Communication Challenges for Client-Facing Actuaries

Topics

• ASOP 41
• Plan design issues
  – DB responsibilities
  – Existing plans
• Contribution expectations
  – Minimum required
  – Maximum deductible
• PBGC coverage
• Changes in tax law and regulations
• Overfunded plan close to termination
ASOP 41

- Required for all actuarial communications
  - A written, electronic, or oral communication issued by an actuary with respect to actuarial services
- Includes control of work product
- Number of disclosures required
  - Intended users
  - Scope of engagement
  - Acknowledgement of qualification
  - Cautions of risk, limitations, conflict of interest and where actuary relied on other information

Communication Techniques

- Disclose as much information as possible in
  - Proposals
  - Valuation reports
  - Service agreements
- For unpleasant news, write down main points to discuss, take notes, then follow up with email or letter
  - Large increase in minimum
  - Overfunded plan close to termination
  - Inability to pay lump sum due to late AFTAP
  - Restricted lump sum
Plan Design Issues

• Defined benefit responsibilities
  – Required funding
  – Permanency
  – Participation requirements
  – Pooled assets
  – Conservative investments required for low contribution volatility

Plan Design Issues

• Existing plans
  – SEP
    • Can SEP contributions for current year be returned?
    • What if there are employees involved?
  – SIMPLE
  – Existing 401(k) plan
    • Safe harbor?
    • Hours requirement/last day/profit sharing allocation
    • Allocation groups
Contribution Expectations

• Minimum Required Contribution
  – Relatively level, assuming all stays the same
  – Discuss the impact of anticipated changes
    • Volatile company income
    • New Employees
    • Plan amendments
    • Partners terminating
  – Carryover balances
  – Excise tax for missed MRC

• Maximum Deductible Contribution
  – Issues with self employment income limit
  – Issues with overfunded plan
    • Terminating overfunded
    • Partners terminating
    • New Employees
    • Plan amendments
    • Partners terminating
PBGC Coverage

• Why coverage is necessary?
  – State Issues (Community Property States)
  – Family Attribution
• What does my premium cover?
• What is a variable rate premium?
• Reporting requirements

Changes in tax law and regulations

• Contribution limits are easy
• What about everything else?
• Does the client care?
• Should the client care?
• The more exposure the client has, maybe the more appreciation they have for you
Termination of Overfunded Plan

• 415 Limits-Determination of Lump Sum Limit
• Change in 417(e) rates
• Overzealous investment policy