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In This Issue

Asset Valuation Method Selection for 2010

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Issue: # 2

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Asset Valuation Method Selection for 2010

As you review your defined benefit plan funded status for 2010 and the implications of such on funding requirements and benefit restrictions, consideration should be given to either remaining with the 2009 valuation method or switching to another approved method. Under current pension law, there are rules and limitations on a plan sponsor's ability to change funding methods, which includes the asset valuation method. In general, a request must be made to the IRS to effectuate a change. However, final regulations released by the IRS in October of 2009 allow a plan sponsor automatic approval to change the asset valuation method during 2010. Therefore, it is very important to review your options with regard to asset valuation method for 2010, given this free pass from the IRS and the possibility that the method used for 2010 will not be able to be changed without IRS approval going forward.

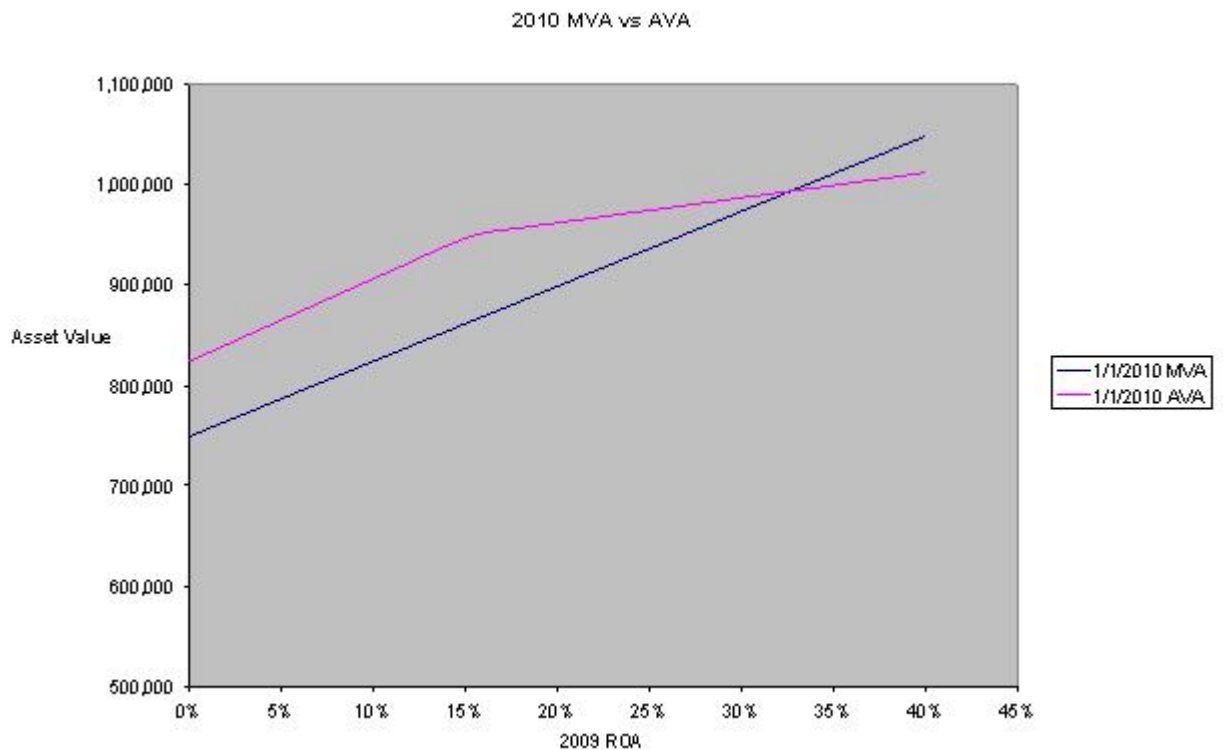
There are two asset valuation methods currently allowed under IRS rules; the smoothed asset method and the market value method. In reviewing your options, you should consider the pros and cons with regard to these valuation methods.

Asset Method	Smoothed Asset Method	Market Value
Description:	Actuarial value of assets based on the average of the adjusted fair market values, where <ul style="list-style-type: none"> assets are averaged over a period not more than 25 months, and actuarial value is limited to an amount between 90 and 110 percent of the fair market value of plan assets. expected rate of return on plan assets for any period is limited to the 3rd segment rate for the period 	Actuarial value of assets is based on the market value of assets at the valuation date.
Advantage:	Allows for market fluctuations during the applicable period to be smoothed out, producing minimum funding requirements which are more consistent from year to year, compared to the use of the market value of assets.	Market increases are immediately recognized in the actuarial value of assets. Significant increase in the market value of assets could result in a significant decrease in the minimum required contribution from year to year. The asset value under this method is easier to determine and understand.

		This is the value of assets used for determination of the Plan's funding shortfall when calculating the Plan's PBGC premiums.
Disadvantage:	Market increases during the applicable period will be averaged and therefore will not be recognized immediately for purposes of determining the actuarial value of assets used in the determination of the minimum required contribution. If the plan sponsor is considering a plan termination, determining funding requirements based on a smoothed value versus a market value is likely to result in a shortfall or surplus of assets upon plan termination.	Market decreases are immediately recognized in the actuarial value of assets. A significant decrease in the market value of assets could result in a considerable increase in the minimum required contribution for the following plan year. Annual funding requirements are more volatile.

Many plan sponsors adopted a smoothed asset valuation method for determining funding requirements and benefit restrictions for 2009. Adoption of the smoothed method deferred recognition of the significant loss on the market value of assets experienced during 2008. Likewise, *the continued use of the smoothed method for 2010 will defer any gains or losses on the market value of assets during 2009.*

Consider an example of a hypothetical plan that experienced a 30% loss on market value of assets during 2008 and adopted a smoothed value for the 2009 valuation. The market value and smoothed value for 2010 are shown below for this hypothetical plan considering various rates of return during 2009.



As illustrated above, the smoothed value of assets (AVA) shown above will be greater than the

market value if the 2009 return on assets is less than approximately 33%. In fact, for returns less than about 16%, the AVA would be equal to 110% of the market value of assets, which is the limit discussed earlier. For returns above approximately 16%, the AVA is not limited by the 110% limitation and thus, the disparity in asset values is diminished until the 2009 return is above 33%, where the market value of assets becomes greater than the AVA. This is because the gain on the market value for 2009 that is being deferred is greater than the remaining loss from 2008 that has not yet been fully recognized.

As your decision in 2010 is expected to remain in place well into the future, you must weigh the current year's decision with the effects of this on future years' valuation results and your plan funding objectives. Please consult with your Harbridge advisor for assistance in reviewing your options regarding plan asset valuation method for 2010.

If you have any questions concerning this pension alert and how they may affect your program, please contact your Harbridge consultant.

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