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# PENSION SECTION NEWS

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## Chairperson's Corner What to do When They Move the Goalposts?

by Paul Angelo

This is my first column as your Pension Section Council (PSC) Chair and the timing is somewhat fortuitous. As I begin my third year on the PSC, I am convinced it takes that long for a relative outsider to the SOA structure to figure out how the SOA practice areas and the SOA special interest sections work together. As it happens, the due date for this column followed soon after two events that helped clarify this working relationship.

The first event was the semi-annual meeting of the Council of Section Chairpersons where I got to meet the chairs of the 15 or so sections that comprise the SOA's special interest section structure. The main agenda item was a very informative report and

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## Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts

by Heidi Rackley and Scott Tucker

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### IRC Qualified Retirement Plan Limits

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) changed many pension plan dollar limitations for 2002, added others, and changed the future indexing rules for some limits. EGTRRA contains a sunset provision—the new **EGTRRA limits will not apply after 2010**. The table below on page four the new 2002 limits established by EGTRRA (published in [IRS News Release 2001-115](#); republished in [IRS Notice 2001-84](#)), as well as the rounded and unrounded 2002 pre-EGTRRA limits for purposes of tracking the effect of the EGTRRA sunset. The 2002 pre-EGTRRA limits reflect a 2.7% increase in third quarter CPI-U from 2000 to 2001 and are rounded down to multiples of \$50, 500, \$5,000, or \$10,000. Limits that were not affected by EGTRRA are shown in italics.

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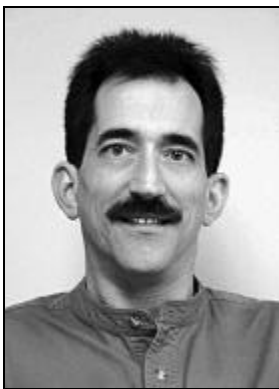
## Chairperson's Column

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discussion on this whole "practice area/section" business. One point this brought home is that we pension types are in a special position within the SOA in that we have both an SOA practice area and a special interest section devoted to what we do.

The second event—and the main point of this column—is a recent example of how the SOA Retirement Practice Area and the Pension Section Council can work together to address issues of immediate concern to pension actuaries. As all U.S. pension practitioners know, 30-year treasuries are going away. This will leave a bit of a regulatory gap, to say the least. As you may know, even before the U.S. Treasury officially announced it would no longer issue 30-year treasuries, the withdrawal of these securities from financial markets was already having an impact on this key regulatory benchmark.

Almost two years ago, PSC member Tom Lowman began suggesting that the PSC work to underwrite efforts in order to address this issue. To that end, in January 2000 an ad-hoc group was



*Paul Angelo*

formed to look at the need to sponsor research on the issue of whether—even at that time—30-year Treasuries were appropriate for various pension purposes. In June 2000, the Pension Section and the SOA Committee on Retirement Systems Research issued a jointly funded RFP for research papers on this issue.

Specifically, papers were solicited to identify one or more replacement indices for calculating Current Liability, PBGC variable premiums and lump sums, and they were designed to approximate the interest assumption underlying annuity rates in a group "close out" quotation for a terminating pension plan. We received two proposals and, because of the importance of this issue, we elected to fund both proposals.

Both researchers are highly qualified and bring their own distinct perspectives to their research. One researcher is Victor Modugno. Mr. Modugno is an actuary with a long career in pricing pension products for insurance companies. The other researcher is the firm Ryan Labs, Inc., which does investment research including the creation of investment indices. We are pleased to announce that both papers are complete and are now posted on the SOA Web site.

As noted above, the motivation for the RFP was concern over the use of a rate tied to 30-year US Treasury securities for calculating current liability, PBGC variable premiums, and other statutory purposes. Between the time that the research was completed and the time it was published, the Treasury announced that it would no longer be issuing 30-year Treasury securities. While the researchers did not know this when they did their work, this announcement makes their studies all the more significant.

Both researchers were free to present their own approaches to the issue. Not surprisingly, each came up with different recommendations. Please note that since

**\*\* New and Improved \*\***  
**\*\* SOA Pension Home Page \*\***

The Pension Home page on the SOA Web site has been redesigned. It houses links to wide variety of information and resources specially selected for actuaries working with retirement benefit systems. Check out the new page at [www.soa.org/sections/pension.html](http://www.soa.org/sections/pension.html) or click on the *pension/specialinterests* link on the SOA home page and them click on pension.

the SOA's role includes the sponsoring of research but not the recommendation of policy, the recommendations contained in these two studies are solely those of the authors and not the position of the SOA.

Beyond the actual recommendations, the studies offer a significant amount of background information and discussion on what should be considered when adopting such an interest basis. I think you will find these papers informative and even provocative. We would like to thank both Victor Modugno and Ryan Labs, Inc. for their work.

These 30-year Treasury reports are out on the SOA Web site in a single document including a cover memo and the two reports. If you go to the SOA Web site ([www.soa.org](http://www.soa.org)), there is a news flash on the "pension" page. If you want to get to the reports directly, the URL is [www.soa.org/sections/dbpp.pdf](http://www.soa.org/sections/dbpp.pdf).

Of course, this will not be the last word on this "hot" topic. It does serve as a working example of how the resources of the SOA, including your Pension Section, can help to generate new research on timely issues for the pension community.

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### **\*\* Possible 30-Year Treasury Alternatives**

The SOA's new research on the use of 30-Year Treasury rates in U.S. pension legislation and possible replacement rates is available in the research section of the SOA's Pension Home Page at [www.soa.org/sections/pension.html](http://www.soa.org/sections/pension.html).