



For your information

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2012 Pension Plan Funding Stabilization Rates Released

The IRS just released guidance on the 25-year average segment rates to be used for determining minimum funding requirements for single-employer defined benefit plans subject to ERISA. The three minimum segment rates, after application of the 10% corridor, are 5.54%, 6.85%, and 7.52%. Expected to follow shortly is separate guidance that addresses issues such as the effect of the retroactive change on funding balances, election procedures where there are choices, and whether or not the rates feed into other rules that incorporate the segment rates by reference.

Background

The “stabilized” rates were added to the ERISA funding rules by the Moving Ahead for Progress in the 21st Century Act (MAP-21), signed by President Obama on July 6, 2012. They aim to address historically low rates that have been driving up current pension contribution requirements. Under MAP-21, the segment rates (averages of corporate bond rates for short-term, mid-term, and long-term periods) used to determine the present value of future benefits that will be paid by a plan are constrained to a minimum of 90% of a 25-year average of these rates as of September 30 of the preceding year. The interest stabilization changes for ERISA single-employer plans are predicted to trim 2012 contribution requirements by 15% to 25% or more for typical plans. Details on MAP-21, including a discussion of how the rates are used and the various effective dates, are provided in our July 6, 2012 [For Your Information](#).

Adjusting the segment rates to reflect the 25-year average presented a challenge to the IRS and Department of the Treasury because actual rate information for significant periods of time in the averaging period is not readily available. Economists at the Treasury were given the task of “filling in the blanks” so that the IRS could release information on the precise averages plan actuaries would use for their calculations. Plan sponsors have been eager for the release of the results so that they could make timely payments for 2011 plan years by the applicable minimum funding deadline in amounts that would be sufficient to meet certain 2012 funding targets based on the MAP-21 rates.

IRS Notice 2012-55

[IRS Notice 2012-55](#) announces the 25-year average of segment rates for the period ending September 30, 2011. For plan valuation dates in 2012, the segment rates will not be less than 5.54% for the first segment rate period, 6.85% for the second period, and 7.52% for the third period. Here are the segment rates for January through August 2012 valuation dates, before and after the MAP-21 floor.

Applicable Month	First Segment	Second Segment	Third Segment
<i>MAP-21 (90%)</i>			
All months	5.54	6.85	7.52
<i>Pre-MAP-21 Rates</i>			
Sep 2011	2.06	5.25	6.32
Oct 2011	2.03	5.20	6.30
Nov 2011	2.01	5.16	6.28
Dec 2011	1.99	5.12	6.24
Jan 2012	1.98	5.07	6.19
Feb 2012	1.96	5.01	6.13
Mar 2012	1.93	4.95	6.07
Apr 2012	1.90	4.90	6.01
May 2012	1.87	4.84	5.96
Jun 2012	1.84	4.79	5.90
Jul 2012	1.81	4.73	5.85
Aug 2012	1.77	4.67	5.78

In Closing

IRS Notice 2012-55 promises that additional guidance on benefit restrictions and transition issues will be provided soon. It is hoped that plan sponsors and the actuaries for their plans will be able to rely on a good faith interpretation of current law and regulations in evaluating 2012 liabilities, especially for purposes of determining funding-based limits under Code Section 436, without concern that future guidance will require a retroactive change in plan operations.