

Automatic Approval of Change in Funding Method for Takeover Plans

Announcement 2015-3

Purpose

This announcement provides automatic approval of a change in funding method with respect to a single-employer defined benefit plan under certain circumstances in which the change in method results from a change in the plan's enrolled actuary. The automatic approval provided by this announcement will apply for plan years beginning on or after January 1, 2013.

Background

Under § 412(c)(5) of the Internal Revenue Code ("Code"), as in effect prior to the Pension Protection Act of 2006 ("PPA '06"), any change of funding method requires the approval of the Secretary.

A change in funding method can occur when both the enrolled actuary and business organization providing actuarial services for a plan are changed and the new enrolled actuary uses different valuation software than the prior enrolled actuary or otherwise applies the overall funding method in a different manner. Section 4.03 of Rev. Proc. 2000-40, 2000-2 C.B. 357, provided automatic approval for certain changes in funding method that occurred with respect to "takeover plans" (that is, plans for which both the enrolled actuary and the business organization providing actuarial services are changed).

Section 412(d)(1) of the Code, as amended by PPA '06, retains the requirement that a change in funding method be approved by the Secretary. Under PPA '06, a single funding method must be used to determine the liabilities for any single-employer defined benefit plan subject to § 430, but there may be some variation in the manner the method is applied. (Rev. Proc. 2000-40 has not been updated to reflect the changes made by PPA '06. Moreover, the calculations that were used for the pre-PPA '06 five percent test that was a condition of automatic approval for takeover plans are not used under § 430.)

For plan years beginning on or after January 1, 2009, Announcement 2010-3, 2010-4 I.R.B. 333, provides automatic approval for certain changes in funding method used to determine the minimum funding requirement for defined benefit plans subject to the requirements of § 430. These approvals apply to certain funding method changes that result either from a change in the valuation software used to determine the liabilities for such plans or from a change in the enrolled actuary and the business organization providing actuarial services to the plan. Under Announcement 2010-3, five percent tests similar to the five percent tests under section 4.03(3) of Rev. Proc. 2000-40 are required to be applied with respect to the liabilities and assets reflected on the Schedule SB (Form 5500, Single-Employer Defined Benefit Plan Actuarial Information) for the prior plan year.

Section III.B of Notice 2014-53, 2014-43 I.R.B. 737 (which provides guidance on the changes to the funding stabilization rules for single-employer pension plans that were made by

section 2003 of the Highway and Transportation Funding Act of 2014) provides for the filing of an amended Schedule SB for the 2013 plan year under certain circumstances. This announcement expands upon the automatic approval for takeover plans under Announcement 2010-3 by allowing the five percent tests to be performed for the year in which the takeover occurs, and permits the newly hired enrolled actuary to use a signed actuarial valuation report issued by the prior enrolled actuary for the plan in lieu of the Schedule SB. This change facilitates the filing of an amended Schedule SB for the 2013 plan year for a takeover plan without the need for the newly hired enrolled actuary to perform the five percent test using the valuation results for the 2012 plan year.

Automatic Approval for Takeover Plans

For a plan subject to the requirements of § 430, automatic approval is granted for a change in funding method that results from a change in enrolled actuary if all of the conditions set forth in paragraphs (1) through (4) below are satisfied:

(1) There has been both a change in the enrolled actuary for the plan and a change in the business organization providing actuarial services to the plan, and the new enrolled actuary uses different valuation software or otherwise applies the funding method that was used by the prior actuary to determine the funding target, target normal cost and actuarial value of assets in a different manner than the prior enrolled actuary;

(2) The funding target and target normal cost for the prior plan year, as calculated by the new enrolled actuary (using the actuarial assumptions of the prior enrolled actuary and without regard to any adjustments for employee contributions and plan-related expenses), are both within five percent of the values for the funding target and target normal cost reported in the prior plan year's Schedule SB (signed by the prior enrolled actuary regardless of whether it was filed) or actuarial report;

(3) The actuarial value of plan assets for the prior plan year, as calculated by the new enrolled actuary (using the actuarial assumptions of the prior enrolled actuary to the extent applicable), is within five percent of the value for the actuarial value of plan assets reported in the prior plan year's Schedule SB (signed by the prior enrolled actuary regardless of whether it was filed) or actuarial report; and

(4) The funding method used by the new enrolled actuary to determine the funding target, target normal cost, and actuarial value of assets for purposes of the comparisons described in paragraphs (2) and (3) must be substantially the same as the method used by the prior enrolled actuary to determine those amounts and must be consistent with the description of the method contained in the prior plan year's Schedule SB (signed by the prior enrolled actuary regardless of whether it was filed) or actuarial report.

Alternatively, the comparisons of the funding target, target normal cost, and actuarial value of assets described in paragraphs (2) through (4) can be made on the basis of the current plan year, provided that the prior enrolled actuary has issued an actuarial report that includes those

results (or has provided a signed Schedule SB to the new enrolled actuary for the current plan year, if revision of the Schedule SB is permitted).

For purposes of this announcement, an actuarial report must be signed by the enrolled actuary for the plan and must meet the applicable standards of performance under regulations issued by the Joint Board for the Enrollment of Actuaries. See 20 CFR 901.20. Also, current plan year means the first plan year for which a Schedule SB is signed by the new enrolled actuary and prior plan year means the plan year that immediately precedes the current plan year.

If the automatic approval granted pursuant to this announcement for a change in the plan's funding method that results from a change in the plan's enrolled actuary applies, the new enrolled actuary is permitted to use new actuarial assumptions and a new funding method for the current plan year only if those changes are permitted under the generally applicable requirements of § 430(h) and § 412(d)(1). Pursuant to § 1.430(d)-1(f)(1)(ii) of the Income Tax Regulations, once the Schedule SB has been filed for a plan year, the assumptions and methods generally cannot be changed for that plan year. However, the enrolled actuary can use new assumptions and methods, to the extent the change is permitted under guidance issued by the Commissioner, including this announcement. For example, see Section III.B of Notice 2014-53, Guidance on Pension Funding Stabilization under the Highway and Transportation Funding Act of 2014 (HATFA).

The following example illustrates the application of this announcement:

Plan S is a single employer defined benefit plan subject to § 430 with a plan year that is the calendar year and a valuation date of January 1. Assume a January 1, 2013 actuarial report is signed by the plan's enrolled actuary using the segment interest rates under MAP-21¹ on September 1, 2013, and the corresponding Schedule SB for the 2013 plan year is filed by the plan administrator on July 15, 2014.

In January 2014, the plan has a new enrolled actuary and a new business organization providing actuarial services for the plan for the 2014 plan year. The new enrolled actuary reproduces the prior enrolled actuary's funding target, target normal cost, and actuarial value of plan assets for the 2013 actuarial valuation using the prior enrolled actuary's methods and assumptions and the results are within five percent of those values that were computed by the prior actuary. The segment interest rate rules under HATFA are applied for the 2013 plan year. Automatic approval is granted under this announcement for the change in funding method that occurred in connection with the change in the enrolled actuary. The new enrolled actuary prepares a revised 2013 Schedule SB that reflects the use of the HATFA segment interest rates, which is filed with the amended Form 5500.

The new enrolled actuary may not use new actuarial assumptions or funding methods for the 2013 plan year actuarial valuation (other than using the HATFA segment interest rates and applying the automatic approval under this announcement) because the Schedule SB had already been filed for that year. However, for the 2014 plan year, the new enrolled actuary may use new

¹ The Moving Ahead for Progress in the 21st Century Act (MAP-21), Pub. L. No.112-141.

actuarial assumptions and a new funding method, but only if the generally applicable requirements of § 430(h) and § 412(d)(1) are satisfied.

Effect on other guidance

Announcement 2010-3 is amplified.

Drafting information

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