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THE PANGBURN GROUP®

THE PANGBURN COMPANY
Third Party Administration of Nonqualified Executive Benefit Plans

TPC CONSULTING
BOLI Compliance and Reporting

PANGBURN TECHNOLOGY
Technology Solutions & Custom Software

TPC ACTUARIAL
Actuarial Consulting for COLI & BOLI

IN THIS ISSUE

SELECTING A DISCOUNT RATE FOR BENEFIT ACCOUNTING

The selection of an appropriate discount rate for FASB valuations is an important decision for plan sponsors especially those that have audited financial statements. Liabilities and expense calculations are most sensitive to this assumption with the results varying significantly based on the selection of different rates. In addition, corporate auditors will most likely require the justification of the rate employed and that the rate selection follows FASB guidelines under FASB 87 (re-codified under ASC 715).

FASB 87 discusses discount rate selection in some detail, but such discussion may be summarized by three key principles:

1. The discount rate selected should be based upon rates of return on high quality fixed income investments.
2. The selected discount rate should be matched to the rates of return available during the period in which the benefits are paid.
3. Utilization of a "weighted average" of the matched rates is considered appropriate.

Enter the Pension Protection Act of 2006 (PPA), which specifies the interest rates that must be used in the required calculations of the present value of pension liabilities. PPA requires that present values be generally determined by using three interest rates ("segment rates"), each of which applies to cash flows (i.e., benefit payments) during specified periods. These segment rates are published monthly and reflect a 24-month average of the yields on investment grade corporate bonds with varying maturities and are in the top 3 quality levels available.

The PPA requirements appear to be consistent with the FASB principles stated above and should be acceptable for discount rate selection, if employed as follows:

1. As of the first day of the fiscal year, select the PPA segment rates (rate for years 1-5, 6-20, 21+).
2. As of that date, calculate the present value of projected benefits to be paid to all participants. For example, if a projected payment is scheduled to be paid in 10 years, discount that payment at the 2nd segment rate (i.e., the rate for years 6-20).
3. Determine the "Plan Discount Rate"- the single rate of interest that would reproduce the total present value calculated in (2) above.

By way of example, the IRS published the following Segment Rates as of October 10, 2010: (see: http://www.irs.gov/retirement/article/0,,id=174520,00.html)

Month/Year	First Segment	Second Segment	Third Segment
Oct-2010	3.61	6.20	6.53
Sep-2010	3.78	6.31	6.57
Aug-2010	3.92	6.40	6.61

The methodology described above requires a series of complex calculations and modeling, which our systems are capable of performing and delivering. Please feel free to contact us for further discussion on the use and implementation of the methodology.

COMPANY NEWS

- Congratulations to Lindsey David who has successfully completed all requirements for her CPA designation.
- Welcome Guardian Life as an "Approved Carrier."
- 162 Bonus programs - greatly expanded support services now available.

Planning Briefs

75 NEEDS TO BE THE NEW 62:
Olivia Mitchell, a professor at the Wharton School, thinks that the 21st century economy will require an entirely new perspective on retirement risk management. She concludes that working 2 to 4 more years can go a long way in closing the funding gap and advises Gen X and Gen Y that "age 75 might be a good target for early retirement and later if possible!"

WEALTHY REJECT RETIREMENT:
According to a survey by Barclays of 2,000 high-net-worth individuals, 60% say they plan to become a "Nevertiree" and want to continue working for as long as they are able.

GLOBAL PENSION ASSETS:
Allianz reports that driven by the emerging markets of Asia, the global market is slated to grow to $46 trillion from $28 trillion by 2020. The 66% increase will come despite the current financial crisis and despite the expected slower growth of the U. S. pension system.

FDIC REPORT ON BANK EARNINGS:
Banks and thrifts had their best performance in three years during the second quarter, earning $21.6 billion, a 16% jump from a quarter earlier. Lower expenses for loan losses, particularly at the largest banks were the biggest factor behind the improvement.

 # OF PROBLEM BANKS INCREASES:
As reported by CNNMoney.com the number of troubled banks hit its highest level since 1993. The number of banks at risk rose by 53 to 829, but the increase marks the smallest rise since the first quarter of 2009. On average, just 13% of banks on the FDIC problem list have actually been seized. So far this year (as of August), 118 have failed.

EMPLOYEE SATISFACTION:
A June 2010 job satisfaction survey found that HR professionals consider an employee's relationship with his or her immediate supervisor as the top contributor to employee satisfaction.

DON'T FORGET THE SPLIT DOLLAR

Section 1.61-22 of the Income Tax Regulations "provides rules for the taxation of a split dollar life insurance arrangement for purposes of the income tax, the gift tax, the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), the Railroad Retirement Tax Act (RRTA), and the Self-Employment Contributions Act of 1954 (SECA)."

For split dollar arrangements falling under the "Economic Benefit Regime," the employee is taxed annually on the value of the economic benefit received. The valuation of economic benefits (taxable income) to the employee equals the sum of **(A) + (B) + (C):**

(A) The employee's accessible amount (i.e., employee's share) of the policy cash value (without regard to surrender charges) that was not taken into account in the prior year. The cash value is to be determined at the end of the employee's taxable year (most often 12/31) unless the employer and the employee agree to use the policy anniversary date.

(B) The term cost of any current life insurance protection for a taxable year, less the employee's contribution (if any). The term cost is calculated as:
- (a) The policy "death benefit," less,
- (b) The employer death benefit (including employer policy loan balance), less,
- (c) Cumulative cash value previously and currently taxed to the employee,
- (d) (a)-(b)-(c) multiplied by a Term Rate (Table 2001 or allowable company term rates)

(C) Any other economic benefits not taken into account in **(A)** or **(B)**.

This economic benefit amount is usually subject to income, FICA, FUTA, RRTA, and/or SECA taxes. For an employee, it should be included in gross income, which needs to be reflected on Forms W-2 & W-3 in Box 1 (Wages, tips, other compensation), Box 3 (Social security wages), Box 5 (Medicare wages and tips), and Box 16 (State and local income tax information). It is important to remember that the economic benefit must also be included on Annual Form 940 and Quarterly Form 941 (or Annual Form 944, where applicable). The split dollar regulations (TD 9092) provide that for purposes of employment tax, the economic benefit "shall be treated as so provided on the last day of the taxable year."

For a nonemployee participating in a split dollar arrangement treated under the "Economic Benefit Regime," the economic benefit amount should be included on Form 1099-MISC in Box 7 (Nonemployee Compensation).

Please consult your tax advisor for details.

TPC CONSULTING BOLI RESULTS

2010 is on schedule to be another year of sustained growth in new financial institution clients. As of the end of September, we are providing record-keeping and compliance reporting services to 457 banks, up over 16% from 2009. Our bank clients receive monthly assets reporting on about $3 billion of cash value and about $6.5 billion of death benefit. Some activity of note year-to-date:

- 24 banks are first-time BOLI buyers.
- 223 BOLI policies were 1 to 1 1035 exchanges whereas 104 were multi-policy to 1 exchanges.
- Approximately 50% of new clients are using their BOLI as an informal funding vehicle for some form of nonqualified deferred compensation.
- During the past 12 months we have lost 8 bank clients to competitors (usually associated with a merger or acquisition) but have picked up 37 formerly serviced by another TPA.

Bank failures seem to have slowed, a few new carriers are showing renewed interest in product development and good service speaks for itself. Thank you to banks and brokers who continue to show their support!

INTERESTING RATES	2009			2010								
Index	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Short-Term AFR	0.75	0.71	0.69	0.57	0.72	0.64	0.67	0.79	0.74	0.61	0.53	0.46
Mid-Term AFR	2.66	2.59	2.64	2.45	2.82	2.69	2.70	2.87	2.72	2.35	2.18	1.94
Long-Term AFR	4.10	4.01	4.17	4.11	4.44	4.35	4.40	4.47	4.30	3.94	3.79	3.66
Federal Funds	0.11	0.12	0.13	0.11	0.14	0.14	0.17	0.20	0.20	0.17	0.19	0.19
T-Bill (One Year)	0.37	0.38	0.26	0.47	0.33	0.32	0.42	0.43	0.35	0.32	0.28	0.25
T-Bill (Ten Year)	3.21	3.45	3.28	3.83	3.68	3.61	3.89	3.72	3.29	2.96	2.99	2.58
T-Bill (30 Year)	3.97	4.26	4.26	4.64	4.56	4.56	4.74	4.53	4.19	3.88	4.06	3.65
Moody's Aaa	4.95	5.19	5.09	5.34	5.30	5.22	5.33	5.15	4.95	4.62	4.78	4.38

(Rates which fluctuate daily are shown on or about the 1st day of the month.)

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