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Completing the 1995 Schedule B

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Summary: The Schedule B of Form 5500 has been completely redesigned for 1995. This session presents a line-by-line discussion of the 1995 Schedule B, including a brief discussion of issues related to new funding rules and preparation of attachments.

Mr. Neil A. Parmenter: We are going to go through the Schedule B line by line. There are undoubtedly people that have questions about pages one, two, and three, which are close to the 1994 Schedule B, but not exactly the 1994 Schedule B. So we will go through those pages, and we will pause at the end of each page if people have questions or comments. We don't want this to be a repeat of session 12PD, which many of you were in with Bruce Cadenhead of Mercer, where he talked about minimum funding under General Agreement on Tariffs and Trade (GATT) rules. This is the Schedule B session, and although a lot of that minimum funding under GATT does affect pages four and five, we weren't anticipating talking about the funding rules per se.

I work in the pension actuarial services division of the Principal Financial Group. David Jarrett is from Mercer in Pittsburgh.

Just for curiosity, how many people anticipate that they have plans with less than a 90% funded ratio and more than 100 lives? Almost everybody figures they're going to have to get into pages four and five. That's interesting. We did that at the Enrolled Actuary (EA) meeting, and the IRS came away from that thinking that they made these complicated rules for additional minimum funding requirements and the number of people who raised their hands at those sessions was relatively small. Now, the EA meeting does tend to be attended by small plan actuaries, and the IRS came away thinking, “Gosh, we have all these rules. We’re spending gobs of time talking about them, and they really don’t affect that many people.” There were a lot of practitioners saying, “I hope that opened their eyes.” But it looks like this audience is a little bit different in that respect. It contains more large plan actuaries.

As I mentioned, we’re going to go through line by line. Let’s just spend a moment on the multiple current liabilities that we now have to calculate for our clients. There basically are three permanent current liabilities and a couple of what you might call temporary current liabilities—all of them appear on the Schedule B; some of them in more than one place.

First, we have the Retirement Protection Act (RPA) of 1994 current liability, and that’s used in line 12 for the additional funding charge. It’s also used to see if there is a liquidity requirement, and it’s used for the RPA full funding limit override. The assumption rules allow the use of any interest rate within the 30-year Treasury average corridor, which is being squeezed down from 90–109%, to 90–105%. Mortality is according to the Group Annuity Mortality (GAM) 83 sex distinct table for healthy lives and disability mortality should be according to the recently released Revenue Ruling 96-7.

Then there’s the gateway current liability. Basically, this is the 90% threshold applicable in 1995, and it is the same current liability as the RPA 94 liability, except that you are required to use the highest permissible interest rate, which is 109% of the 30-year Treasury average weighted average in 1995. Then we still have the Omnibus Budget Reconciliation Act (OBRA) 87 current liability that we’ve been using for years and are very familiar with because we still have the OBRA 87 full funding limit. The OBRA 87 current liability is also used under the optional rule when we’re determining the additional funding charge.

With that, let’s dive into page one.

Mr. David R. Jarrett: The first few items on the Schedule B are very similar to prior years. You need to enter the employer’s name, the name of the plan, employer identification number, things like that. Item E is a bit of a change from prior years. In Item E, you need to respond to whether the plan is a single employer plan, a multiple employer plan or a multiemployer plan. Your response to that item, and also the response to Item F where it asks if there are 100 or fewer participants in the plan, will determine whether you need to complete Part II of the Schedule B.

A quick review on Item F. As in past years, when the IRS refers to 100 or fewer participants for the plan, what they're referring to is 100 or fewer participants on each day of the prior plan year. When you look at that number, you want to consider all of the employers in the controlled group, and all of the defined benefit participants in the controlled group. In many cases, your plan might have fewer than 100 participants, but you could end up having to go on to complete Part II of the Schedule B, because in the controlled group, you have more than 100 participants.

Mr. Parmenter: David, on that Item F, if you have 100 or fewer participants, is it your understanding that you don't even have to complete pages four and five and send them in?

Mr. Jarrett: That's my understanding. If you have 100 or fewer participants, you don't complete Part II, pages 4 and 5. In fact, the Schedule B just becomes like the 1994 Schedule B, a three-page Schedule B.

Part I is basic information that needs to be completed by all plans, regardless of size. On the first page, the two items for Part I, Items 1 and 2 are sort of split with Item 1 being information as of the actuarial valuation date and Item 2 being information as of the beginning of the plan year. In most cases, the valuation date will be the first day of the plan year, so the information contained in Items 1 and 2 should be the same.

Item 1b asks for asset values: the current value of assets and the actuarial value of assets. Item 1c asks for information dealing with your funding method that you're using to determine minimum contributions. If you are using an immediate gain funding method, you need to enter the accrued liability in 1c(1). If you're using a spread gain funding method, you need to enter certain information in item 1c(2). That information will allow the IRS to calculate the full funding limits for the plan.

Item 1d contains information about the current liabilities of the plan. In Item 1d(1), you need to input information if you're excluding any RPA current liability because you're allowed to exclude certain preparticipation service in your plan. I don't think that's a real common thing that plan sponsors do. The key to remember though is that what you enter in Item 1d(1) is the RPA 94 current liability.

Item 1d(2) asks for the full RPA 94 current liability: what would be excluded because it's preparticipation service, plus what wouldn't be excluded. You need to enter the current liability normal cost, the increase in current liability due to the accrual of benefits during the year. Also in Item 1d(2c), you need to enter the current liability computed at the highest allowable interest rate, which for 1995 would have been 109% of the four-year 30-year Treasury average.

Mr. Parmenter: Wouldn't 1d(2a) and 1d(3a) be the same if you incorporate those changes in the interest rate?

Mr. Jarrett: They might be the same. However, they could be slightly different in that the mortality table could be different because for Item 1d(2). You need to use the GAM 83 table with sex distinct rates as published by the IRS. For the OBRA 87 information, you would use the mortality table that you normally use to calculate minimum contributions, which could be the same as the IRS table or it could be different.

Mr. Parmenter: Part I, line 1 is close to the old line 8 in the 1994 Schedule B, where the actuarial value of assets is the old line 8b, the accrued liability is the old line 8a, and the unfunded liability is the old line 8c.

Mr. Jarrett: Right, so it's similar to the old line 8 where there are a couple of additional things added in.

Mr. Parmenter: This implies to me that the balance equation (the unfunded liability being equal to the outstanding balance of the amortization bases less credit balance and reconciliation account) still applies in the 1995 Schedule B?

Mr. Jarrett: Right, that is correct unless you were in a fully funded situation where you had eliminated your amortization basis in a prior year. The instructions mention the balance equation test, and they actually tell you what line items to compare in the balance equation just to make sure that it works.

From the Floor: Is it necessary for small plans of under 100 participants to complete Part II?

Mr. Jarrett: I believe the instructions say that you don't have to do it for small plans. Nor do you need to complete Part II for multiemployer plans.

From the Floor: Wouldn't the current liability in item 1d(3)(a) be different from the amount in item 1d(2)(a) because you may not be using the IRS version of GAM 83?

Mr. Jarrett: Yes. If you're not using the IRS table, you'd have a slightly different value there. When we get to page two where we have to list the assumptions, there's a place where you need to be careful because you could tip off the IRS that something is not right if your current liability numbers are the same, but you're telling them that you're not using their GAM 83 table to determine your minimum contribution.

From the Floor: If you're a multiemployer plan, what do you have to do under 1d(2)? The instructions seem to say that, if you're a multiemployer plan or if you have under 100 people, you don't have to do the current liability, but you do have to do the current liability normal cost. It seems that's a mistake. Does anyone know? Has anyone talked to the IRS? The instructions just don't say under expected increase in current liability to leave it blank if you're a multiemployer plan.

From the Floor: Well, with respect to this whole thing on 1d, there's a whole argument about why multiemployer plans should fill any of this information out and the IRS's defense is that this is information the Pension Benefit Guarantee Corporation (PBGC) wants.

Mr. Jarrett: Let's move on to Item 2. This item also looks similar to last year's Schedule B. This time the IRS is asking for information as of the beginning of the plan year: the current value of assets that would be reported on the Form 5500 and RPA 94 current liability. Information is split out between the different classifications of participants—retired participants, active participants, and so on. Additionally, in Item 2c, you need to divide Item 2a, the current value of assets by 2b(4), the total for the current liability, and if that percentage is less than 70%, you need to enter that percentage there in Item 2c.

Mr. Parmenter: Item 2a is the old line 6c and had to agree with the 5500.

Mr. Jarrett: Right, and the difference would be that this time around Item 2 requires you to use RPA 94 assumptions rather than the extra freedom that you had in assumptions last year.

From the Floor: On line 2a, the current value of the assets, if the plan included some other kind of money, such as voluntary account money from the old days or some rollover accounts, how would you deal with that in making it tie up with the 5500 total assets?

Mr. Jarrett: My understanding is you don't include those monies, but I'll open that up to the floor if there's a different understanding.

From the Floor: You have to include them as assets and have to include the liability. In other words, if they are included from the liability side, the assets must include them also.

Mr. Jarrett: That's right. If you're going to include them in assets, they need to be included in liabilities and vice versa.

From the Floor: Can you tell me what the difference is between 1b(1) and 2b? Or Is it just the timing?

Mr. Jarrett: I would say primarily it's the timing, and that one is as of the valuation date and that the other is as of the beginning of the plan year.

The final entry on the very bottom of page one asks if the actuary has not fully reflected any regulations or rulings in completing the Schedule B. That box is probably an invitation for an audit if you check it, so you might want to be careful with that. If you do check it, you need to create an attachment and put it on the back of the Schedule B saying what you have not reflected and if it has created an accumulated funding deficiency or a nondeductible contribution.

From the Floor: On that, I know that many small plans make an assumption that Section 415(e) will not apply. Would this require a checking of the box, and if it did, then that would result in requiring the actuary to quantify that which he or she wasn't quantifying because it was not worth quantifying because once you check the box you have to determine the effects of applying Section 415(e). Any comments, reactions?

Mr. Jarrett: I can repeat it, I think, and correct me if I don't get it right. The example is, if you have a plan where you're not reflecting 415(e) limits possibly in the calculation of liabilities, do you need to check that box because you are not doing so, and if you do check that box, then you need to actually determine the effect of not reflecting the 415(e) limits, which pushes you back to square one. You should have been reflecting 415(e) limits in the first place because you have to anyway.

From the Floor: If you have a major plan amendment, what current liability do you put in line 2? It says as of the first day of the plan year, so is the plan in effect on the first day or do you pro rata recognize the increases in some of them?

Mr. Jarrett: I don't believe that there's formal IRS guidance on that.

From the Floor: I can answer that question. We had an informal meeting with the IRS a couple of weeks ago, and that exact question was asked. You have a mid-year plan amendment. Considering all the current liabilities, some of which are at the beginning of the year, some of which are at the end of the year. The IRS's answer was essentially, you prorate all of them. For example, if you had a benefit of $15 per year of service at the beginning of the year and you had a mid-year amendment that increased it to $16, their answer was in effect it's $15.50 for all of your current liabilities. Now, for example, when they're asking you for current liabilities at the beginning of the year, they're really saying—what is the present value at the beginning of the year of the benefit structure as it will be during the year—this was their response. Even for the threshold, all current liabilities would recognize it pro rata.

From the Floor: That's important.

From the Floor: If you were using the method where you take the Schedule B current liability for PBGC premium liability purposes, then how do you play from that?

From the Floor: I'd like to go back to the question that was asked before about 2a in relation to 2b with rollover accounts. If you have rollover accounts in the plan, they will be reported on a 5500 in the asset section, so you're going to put them in 2a. Doesn't that suggest that the rollover accounts must be put in with the liabilities on 2b and really you're outside of the defined benefit scenario at that time?

Mr. Jarrett: I guess that would suggest that. No?

From the Floor: If you don't put them in 2a, then IRS is going to get hot about not identifying the 5500.

Mr. Jarrett: Don't the instructions specifically tell you to exclude rollover accounts?

From the Floor: They exclude them from 1b, but what we've always done is say 2a says you match the 5500. It's not my number; I'm going to match the 5500. It gives you permission for the market value in 2a and the market value in 1b(1) not to match because of rollovers, full life insurance contracts and other examples that they don't list.

From the Floor: Are you saying then that the instructions say that the rollovers have to be in 2a if they're on the 5500, which they will be?

From the Floor: If it says you match the 5500 for 2a.

From the Floor: But you can exclude them from liabilities in 2b so you're comparing apples and oranges when you're comparing assets and liabilities.

From the Floor: I think those numbers are going to be a lot different unless you do the 5500. The 5500 is going to be whatever the auditors put as the bottom line market value, and there's always a few thousand dollars difference or receivable that I counted that they didn't. I assume the IRS is not going to freak out when they're different, because they're going to be different.

From the Floor: I think as actuaries we have a very basic problem in line 2a when they say the current value of the assets as reported. They even give you a reference, I think it's line 31a. If we're not filling out the 5500, how do we know what is going in there? I mean we could put in the end of year value from last year's 5500 if we're lucky enough to have a copy of it. It says you can do that. But this is a practical problem, we're certifying a number we have no control over.

Mr. Jarrett: I know a common approach that we use is to actually try to get a draft of the 5500 from the auditor if the auditor is doing the 5500 and then try to reconcile any differences we might have with what the auditor has done, but as we mentioned, that's difficult to do on a timely basis.

From the Floor: But you wouldn't redo your whole valuation? You've had your valuation done for six months, and you're going to find out in July that the auditors had an extra million dollars. I'm not redoing it.

Mr. Jarrett: The idea is hopefully the auditor will bend.

Page two starts out asking for contribution information in a schedule that I think is probably identical to last year's schedule line 7. Item 4 deals with quarterly contributions and liquidity shortfall. If you're a multiemployer plan, you don't need to worry about this. If you're not a multiemployer plan, you need to enter the funded current liability percentage for the preceding plan year. I believe when you refer to the instructions, it tells you exactly what numbers to pick off the prior year's Schedule B in order to complete that item. If the number that you've entered into Item 4a is under 100%, then you need to go down and complete Item 4b if you have more than 100 participants and check the liquidity shortfall at the end of each plan year quarter, which will in general require you to gather asset information, both asset payments and assets at the end of each plan year quarter. If you don't have a liquidity shortfall, you would just enter zero in each of the boxes in Item 4b. If you do have a liquidity shortfall, you would enter the amount of liquidity shortfall. Hopefully, the plan sponsor made the appropriate contributions, and I believe the instructions tell you what IRS form to use to file to pay your penalty tax.

From the Floor: Is the 100 employee requirement in aggregate as on the first page?

Mr. Jarrett: My understanding is that it is. For Item 5, we need to report information about the funding method that's being used for the plan. The instructions this year specify that, if you're using projected unit credit, you need to check the box for the accrued benefit method, the unit credit method. The unit credit method also includes projected unit credit.

You also need to indicate in Item 5i if a change in the funding method has been made this year. When the IRS talks about a change in funding method, it means more than just the actuarial cost method; it is talking about the asset valuation method, the valuation data, things like that. If a change in method has been made, that change has been made pursuant to one of two things: either, you have received an automatic approval from the revenue procedure that came out recently telling you the different things you could get automatic approval for, or you had to file with the IRS to get approval for that funding method change. If you had to file with the IRS in Item k, you need to enter the date of the letter that came back from the IRS approving such change.

Item 6 is the general actuarial assumption summary box that has appeared on prior year Schedule Bs. There are a couple of differences that should be noted. The first we've briefly touched on already, and that has to do with the mortality table code. Now that we have the GAM 83 table as published by the IRS, we have a choice as to what GAM 83 table we could potentially list in those boxes. If you're using GAM 83 for determining your minimum contribution, you're either using the IRS table or you're not using the IRS table. As we talked about when we were on page one, if you're not using the IRS table, then your OBRA 87 and your RPA 94 current liabilities should be different even though they might be calculated at the same interest rate.

The other big change on line 6 occurs with the salary scale.

From the Floor: Could we go back to that GAM 83? I think in the Revenue Ruling 95-28 that they say to use the blended male/female version of GAM 83. Is that correct?

Mr. Jarrett: No. For the salary scale in Item 6g, in prior Schedule Bs, instead of listing an average salary scale, we would enter the ratio of salary at retirement age to salary at different current ages, ages 25, 40, and 55. Now we need to enter the weighted average salary scale covering ages 25–65. Instead of entering a bunch of different numbers, we enter one number this time.

Mr. Parmenter: Like in 1994, I think your withdrawal rates are turnover only. They don't include any retirement decrements under the withdrawal line. For expense loading, I think the instructions are a little bit more explicit. I think they're intended to be similar to the 1994 instructions. If your normal cost is zero, you are supposed to do your expenses preretirement as a percentage of amortization charges. Otherwise, you do the expenses as of percentage of plan costs or liabilities, and we can get some real interesting situations there depending on your funded status. As you know, the cost is zero or your assets are greater than the present value of total plan benefits and so on. You can get some strange looking expense percentages also. Presumably you could add an attachment if you were worried about the IRS checking up on that and asking the questions, or you could just be silent and assume that the IRS recognizes that, in some situations, this can occur and you can get 100% expense loading or more.

Mr. Jarrett: Item 6h, which also appeared on prior Schedules B, asks you for the estimated investment return on the actuarial value of assets. In the instructions, the IRS tells you to use its approach, which I think is generally known as the 2I/(A + B-I) approach. In some cases that will yield a strange result because of something that's gone on in the plan during the year. If you think the result that you enter in Item 6h using the IRS approach really isn't appropriate, then you should make an attachment to put on the back of the Schedule B with the approach that you feel is more appropriate.

Mr. Parmenter: That return can be negative, (2I/A + B-I) can be negative in which case I guess instead of a minus sign they prefer you use a bracket.

Mr. Jarrett: Item 7 is a new item for the 1995 Schedule B. For any new amortization basis you need to include the type of the base. On page three of the instructions, there's a list of nine different types of amortization bases. In column 2 of Item 7, you list the initial balance, and in column 3 you list the actual amortization charge or credit. In this case, if you have charges, they should be listed as positive numbers; credits should be listed with parentheses as negative numbers.

Mr. Parmenter: My understanding is that this question does not replace the requirements under the funding standard account for listing all the bases in the outstanding balance, the amortization credit, charges, and so on. You would still attach that onto Schedule B in spite of the fact that they're asking for the new ones in question seven.

Mr. Jarrett: That's my understanding also.

Item 8 asks for miscellaneous information that has occurred during the plan year. If you've had a waiver or if the waiver for funding deficiency or the extension for an amortization period has been approved, you need to enter the date of the letter that you received from the IRS in Item 8a. Also, Item 8b asks for miscellaneous information on some alternative methods that you could be using to complete the Schedule B. If you go to page three of the instructions, there are five codes for the different methods, and those things include the shortfall method, alternative funding standard account, things like that.

Item 9 looks very similar to last year's. I don't know whether it was Item 9 last year or not. I'm not going to go through it line by line, but I'll highlight some of the changes. The big change that I see is in line 9l. In prior years, we would just enter the actual full funding credit, but now the IRS is not only asking for the full funding credit in 9l(4) and 91 (5), but also the IRS wants to know the individual full funding limits that have been calculated. With the advent of RPA 94, now there are three different full funding limits: the original Employee Retirement Income Security Act of 1974 (ERISA) full funding limit; the full funding limit under OBRA 87, which is basically the 150% of current liability full funding limit; and now the minimum on the full funding limit due to 90% of the RPA 94 current liability.

Is there anything that anyone would like to discuss in greater detail on Item 9?

From the Floor: In the instructions they said that some of the stuff was reserved. Has there been something particular that has come out that addresses how to fill out the ones that they have said were reserved?

Mr. Jarrett: I don't believe so. During the EA meeting this year, the IRS released some guidance on some things that would impact the Schedule B. I'm not sure that the guidance that it released dealt with any of those issues. Does anyone know if the IRS has released information on the reserved items?

From the Floor: I don't think so, David. The IRS hasn't issued anything to my knowledge to be more explicit. It certainly hasn't happened in writing, maybe verbally. I guess we use our best judgment and do our best job.

Mr. Jarrett: Item 10 on page two is also an item that appeared last year. I don't think it was in Item 10 last year though. If you have an accumulated funding deficiency, you need to enter the amount to satisfy that accumulated funding deficiency. In most cases that's going to be the amount in Item 9p.

Mr. Parmenter: It was 8e in 1994.

Mr. Jarrett: Item 10 is the same as Item 8e from 1994. Item 11 is a new item for 1995. If you've made a change to your actuarial assumptions, you need to indicate that on the Schedule B and again create an attachment. It seems that you have to create an attachment for every other question here. You need to create an attachment indicating what the change in the assumptions was and the justification for such change. If you have an underfunded large plan, you may also have to go to the IRS and get approval for that change before you make it. I think the real limits on whether you need to actually go to the IRS or not is if you have unfunded vested benefits of over $50 million by looking at all plans in the control group with unfunded vested benefits. You get out of going to the IRS if the change in liability due to the change in actuarial assumptions was less than $5 million. We're talking about very large plans here.

From the Floor: Can you talk a little bit about the word justification?

Mr. Parmenter: I was going to ask a similar question because quite honestly we use a generic statement on our Schedule Bs that the assumptions have been changed to better reflect the expected experience of the plan. It's just that generic. We do have an attachment with two years' assumption, last year and this year's. An astute IRS auditor can compare the two columns and decide which assumptions have changed. We always include that generic statement, and we've never been called on it. Do others get real specific?

From the Floor: This shouldn't be a surprise. That has been around since 1976. This is one of the few attachments that has been around that long. As a matter of fact, it may be the only attachment, beyond the assumptions and the plan provisions, so we shouldn't be surprised by this request.

Mr. Parmenter: I'm not surprised, I'm just wondering how specific we need to be.

Ms. Amy C. Viener: I talked to someone at the IRS about this. They're perfectly happy with that explanation. They strongly suggested you not say we did it to lower the minimum required contributions.

From the Floor: While on the subject of interest rates, this is one of these questions that we ask every year. Is there any rule of thumb in terms of choosing these rates? We talked a lot in the additional funding sessions about choosing the rates to accomplish certain things and maybe doing that in a way that would normally not be logical just to accomplish an objective. Is there any reason why we can't choose anything in the range and go to the top one year, the bottom the next year? In which case, what is your justification? I guess you'd have to use that generic statement because there isn't really anything else to say that would justify it, I would think.

Mr. Jarrett: Right. I don't see a problem with choosing any rate in the range.

From the Floor: I would agree. I don't see a problem with choosing any rate in the range. The question has been raised as to how narrowly you want to interpret justifying a change in assumptions. Let's assume that you went from the bottom of the current liability range to the top of the range. Is that a change in assumptions from one year to the next that you have to justify?

From the Floor: Is there any change? We been told for years that any interest rate within that current liability range is deemed to satisfy the statutory requirement because, I guess, theoretically there is one current liability interest rate and then they tell us anything within the range is fine. Personally, I would not justify the fact that I change from top of the range to bottom of the range. I just don't think that's a change in assumption.

From the Floor: In Item 9l, is it clear that if the RPA 94 override full funding limit comes into play that generates a full funding credit amortization base for the following years?

Mr. Jarrett: That's a good question. If the RPA 94 full funding limit override comes into play, does that generate an amortization base in the following year just like the regular 150% of current liability interest rate would? Does anyone have comments on that?

From the Floor: The RPA full funding limit would generally not lower your full funding limit; it would raise it. So what they're saying is that you only wipe out amortization balances if you actually show a full funding credit on the Schedule B. I think that question came up at the EA meeting, if I'm not mistaken, and the answer was that, if your old full funding limit would have given you a credit but because of the RPA, you don't get a credit. You don't have a credit showing on the Schedule B, therefore, you do not wipe out bases.

Mr. Jarrett: Then you wouldn't set up a base.

From the Floor: I'm talking about where the RPA overrode the ERISA. Generally, the RPA is not likely to override the 150%, because 90% versus 150%, even with the difference in mortality table and everything else, that would be an extreme case. The RPA limit is really there to override the ERISA limit, and that would generally wipe out all the bases. What they're saying is that you don't wipe out the bases unless you actually have a full funding credit created by the end result of the greater of the ERISA or the RPA 94 limits.

Mr. Jarrett: The short of it is that the RPA 94 minimum really doesn't have any effect on the rules that we use prior to the RPA.

From the Floor: On line 9 for a multiemployer plan, the values that you put on page three of Schedule B are for all employers combined, I think.

Mr. Jarrett: Right.

From the Floor: Is it also a requirement that you do a separate line 9 in an attachment for each employer?

Mr. Jarrett: Yes, it is a requirement. Then certain items from that attachment would get added together and appear on line 9. One thing that would be different from a standard plan is that you could show a credit balance and an accumulated funding deficiency all at the same time.

If you're fortunate, you get to skip Part II. If you're unfortunate, you have to go through it. Actually, even if you do have to go through Part II, depending upon your answer to line 12a, you could still be fortunate and get to skip most of Part II. Line 12a asks for the gateway funded percentage, which is basically your actuarial value of assets, unreduced by the credit balance, divided by the gateway current liability, which appears on page one of the Schedule B. You want to enter that percentage in line 12a. If it's over 90%, you go down to the end of line 12 and just write in a zero because you don't have an additional funding charge. At that point I think you're done with the Schedule B. If you're between 80% and 90%, you need to check some special conditions that may allow you to escape having to calculate an additional funding charge. If you're under 80% in Item 12a, then you're going to have to go through with the rest of Item 12 and probably Items 13, 14, and 15 also. For the conditions that appear here, you need to go to the instructions if you're between 80% and 90% funding. In the instructions, there are four different conditions that you check to see if they've been satisfied during any two of the 1992, 1993, and 1994 plan years. Eventually we'll get to the point where you have to look at any two consecutive years, but at least for the 1995 Schedule B you can look at any two years in 1992, 1993, and 1994. The conditions are things like the full-funding limitation was equal to zero, the plan had no additional funding charge, things like that.

If you meet the condition codes for any two years, again you go down to the bottom of Item 12 and put in a zero and you're done. If you don't meet the conditions, then you go on to Item 12b. Most of Item 12 has been laid out in a relatively straightforward manner so that you're picking up information from other parts of the Schedule B, primarily liability and asset numbers from the first page, and you just run them through formulas that either appear on the form itself or in the instructions. Even though the concepts might be unfamiliar, it's laid out reasonably well so that you can just plug numbers in and turn the crank in most cases.

In Item 12b you want to enter the RPA 94 current liability, and again that can be at any interest rate within the range of 95–109%. It doesn't have to be at the same rate as the gateway current liability. You want to enter the actuarial value of assets in Item 12c. The actuarial value of assets that you enter needs to be reduced by the credit balance, but not increased by any funding deficiency. Just reduce it for the credit balance.

Item 12d you get to again calculate a funded current liability percentage—this time using the results that you've put into Items 12b and c. In Item 12e to calculate the unfunded current liability is simply subtracting line 12c from line 12b. As I said, it's relatively straightforward, just follow the instructions.

In Item 12f we want to indicate the liability for any unpredictable contingent event benefits that we've included in the RPA 94 current liability. That's going to be the liability for these events whether they've occurred or not, but if it's included in the current liability, you want to indicate the amount of it on line 12f.

Up to this point, some of these calculations have been identical to last year's Schedule B. When we get to Item 12g, that's where we run into some of the first changes. Item 12g(1) asks us for the outstanding balance of the unfunded old liability, and that's just a simple roll forward that we've been doing from prior years. You take the prior year's outstanding balance of the unfunded old liability, subtract off the unfunded old liability amount and roll it forward with interest at the prior year's current liability interest rate. It's relatively straightforward. When you get to Item 12g(2) though, you're at the first point where you need to make a decision about how you're going to handle certain things.

You have two options. As part of the transition in going to RPA 94, the code gives us two options as to how we can calculate an additional unfunded old liability. One thing we can do is we can treat all of the unfunded current liability, except for the amount due to unpredictable contingent event benefits, as unfunded old liability. I think the formula for that is given in the instructions for 12g(2). You simply take the unfunded current liability, subtract out the liability for unpredictable contingent event benefits, and subtract out the outstanding balance of the unfunded old liability to get the additional unfunded old liability.

Alternatively, you can go through a special calculation to come up with an additional unfunded old liability. That calculation is outlined in Item 15, so at this point you would skip to Item 15. I won't do that right now. We'll hit that when we get to that point on the form, but basically what Item 15 allows you to do is look at the current liability assumptions you used back in 1993, and you calculate a current liability related to those assumptions and compare that to the current liability you have to use because of the new RPA 94 mandated assumptions. You get to call the difference the additional unfunded old liability. You get to amortize that out over a 12-year period, which is a much longer period than you might normally get if you had to call it unfunded new liability.

Item 12h is a simple subtraction to get the unfunded new liability. That's going to be your unfunded current liability minus what's now your total unfunded old liability and minus your unpredictable contingent event liability. These are similar calculations to last year.

In Item 12i you need to calculate an unfunded new liability amount. You use a similar formula to what was used last year except it's a little stricter; it produces a higher contribution. If you're under 60% funded on a current liability basis, you're going to have to amortize a full 30% of the new liability during the plan year. If you're above 60%, that amount is going to grade down. I think that last year, if you were under 35%, you had to recognize a full 30%. There's a significant difference in the amount of the unfunded new liability amount.

Item 12j asks for the unfunded old liability amount. As I mentioned earlier, for the 1995 plan year, the unfunded old liability amount is simply a 12-year amortization of the unfunded old liability, and we would include both the original outstanding balance of the unfunded old liability and the additional unfunded old liability. You amortize that at the RPA 94 interest rate over a 12-year period.

Item 12k is a simple addition. You take your unfunded old liability amount, your unfunded new liability amount and your current liability normal cost that appears in Item 1d(2)(b).

That sum gives you your deficit reduction contribution, which is the amount of contribution that you would need to make before you take into account the offset of charges and credits to the funding standard account and any transitional or optional rule changes that might impact the calculations.

Item 12l asks for the net charges in the funding standard account. What you include for the offset for net charges and credits here for the 1995 Schedule B is something different than you would have included in last year's Schedule B. In last year's Schedule B, the charges and credits that you would include were amortization amounts for certain bases, things like the original unfunded liability or plan changes. You didn't include assumption changes, you didn't include funding method changes, things like that. In 1995, the charges and credits that you recognize are going to be your normal cost and all of your amortization basis regardless of whether they're related to plan changes or assumption changes or whatever.

From the Floor: So all that comes off line 9, your funding standard account. That will be total charges, total credits, and normal cost.

Mr. Jarrett: Right, and if you go to the instructions they will say exactly what items from line 9 to pull.

Item 12m deals with unpredictable contingent event benefits. During the formal presentation, we're not going to say anything additional about that. If there are issues that you'd like to discuss afterwards, how about coming forward. It's not a real common occurrence for a lot of plan sponsors, so we'd rather deal with it on an individual basis.

We're now at the point where we're going to calculate the preliminary additional funding charge, which is going to be shown in Item 12n. Assuming you don't have any unpredictable contingent event stuff going on, it's simply the deficit reduction contribution that you calculated in 12k reduced by the amount in 12l, your charges and credits through the funding standard account. Up to this point everything you've calculated has been as of the valuation date. Here you're going to take that amount and adjust it to the end of the year, using the RPA 94 current liability interest rate.

Item 12o asks for the contributions needed to increase the current liability percentage to 100%. It tells you to see the instructions. When you go to the instructions, they don't say anything. The IRS has left it up to our own discretion. My opinion on that would be that we would want to roll the current liability forward to the end of the year, roll assets forward to the end of the year, take the difference between the two. When we would roll them forward, we'd want to take into account normal cost, benefit payments, and net interest on those amounts.

From the Floor: Do you have an expense load on it?

Mr. Jarrett: I recall in one of the EA meeting gray books where the IRS suggested that, if you use an expense load and you're funding normal cost, you'd also want to use an expense load on the current liability normal cost. So, based upon that, I would say—yes, you'd want to take into account expenses, if that's part of your normal actuarial assumptions. There could be alternative opinions on that though.

Item 12p tells you to calculate your preliminary additional funding charge. You want to enter the lesser of lines 12n and 12o in line 12p. If you haven't elected the optional rule, and you haven't elected any of the transition rules, you're basically done with your calculation. You've put your additional funding charge in Item 12p, you go on from there.

Items 12q, 12r, and 12s are all items that require you to make a choice. You're going to complete one of them, but not all three. The choices that you run into all depend on whether you've elected the optional rule, elected a transition rule, or elected both of them. Either you have elected the optional rule and haven't elected a transition rule or elected the transition rule without the optional rule, or you've elected both. You answer one of these questions depending upon which rule you selected and if you just look on the Schedule B itself, it's straightforward. They tell you which lines to go to pick up results and you enter the lesser of some numbers, the greater of some other numbers. Again, as with most of this item, it's just plug numbers in and turn the crank.

From the Floor: If you're 80% and 90% funded and you met the volatility rule, and therefore you entered zero on 12u, on Form 5500, you may make an election for the optional rule. Is it true that you wait until 1996 to confirm that election on the Schedule B? It seems like if you read the instructions, you're supposed to fill out line 13 and I don't think that's true. I think when you're done, when you finish 12u like David said, once that's zero, you don't have to do anything further, but it doesn't seem like there's any confirmation on the Schedule B that you've made that optional rule election, that you made on the 5500.

Mr. Jarrett: If you've made that optional rule election, then as a minimum you have to recognize the old law, OBRA 87 additional funding charge.

From the Floor: Well, you're exempted from funding in 1995 and I talked to Paulette Tino about this and she said—yes, it seems like you don't have to—the odd number is 13 as you stated earlier.

Mr. Jarrett: I would agree, that's right. You're exempt because you've met the conditions for being between 80–90% funded.

Item 13 is basically the same as the additional funding charge calculations from the 1994 Schedule B. You need to complete Item 13 if you've elected either the optional rule or transitional rule.

Item 14 deals with the transitional rule. The transitional rule allows you to limit the amount of additional funding charge that you calculate according to the schedule that is contained in Section 412(l). What you do is you take your initial funded current liability percentage which is calculated on line 12d. You come up with an applicable percentage for the transitional rule and those percentages are outlined in Section 412(l), but they're also outlined in the instructions. Basically that applicable percentage in Item 14b is going to be 3% if your funded current liability percentage is 75% or lower, and it will grade down to 2% as you run up to a funded current liability percentage of 85%. What you do then is you add lines 14a and 14b together to get a target percentage. That target percentage is the target that you want to hit as of the end of the year. You want your assets to equal that percentage of your current liability. Again, in order to calculate the amount of contribution necessary to hit that target, and that calculation is done in Item 14B, you need to go through the instructions and the instructions are silent again.

From the Floor: The IRS has issued guidance on this calculation.

Mr. Jarrett: Guidance on how to calculate both Items 12o and 14d appeared in Revenue Ruling 96-21, which I think was released during the EA meeting, so it was released in March 1996.

From the Floor: Basically the calculated target percentage is less than 100%. We can ease into the additional funded status, if you desire, which is ultimately 100%.

Mr. Jarrett: That's correct.

From the Floor: Then we recalculate the 1996 Schedule B or have a little bit higher target percentage?

Mr. Jarrett: That's correct. Finally, in Item 14e, you want to enter the old law, OBRA 87 additional funding charge that you calculated up in Item 13. Even though you use this transition rule, you're limited so that your additional funding charge can't be less than the old law additional funding charge. Then in Item 14f you're going to take the greater of 14d or 14e. You just make sure that, after this transition rule, that you don't go below the amount from the old law additional funding charge.

Item 15 deals with the transition rule, and if you recall from my comments earlier, the transition rule deals with allowing you to create an additional unfunded old liability solely because RPA 94 mandated certain changes to your current liability assumptions, and those changes are the lowered interest rate corridor and the required use of the GAM 83 IRS version mortality.

The additional unfunded old liability can be calculated by making reference to the assumptions that were used to calculate your 1993 current liability. What you do here in the first four items for 15a–d, is to list the interest rates that have been used for your 1993 current liability calculations, the midpoint for the 1993 valuation date, the midpoint for the current year, things like that.

Item 15d is actually a calculation. You come up with a rate as of your 1995 valuation date that corresponds to the rate you used in the 1993 valuation date. Basically, it's the same point from the midpoint that you were in 1993.

Item 12e then requires you to input the current liability calculated at the prior interest rate in Item 15d and using the mortality assumptions that you used for the 1993 plan year. From that you simply come up with an additional unfunded old liability by taking the difference between 15e and item 12b, which is the RPA 94 current liability. That item goes back into Item 12g(2).

Mr. Parmenter: It strikes me that these changes from the GATT legislation have put a lot of requirements on the actuarial profession particularly with respect to takeover plans, because it seems now we're going to have to specify a lot of things. Actuaries are going to have to be ready for questions, because you take over a plan that uses transition or the optional rule, and you're going to have to know some values and so on, and if they aren't immediately available, we're going to have to spend the time finding out those things in order to carry out the plan.

Mr. Jarrett: That's right.

From the Floor: Could you comment on the coordination of the elections between the transitional rule and the optional rule between the 5500 and the Schedule B? How are you making election on the 5500 and what happens if you don't fill out your Schedule B in coordination with that election?

Mr. Jarrett: I'm not extremely familiar with the 5500. I know that you elect the optional rule on the 5500, as well as the transition rule. The optional rule is a one-time election, so it could very well be that your Schedule B may not look like it is coordinated with that election because you make that election and you may not have to calculate an additional funding charge this year.

From the Floor: As I understand it, the 5500 is controlling on that election, so whatever you put on your 5500, your Schedule B has to coordinate with that 5500 election you've made. To the extent it doesn't, I think you have to redo your Schedule B to comply with what's on the 5500. You want to make sure that if somebody else is doing the 5500, they fill it out in coordination with the way you want it filled out in the Schedule B.

Mr. Jarrett: Again that's another thing like the assets we discussed earlier. If you're not doing the 5500, it would be a good idea to get a copy of it beforehand just to make sure it jives with the Schedule B.

From the Floor: There's a point that you mentioned earlier about the different current liabilities and whether or not you're using any GAM 83 or the IRS version of GAM 83. You may in effect convict yourself by having two numbers that are the same that really ought to be different. Has anybody done any looking at that in terms of significance? I mean, what's the difference in the current liability using that GAM 83 and IRS versions of the GAM 83?

From the Floor: There is a slight difference, but the difference is because the draft of the GAM 83 had a mistake in it which was corrected in the final GAM 83. The IRS made use of the final GAM 83, so theoretically there is no difference between the final GAM 83 and the IRS GAM 83.

Mr. Jarrett: My understanding is that where the mortality rates were different, they were different quite a bit out in the decimal place.

From the Floor: If you look at the instructions, it says you use the code for GAM 83 if you're using, for example, only GAM 83 male or only female or you're using male set back a certain number of years. In other words, they're saying the IRS GAM 83 is strictly GAM 83 males, GAM 83 females. Any other variation of GAM 83, you should check off the other GAM 83. I also called the IRS and asked them—why bother? Apparently they're doing it for some statistical reasons. They want to find out how many people are using their version GAM 83 for the basic valuation mortality.