



## IRS Issues Guidance on 2010 Interest Rates for Defined Benefit Plan Funding

*The IRS today issued a special edition Employee Plans News newsletter providing important guidance needed by many plan sponsors to make decisions regarding assumptions to be used in the determination of their plans' 2009 minimum funding and Adjusted Funding Target Attainment Percentage (AFTAP). Importantly, the IRS indicated that automatic approval will be granted for 2010 plan years to switch to any permissible choice of interest rates under forthcoming final regulations. In addition, the final regulations will not permit the use of any lookback month for plans electing to use the full yield curve beginning with 2010 plan years.*

### **Employee Plans News Guidance**

In general, Internal Revenue Code Section 436 provides that if a plan's AFTAP is certified (or deemed certified) to be below certain levels, specified benefit restrictions must be imposed. For calendar year plans, if a 2009 AFTAP certification is not issued by the plan's actuary by October 1, the AFTAP will be deemed to be less than 60% and all applicable benefit restrictions would be imposed beginning on that date. These restrictions include freezing benefit accruals and prohibiting the payment of lump sum benefits.

Sponsors have been uncertain if the election of an interest rate method for determining 2009 AFTAPs would essentially lock them in to using that method for 2010 or if final regulations (expected to be issued for some time now) would grant automatic approval for an interest rate method change in 2010. Due to the changing economic conditions, in many cases, an election that would result in a higher AFTAP for 2009 could result in a lower AFTAP and larger contributions for 2010. Therefore, sponsors were unable to make informed elections for 2009.

Today, the IRS has issued a special edition of [Employee Plans News](#) making clear that upcoming final funding regulations will be effective beginning with 2010 plan years, and that automatic approval will be granted for a new choice of interest rates for 2010 plan years, regardless of what choices were made for earlier plan years. In addition, the IRS indicated that beginning with 2010 plan years, the final regulations will not permit the use of the full yield curve with a lookback month (as was permitted for 2008 and 2009 plan years).

### **Conclusion**

This is very welcome guidance and will allow many plan sponsors to make decisions on interest assumptions and ask their enrolled actuaries to issue 2009 AFTAPs before October 1 without worrying about the effect on future years' AFTAPs and funding. Buck's consultants are available to help plan sponsors sort through the details of this guidance and certify 2009 AFTAPs.

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*This FYI is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.*