



AMERICAN ACADEMY *of* ACTUARIES

July 7, 2010

Harlan Weller
Government Actuary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Room 4024
Washington, DC 20220

Andrew Zuckerman
Director, Employee Plans Rulings and
Agreements
Internal Revenue Service
SE:T:EP:RA
1111 Constitution Avenue, NW
Washington, DC 20224-0002

RE: 2011 Schedules SB and MB Filing Instructions and Forms

Dear Mr. Weller and Mr. Zuckerman:

The American Academy of Actuaries¹ Pension Committee respectfully requests your consideration of its comments regarding the 2011 Schedules SB and MB Filing Instructions and Forms. We are providing comments on certain areas where we believe the instructions and forms may need clarification or modification.

Interest Rates for Shortfall Amortization Installment

The Pension Committee believes that it would be helpful on the Schedule SB to have guidance on what interest rates to use when calculating the shortfall amortization installment when using the full yield curve to generate the funding target. In general, the yield curve interest rates at years 1, 2, ..., 6 are used to determine the amortization factor. However, there is some question among practitioners when one has used mid-year decrements, and therefore mid-year rates from the yield curve, to determine liabilities. In such a case, some believe that the same values from the yield curve should be used to determine the amortization installment (i.e., the mid-year yield curve rates at years 1.5, 2.5, ..., 6.5) while others believe that the integral year rates should be used in order to reflect the actual payment timing for the amortization installments. Clarification on this point would be welcome.

Electronic Signatures

The Pension Committee would like Enrolled Actuaries (EAs) to have the option of electronically signing the Schedules SB/MB. In a December 9, 2009 letter to Ms. Deborah Golding, Deputy Director in the Office of Regulations and Interpretations at the Employee Benefits Security Administration, the Pension Committee expressed concern regarding the electronic display of certain information (notably, a scan of the EA's physical signature) contained in the Form 5500. In response to the concerns raised by the Academy and others, the IRS provided some welcome relief to EAs by allowing the use of a typed signature accompanied by handwritten initials on the scanned version of the Schedules SB/MB. When the PBGC moved to electronic submission of annual premium filings, they added an electronic signature

¹ The American Academy of Actuaries is a professional association with over 17,000 members, whose mission is to assist public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

option using an assigned User ID and private security question as a proxy for a physical signature. This is similar to the assigned User ID and private PIN number option the DOL provides for plan administrators and plan sponsors for Form 5500 filings. The option to use an electronic signature for the Schedules SB/MB could be accompanied by a strict warning from the Joint Board for the Enrollment of Actuaries that practitioners could lose their enrollment if they share their electronic signatures. To eliminate any concerns that an EA's electronic signature could be used without his or her knowledge, an e-mail notification could be sent to the EA whenever his or her electronic signature is used. A physically signed copy for the plan sponsor's records could still be required.

Line Item Suggestions for Schedule SB

Line 10 – The instructions specify that the rate of return be shown to two decimal places. This requirement may differ from the rounding convention used by the actuary for valuation purposes. Is an attachment required to indicate the rounding convention used if not two decimal places? There is also an issue with certain third-party software requiring manual overrides when the valuation method includes rounding to other than two decimal places.

Line 18 – Please clarify instructions on how to complete this line when there are more than 12 contribution dates to report. In particular, consider which of the following alternatives are acceptable or preferred for handling this situation:

- Show the total of all contributions on one line (for example, at the first contribution date) and include an attachment showing the full listing of contributions;
- Show 11 individual contributions and the sum of all remaining contributions on the 12th line with an attachment detailing the contributions consolidated into the 12th line entry;
- Show 12 individual contributions on the available lines, manually override the total line and include an attachment that details the additional contributions not shown on the schedule;
- Show all contributions made during a one-month period on a single line with a single date representing the weighted average contribution date. If contributions span more than 12 separate one-month periods, manually override the total and include an attachment showing the same information for the remaining months.

Line Item Suggestions for Schedule MB

Line 4(c) - Please provide more guidance on what the IRS considers “scheduled progress.” Additionally, having the option of a N/A box would be helpful.

Line 4(e) – Please provide guidance to clarify the calculation of the reduction due to adjustable benefit cuts.

Line 6(e) - For a frozen plan, both the normal cost and the net amortization charges could be zero or close to zero. In that case, the instructions call for the calculation of a fraction with zero in the denominator. Please add instructions as to how to complete the item in this situation.

Line 10 – Please provide guidance on how to answer this question when the plan is in critical status, and remove the reference to Form 5330 and excise taxes in instructions since they are payable not by the plan sponsor but by the contributing employers.

We would be happy to discuss any of these items with you at your convenience. Please contact Jessica M. Thomas, the Academy's pension policy analyst (202-785-7868, thomas@actuary.org) if you have any questions or would like to discuss these items further.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. H. Moore', with a long horizontal flourish extending to the right.

John H. Moore, FSA, MAAA, EA, FCA
Chairperson, Pension Committee
American Academy of Actuaries

Cc: Carol Zimmerman, Actuary, Internal Revenue Service
Cc: Michael Packard, Pension Benefit Guaranty Corporation