auditor, and does not take responsibility for accuracy of the information supplied by the taxpayer.

Even those who may have done their own tax forms are likely to find an intellectual challenge in using various aspects of the tax code that may never have applied to themselves. Some volunteer centers have IRS-approved computer software. Others rely completely on the brainpower of the volunteers.

There generally are training sessions in January. For more information go online to **www.aarp.org/taxaide/home.html** or **www.irs.gov/localcontacts/index.html.**

Howard Young
Livonia, Mich.

Reminder from the EA Meeting Committee

The 2003 Enrolled Actuaries meeting is just around the corner, running March 17-19 at the Marriott Wardman Park Hotel in Washington. As always, by attending this one meeting you will be able to satisfy half of your EA continuing education requirements for this three-year cycle.

Panelists at this year's general sessions will explore how actuaries can and should protect themselves from liability; the new paradigm in setting actuarial assumptions for determining pension liabilities; and the impending retirement crisis in the United States. A strong slate of concurrent sessions, including sessions on any new legislation that becomes law prior to the meeting, is planned. Participation by representatives from the Internal Revenue Service and the Pension Benefit Guaranty Corp. is expected.

For the Monday luncheon speaker, we are pleased to have *Washington Post* columnist Mark Shields, the nationally known political commentator from CNN's "The Capital Gang."

Register early, and come to Washington in March to hear how other pension professionals are handling the issues we must all address in our actuarial practices.

MORTALITY TABLE *continued from Page 1*

the 1983 unisex Group Annuity Mortality Table (83 GAM).

Qualified defined benefit plans are required to use the new table for distributions with annuity starting dates on or after Dec. 31, 2002. With lump sum settlements, the date of distribution is generally the annuity starting date. An earlier effective date, within the 2002 calendar year, can also be elected. In any event, there must be a single effective date for purposes of calculating the minimum present value of lump sum benefits and the actuarial adjustment to the maximum allowable benefit.

A copy of the IRS statement is available at the IRS website at **www.irs.gov/retirement/article/0,,id=102884,00.html** or by contacting Eric Opanga, the Academy's legislative assistant, at opanga@actuary.org.

This article was originally published as an Academy Alert, an information service to Academy members who buy annual paid subscriptions. For more information about becoming a subscriber, contact Eric Opanga at 202-223-8196.