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UPDATE

Actuarial and Benefits News

IRS Pension Funding Guidance for 2009

On March 31, in a Special Edition of its ***Employee Plans News***, the IRS issued guidance on the selection of the corporate bond yield curve for determining defined benefit plan funding liabilites.

Background

Under proposed regulations, sponsors electing the corporate bond yield curve instead of segment rates (in determining plan funding liability) would have been required to use the yield curve for the month preceding the valuation date. For calendar year plans, this would be the yield curve for December published in January. Most practitioners felt that the actual Pension Protection Act (PPA) permitted the same lookback options to those using segment rates as to those who elect the full yield curve.

IRS Guidance

This new IRS guidance states that employers can rely on a reasonable interpretation of the funding rules for valuing their pension liabilities until the first plan year following the date the funding regulations are finalized. Thus, using the full yield curve as of any of the "lookback months" for the 2009 plan year will be considered reasonable.

For a plan with a January 1, 2009 valuation date, for example, use of a monthly yield curve for January 2009, or for any one of the four months immediately preceding January 2009 is now available. Use of the full yield curve for October 2008 could result in an effective interest rate of over 8%. This significant increase would translate into noticeably lower funding liabilities for 2009.

The yield curve election can be changed for 2009 without IRS approval. However, it is not known if another change for 2010 will be allowed. This may be a concern for employers who prefer to use the segment rates to reduce volatility.

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