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Guidance on Asset Valuation Methods for Single-Employer Defined Benefit Pension Plans

The IRS has provided interim rules regarding asset valuation methods that are permitted to be used by single-employer defined benefit pension plans for minimum funding purposes pursuant to changes made by the Worker, Retiree, and Employer Recovery Act (2008 Worker Act) of, as well as automatic approval for a change in asset valuation method for plan years beginning during 2009 to adopt any permissible asset valuation method. Proposed regulations issued in 2007 addressing such methods were issued prior to the 2008 Worker Act, therefore, the regulations did not provide for an adjustment for expected earnings in determining the adjusted fair market value of plan assets as of earlier dates that must be used to determine value. The new guidance describes the rules expected to be incorporated in future regulations for adjusting asset values for expected earnings Code Sec. 430(g)(3)(B) using an assumed rate of return.

According to the new guidance, the adjustment for expected earnings that is made to the fair market value of plan assets for a determination date is the sum of the expected earnings separately determined for each period between the determination date and the valuation date. Clarifications have been provided regarding the calculation of expected earnings for periods that are 12 months in length, as well as for periods that are less than 12 months, and for the definition of "assumed rate of return." Guidelines for determining the limitation on the assumed rate of return for periods within plan years for which either the funding target or the target normal cost is determined using the three segment interest rates under Code Sec. 430(h)(2)(C) are also provided. However, if neither the funding target nor the target normal cost for a plan year is determined using the three segment interest rates, then the limitation on the assumed rate of return applicable for periods within the plan year cannot be determined using these rules.

The rules for accounting for contribution receipts under Code Sec. 430(g)(4) are applied prior to the application of the 90 percent to 110 percent corridor under Code Sec. 430(g)(3)(B)(iii). Finally, a special rule for plan years beginning during 2008 has been issued. The IRS also provided examples illustrating the application of the new interim rules.

This guidance also provides automatic approval for a change in a plan's asset valuation method to adopt an asset valuation method that is permitted under Code Sec. 430(g)(3) if the change is made for a plan year that begins during 2009. In addition, the approval that would apply under the proposed regulations for a change in funding method for a plan year that begins during 2008 will apply to a change in a plan's asset valuation method made to adopt the asset valuation method permitted by Code Sec. 430(g)(3)(B) that is made for such a plan year.

The interim rules and guidance cover various issues related to changes in asset valuation methods for single-employer plans made by the 2008 Worker Act. These changes have a significant impact on expected earnings and anticipated rate of return for pension funding. We can assist you in evaluating your current methods and compliance with the changes. Please call our office at your earliest convenience. 1-866-657-0246 or jwaage@strategiclawgroup.com