

# The DATAIR News

NEWS FOR THE DATAIR PENSION AND BENEFITS PROFESSIONAL SUMMER 2006

## From the Top

By Aaron Venouziou, President

### Fed Economists hold Actuarial Profession Hostage!

I just returned from a most informative and thought provoking conference sponsored by the College of Pension Actuaries ("COPA"). The primary focus of the conference was the new provisions of the Pension Protection Act of 2006 ("PPA"). By the way, COPA is an outstanding organization that I strongly endorse. All pension actuaries should consider membership ([www.collegeofpensionactuaries.org](http://www.collegeofpensionactuaries.org)).

PPA contains the most comprehensive and monumental changes in pension funding since ERISA. We are all accustomed to the periodic "tinkering" of our lawmakers but this exceeds the outer limits. It is too complex to address at this time, but I can tell you the minimum funding standard account is gone, making funding methods moot. If you contribute between the minimum and maximum deduction calculated using the funding method and interest rates dictated by the Feds, you are OK. The only good news is that most changes are not effective until 2008 (and it may take that long to understand the multiple layers of funding complexity).

**DATAIR has already updated** the Defined Benefit system for changes effective in 2006:

- New 415(b) (3) maximum limitation.
- Calculation of new maximum deduction limitation (150% of current liability less assets).
- Replacing 417(e) rate with the composite corporate bond rate ("CCBR"), as applicable.
- PBGC variable rate premium calculation (85% of CCBR).

**Caution:** Because of changes effective for 2006, all preliminary and 2006 valuations need to be redone. Also, plans subject to the PBGC variable rate should recalculate the variable rate and apply for a credit or refund on the PBGC website.

The Act exceeds 900 pages, but here are some highlights:

- New DB/401(k) combined plan beginning 2010.
- Age discrimination clarified for Cash Balance plans.
- Permanency of EGTRRA changes, including catch up provisions and higher contribution and benefit limitations.
- New investment diversification rules regarding a plan investing in Employer securities (the Enron Syndrome).
- Expansion of Investment Advice and PT Exemptions.
- Expanded Pension Portability rules.
- New Automatic Enrollment incentives for 401(k) Plans.
- Expanded Reporting and Disclosure requirements.

Am I ranting? The 2007 variable rate for small PBGC covered plans is  $5N^2$ , where N = the number of participants. Yes, really! I don't speak Federalese (though my Greek is pretty good) but all pension actuaries will have to learn this new language. We may never sound the same!

## DATAIR Profile



*Gretchen with her favorite cheerleader, daughter, Lauren.*

**M**et Gretchen Osborne, who celebrated her fourth anniversary as a DATAIR employee last month. Gretchen is a member of our Document Team and helps design, draft, interpret, review and test various documents.

Like many benefit professionals, Gretchen did not intentionally choose this field, but started out on quite a different career path. Having studied voice seriously, she had designs on becoming a singer. But like so many other artists, she took a 'conventional' job in order to support herself while pursuing her dream. While working full time in the Employee Benefits department of Arthur Andersen's World Headquarters, she also attended DePaul University and received her degree in Accounting. Fast forward twenty years and Gretchen has no regrets: "It was the right choice for me."

Outside of work, Gretchen shares her life with her husband, Richard, and their two children, Richard (21) and Lauren (16). Having devoted the last ten years to coaching competitive cheerleading, Gretchen has found it to be one of the most exhilarating experiences of her life. "Coaching girls requires an understanding of psychology and an intuitive grasp of *their* unwritten laws. Their contempt can transport you back to high school, but working with them has reminded me of my own younger self."

What do you enjoy most about working at DATAIR, Gretchen? "I love the ability to do unusual and challenging work with a really nice bunch of people. I am challenged, but not crushed or overwhelmed, and I can always see the path in front of me. We truly have a collegial culture here. I know that sounds like a cliché, but it happens to be true. It's a big part of what makes us who we are and it's a really fun way to work."

# News of Note for Pension Reporter

By Kristina Kananen, QPA, QKA, APA

**2003 Filing Year ELF** – As of June 30, 2006, EFAST no longer accepts 2003 filing year 5500 electronic filings. Only two form years are available for electronic filing, 2004 and 2005. Next year on 6/30, they will disable the 2004 filing year. If you must file an amended return for a 2003 or prior year, you must file on paper. No guidance is in place as to how amended filings will be accomplished when mandatory electronic filing is in place.

**PBGC Mandatory E-Filing** – While the majority of defined benefit plans will not be required to electronically file their premium payments until 2007, we recommend that you become familiar with the Upload or Import options available to you under the PBGC's MyPAA. The relationship with your clients will determine which option will work best for you next year. Make arrangements in advance for everyone who needs to be part of the filing team.

The Demo on the PBGC website is easy to follow. Remember that Import means that you are importing a PR file into MyPAA and notifying the other filing team members that the form is

available for editing and signature. Upload means that you bypass MyPAA and upload the PR premium file directly to the PBGC, mail the PR generated premium form(s) to your client with a cover letter to sign and retain the form in their file and to mail a check to the PBGC. Remember, the premium filing is not complete until the premium has been paid.

**2006 1099-R forms** – This is a record breaking year for the IRS. Here it is September and the IRS has still not released the 2006 1099-R form! In the past, the 1099R form would have been released around April and the electronic filing instructions for the 1099R forms would have been released in July. This year, the form is not expected to be available until December. However, the IRS people in charge of electronic filing of the 1099 Series released all of the instructions for E-filing the 2006 1099R on 8/7/06 and included in their instructions an explanation about the form.

We also found a draft copy of the 2006 1099R on line, so we have an idea of what the form will look like and what will have to be included on the printed form. However, because the official 2006 1099R form has not yet been released by the IRS, it is not possible for DATAIR to be able to give you a form which you can print for delivery to payees. Because we know how the E-Filing is to work and what you will be entering on the form as to codes and dates, we have already started the programming of the 2006 1099R form.

For 2006, the changes to the 1099R form deal with ROTH 401k contributions. An additional distribution code (B) has been added to indicate that the distribution is attributable to Roth contributions. Also, if Roth contributions are included in the distribution, then you must also indicate the date of the year in which the Roth contributions began. (Per the E-filing instructions, we know that they are looking for a full date in the MMDDYYYY format.)

In the meantime, we have provided you with a tool to enter all of your 2006 1099R data. It is the simple 1099R import format which can be found in the Release Notes for Pension Reporter Version 1.20. Just go to File|Help|Release Notes in PR and keep paging down to the page entitled "Pension Reporter 2005 1099-R Spreadsheet Simple Import Specifications". Even though the format is for the 2005 1099-R form, the only information you will need to add is the First Year of Designated Roth Contributions for the payee. We are anticipating that this field will only impact a minority of 1099Rs for 2006. Input the Roth Date in the last column of the spreadsheet at this time. If there is a change in the placement of the column, the PR release notes will indicate where the Roth Date should be in the spreadsheet before you import to PR.

The IRS delay could cause you to have a chaotic January (OK, a more chaotic January) if you do not start planning your 1099R processing now. For those of you who file on paper, you may not have your redline forms before January.

Making sure that your 1099R data is complete and accurate before January, will ensure that your import and payee copy print will go quickly and easily. 

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## The DATAIR News

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The DATAIR News strives to provide our customers with valuable and enjoyable information about DATAIR software, services, and the pension industry. Reader contributions are welcome.

# MSDE SQL Backup

By Gerald West

Now that many of you are using the Windows Pension System to prepare DC plans, it is crucial that you ensure that your hard work is protected. Backing-up your data nightly is the first step in that endeavor. Most of you are now using the SQL database, and some of you may not be aware that a SQL database cannot be backed up using the same procedures you used to backup the Access databases or DOS plan files in the past.

Most backup software performs what is called a "file based backup". This means that each file is backed up individually while the file is closed. If the backup runs across a file that is open, it will skip backing up that file. However, a SQL database is never closed while the database server is running; therefore, a normal file based backup program will never be able to backup the database directly, even when the Pension System is not running.

Installed with the DATAIR Windows Pension System is a set of SQL Server Database Utilities. Included in this group is a way to create a copy of the SQL database that your backup software can include in the nightly backup. These SQL utilities are fully explained in the Software Installation section of the <F1>help. For the purposes of this article we will briefly explain the backup procedure.

You can access the utilities from within the Pension System by selecting *File / Database Utilities / SQL Database Utilities* from the DC/Win menu. This will close the Pension System and the DATAIR SQL Server Database Utilities program will run.

On the Backup/Restore tab you will want to click the [Set Up] button located in the "Setup a Maintenance Plan" section. You will then be given an opportunity to schedule the time at which you want the SQL backup to be created, (default will be 1 AM). Once you set the desired time, click the [Schedule] button to save it.

In order for the backup schedule to run, you must go to the machine where your database is located and click twice on the SQL icon in the System Tray area of the Taskbar. This will bring up the SQL Server Service Manager, under Services select "SQL Server Agent". If the service is not currently running, click the Start/Continue button to start it. It is also crucial that you make sure that the box "Auto-start service when OS starts" is checked. Without this service running, your SQL backups will not occur, so you want this service automatically running at all times.

When the backups are run you will see files with the database name appended with the day of the week, such as DATAIR\_DATAIR\_Monday.bak. The program will keep a maximum of 7 daily backups and then start overwriting the previous daily backups.

Remember the database server machine must be on at the time the backup is set to run. To verify that the backup ran, click on the [Restore] button on the Backup/Restore tab of the SQL Utilities. This will display a list of the dates and times the backups were made. You should also do a test restore as explained in the <F1> help.

Finally, you will want to set up your backup to backup the \*.BAK files on the database server's "C:\Program Files\Microsoft SQL Server\MSSQL\$DATAIR\Data" data folder. Be sure that your backup software runs sometime after the SQL backup is scheduled to run.

For more information and alternate backup strategies, see the Technical Note "Backing-up your SQL Database" in the Technology Publications section on our website. 

## Substantiation of Electronic Card Payments

IRS issued Notice 2006-69 earlier this summer. It gives guidance for the substantiation of medical and dependent care expenses when paid by a credit, debit or stored value card issued by the employer. It describes three acceptable methods, addresses substantiation for dependent care assistance programs and explicitly prohibits self-certification.

### *Copayment*

Certain copayments in specific dollar amounts now qualify as automatic substantiations. When the dollar amount of a transaction (identified through its merchant category code) equals an exact multiple of the copayment for a specific service, the charge is considered fully substantiated without the need for a receipt or other documentation. Similarly, when a tiered copayment structure applies to a particular benefit (pharmacy is the example used in the Notice with varying copayments for generic and non-generic prescriptions) and the transaction matches an exact multiple of the varying copayments, the charge is considered fully substantiated. Note that in both cases the **multiple cannot exceed 5**. If the dollar amount of the transaction exceeds a multiple of 5, or does not exactly match the multiple, the transaction is treated as a conditional pending transaction requiring additional third-party information.

### *Inventory Approval System*

Under this method, information about transactions is collected using a participating merchant's inventory control system using a Stock Keeping Unit (called "SKUs"). If the matching inventory information determines that all items purchased are qualified medical expenses, the entire transaction is considered fully substantiated. If only some of the items purchased are so determined, those items are considered substantiated and the merchant would request additional payments from the employee for the remaining items.

(Continued on back page)



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*(Café Corner, Continued from page 3)*

***Direct Third-Party***

Information provided to the employer by an independent third-party (an EOB, for example) supporting a transaction as qualified is considered fully substantiated. The information must indicate the date of the service and the amount of payment for which the employee is responsible.

***Dependent Care Assistance***

This method may have limited application. It requires some initial effort by the employee and there may be a limited availability of day care providers who accept electronic card payment. Also, many providers require advance payment so the incurred expense rule prevents reimbursements for the advance payment. At enrollment or the beginning of the plan year, the employee pays initial expenses and submits them for substantiation with a statement from the provider identifying the dates and amounts for the services. The plan then makes the card available and thereafter those documented expenses, **after** they have incurred, can be paid.

For example, assume an employee is paying monthly for daycare. The expense is not considered incurred until the last day of the month in which the care was provided. The guidance describes a funding method where a debit card is funded periodically based on expenses previously incurred. Amounts added to the card are available to pay for future expenses. Automatic substantiation is allowed when you have recurring transactions for a defined service period with a previously approved provider, so long as the amount does not exceed the amount previously substantiated. 