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For your information

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MAP-21 Guidance Says "Yes" to the Annuity Substitution Rule

In Notice 2012-61, the IRS confirms that the regulatory "annuity substitution rule" should be used in valuing liabilities with the Moving Ahead for Progress in the 21st Century Act (MAP-21) rates. In Notice 2012-55, the IRS provided the September 2011, 25-year average rates that were to be implemented for pension valuations as early as January 2012 in an effort to reduce minimum contribution requirements that had risen precipitously due to the current low interest rate environment. Plan sponsors and their actuaries questioned whether the 25-year rates would be used for projected lump sum values under a rule in the funding regulation known as the annuity substitution rule. If the existing regulation were changed, the expected cost reduction would not be available to sponsors of plans that offer lump sum distributions calculated using the interest and mortality rates in Code Section 417(e). Therefore, the new guidance is welcome relief for sponsors of these plans.

There is more in the guidance that will be of interest when it comes to implementing MAP-21:

- Employers may choose to implement MAP-21 rates for 2012 Code Section 436 AFTAP certifications with prospective effect during 2012.
- Alternatively, employers may choose to apply a 2012 AFTAP certification using MAP-21 rates retroactively to the date on which the 2012 pre-MAP-21 AFTAP was originally certified, provided the plan administrator takes corrective action to remove the effect of restrictions previously implemented.
- Employers should memorialize their MAP-21 choices (such as whether to use the MAP-21 rates for 2012 AFTAP certifications) with written notices to the enrolled actuary for the plan and to the plan administrator.
- Plan operations and 2012 funding balances reductions are not modified if based on presumptions applicable prior to pre-MAP-21 certifications.
- Any MAP-21 segment rate can (but need not) be used as the interest crediting rate for cash balance plans. The effective date for final regulations applicable to cash balance and other hybrid plans will not be earlier than plan years beginning on or after January 1, 2014. Such regulations may or may not permit an interest crediting rate using the MAP-21 segment rates.
- Notice 2012-61 does not address the calculation of "current liability" for the "high-25" limits. But the current liability interest rate for those plans with deferred PPA funding effective dates is determined reflecting the MAP-21 third segment rate.

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We will provide more details shortly.