
SOCIETY OF ACTUARIES
Design & Accounting Exam – U.S.

Exam RETDAU

AFTERNOON SESSION

Date: Thursday, October 29, 2015

Time: 1:30 p.m. – 3:45 p.m.

INSTRUCTIONS TO CANDIDATES

General Instructions

1. This afternoon session consists of 6 questions numbered 8 through 13 for a total of 40 points. The points for each question are indicated at the beginning of the question. There are no questions in the Afternoon Session that pertain to the Case Study.
2. Failure to stop writing after time is called will result in the disqualification of your answers or further disciplinary action.
3. While every attempt is made to avoid defective questions, sometimes they do occur. If you believe a question is defective, the supervisor or proctor cannot give you any guidance beyond the instructions on the exam booklet.

Written-Answer Instructions

1. Write your candidate number at the top of each sheet. Your name must not appear.
2. Write on only one side of a sheet. Start each question on a fresh sheet. On each sheet, write the number of the question that you are answering. Do not answer more than one question on a single sheet.
3. The answer should be confined to the question as set.
4. When you are asked to calculate, show all your work including any applicable formulas.
5. When you finish, insert all your written-answer sheets into the Essay Answer Envelope. Be sure to hand in all your answer sheets because they cannot be accepted later. Seal the envelope and write your candidate number in the space provided on the outside of the envelope. Check the appropriate box to indicate morning or afternoon session for Exam RETDAU.
6. Be sure your written-answer envelope is signed because if it is not, your examination will not be graded.

****BEGINNING OF EXAMINATION****

Afternoon Session
Beginning with Question 8

8. (4 points)

- (a) (1 point) Describe four potential reasons that plan sponsors request projection valuations.
- (b) (3 points) Describe how the demographic assumptions may be different between a projection valuation and an accounting valuation.

9. (8 points)

- (a) (4 points) Describe the advantages and disadvantages of two methods of providing a cost of living adjustment (COLA) in a defined benefit pension plan from the perspectives of both the plan sponsor and the plan participants.

XYZ Company provided an ad hoc COLA to retirees in its defined benefit pension plan on January 1, 2014 and January 1, 2015. Management is considering providing a COLA on January 1, 2016.

- (b) (4 points) Describe the potential accounting treatment for the COLA under U.S. accounting standard ASC 715.

10. (6 points) Compare and contrast public sector pension plans and private sector pension plans taking into consideration:

- plan design;
- accounting and funding; and
- plan governance.

- 11.** (8 points) The following certification for an accounting valuation was drafted by an actuary who recently left your company:

“I have prepared an accounting valuation of the XYZ Pension Plan (Plan) as of January 1, 2015 for the plan year ending December 31, 2014.

Except where specifically stated in this report, all costs, liabilities and other factors under the Plan were determined generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations, and the provisions of applicable financial accounting standards. In my opinion, except where specifically stated in this report, each assumption is reasonable, taking into account the experience of the Plan and reasonable expectations, and which, in combination, represent my best estimate of the anticipated experience under the Plan.

I am a Fellow of the Society of Actuaries. I am qualified to issue this Statement of Actuarial Opinion and am identified as the responsible actuary for this report. I am not aware of any conflicts of interest which would impact the objectiveness of my work.”

- (a) (4 points) You have been asked to sign the certification.

Critique the certification taking into consideration applicable professional standards.

- (b) (4 points) Assume you have addressed any issues identified in part (a) and have signed the certification. You subsequently find an error in the accounting valuation after the report has been released to the client.

Describe the potential actions you should take in accordance with applicable professional standards.

12. (10 points) An employer offers a post-retirement health benefit plan that includes medical, dental and vision coverage for Medicare-eligible retirees. In addition, the plan provides prescription drug benefit coverage and the employer receives a federal Retiree Drug Subsidy (RDS).

(a) (3 points) Describe the advantages and disadvantages of a private exchange for Medicare-eligible retirees from the perspectives of:

- the employer's post-retirement health benefit plan; and
- Medicare-eligible retirees.

(b) (3 points) Describe a Medicare Part D Employer Group Waiver Plan (EGWP) plus Wrap as a replacement strategy for the RDS.

(c) (4 points) The employer offers a high-deductible health plan with a Health Savings Account (HSA).

Describe the advantages and disadvantages of using HSAs for funding health expenses in retirement.

- 13.** (4 points) XYZ Company sponsors a 401(k) plan with participant-directed investments. The plan allows loans for home purchases. The amount borrowed must be repaid monthly at 4% annual interest over no more than 15 years. The borrowed amount is taken pro-rata from each fund in which the participant's account is invested.

A participant has an account balance of \$100,000 invested in 60% equities and 40% fixed income, and needs \$20,000 for a home purchase. He is considering taking a loan from the 401(k) plan or borrowing money from a commercial bank at 6% annual interest to be repaid monthly over 30 years.

- (a) (2 points) Compare and contrast both options from the perspective of the plan participant.
- (b) (2 points) The plan participant takes the loan from his 401(k) plan, but is concerned about reduced future investment returns on the borrowed amount.

Recommend actions the participant may take within his 401(k) plan to mitigate these concerns.

****END OF EXAMINATION****
Afternoon Session

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