

# employee plans news

PROTECTING RETIREMENT BENEFITS THROUGH EDUCATING CUSTOMERS

Internal Revenue Service  
Tax Exempt and Government  
Entities Division

A Publication of Employee Plans

## Funding Relief for Single-Employer Defined Benefit Plans

[Notice 2011-3](#), issued on December 17, 2010, contains guidance on funding relief for single-employer defined benefit plans under Code [§430\(c\)](#), as amended by the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, §201.

The notice primarily provides guidance on the following alternative funding shortfall amortization schedules that can be elected for single-employer defined benefit plans instead of the otherwise applicable 7-year amortization schedule:

- The 2 plus 7-year amortization schedule, under which the amortization installments for the first two years are interest-only payments, with the balance of the shortfall amortization base for the election year amortized in level installments over the following 7 years, or
- The 15-year amortization schedule, under which the shortfall amortization base for the election year is amortized in level installments over 15 years.

These alternative amortization schedules may be elected for the shortfall amortization base established for up to two of the plan years beginning in 2008, 2009, 2010 and 2011, as long as the final due date for contributions for the plan year falls on or before June 25, 2010. Thus, this relief is generally available for plan years beginning on or after October 10, 2008, and before January 1, 2012.

If an alternative amortization schedule is elected for a plan for two plan years, the same schedule must be elected for both years. In addition, the shortfall amortization installments may be accelerated for certain years if the plan sponsor (or any other entity in the sponsor's controlled group) pays excess compensation (generally defined as compensation over \$1,000,000 for any individual), declares certain dividends, or makes certain payments to redeem stock.

The notice provides guidance on:

- The calculation of shortfall amortization installments under both alternative amortization schedules,
- Determination of installment acceleration amounts,
- Application of the installment acceleration amount, which may increase the minimum required contribution twice for an installment acceleration amount if an election to use the alternative amortization schedule is made for two years' bases in a single plan (and only once if the election is made for only one year's base),
- Rules for allocating the installment acceleration amount if elections to use alternative amortization schedules are made for more than one plan,
- Employee notices required when an election is made, including suggested text for the notices,
- Requirements for making an election to use an alternative amortization schedule on or after January 1, 2011, and
- Transition rules permitting sponsors to make certain adjustments to the funding standard carryover balance and the prefunding balance even if it would otherwise be too late to do so.

## **Availability of Funding Relief**

In order to take advantage of this funding relief, a plan sponsor must:

- Make an election to use either the 2 plus 7-year or the 15-year alternative amortization schedule by the latest of:
  - the last day of the plan year for which the election is made,
  - 30 days after the valuation date for the plan year for which the election is made, or
  - January 31, 2011;
- Notify participants of the election by the later of :
  - 120 days after the end of the plan year for which the alternative amortization schedule is elected, or
  - by May 2, 2011;
- If the plan is covered by the Pension Benefit Guaranty Corporation ([PBGC](#)), e-mail a copy of the election to the PBGC by the later of:
  - 30 days after the date the election is made, or
  - January 31, 2011.

Other requirements are outlined in the notice.

## ***Form 5500, Annual Return/Report of Employee Benefit Plan, and Schedule SB Reporting***

In general, plan sponsors that elect the special funding relief for a year are required to reflect that election on the plan's [Form 5500](#) (including Schedule SB) for the year. However, a plan sponsor may not have reflected the special funding relief on its Form 5500 filed for a plan year that ended prior to December 17, 2010 (or may have reflected funding relief but did not fully comply with the calculations required under the notice). In this situation, the plan sponsor is permitted, but not required, to file an amended Form 5500. Alternatively, the plan sponsor may include an attachment to Schedule SB for a subsequent plan year (but no later than the 2010 Schedule SB) showing how the information reported would have differed if it had used the special funding rules as described in the notice.