

Employee Plans News

Issue 2015-3, March 25, 2015

Defined benefit plans

[Expanded annual actuarial certifications](#) for multiemployer plans due March 31 for calendar year plans

[Automatic approval](#) for change in method due to takeovers of single-employer defined benefit plans

Expanded Annual Actuarial Certifications for Multiemployer Plans Due March 31 for Calendar Year Plans

The Multiemployer Pension Reform Act of 2014 (MPRA), enacted on December 16, 2014, revised the annual funding certification requirements for multiemployer plans by:

- adding a new zone status, and
- providing special rules for entering into and emerging from certain zones.

The revisions generally apply to certifications for 2015 and subsequent plan years. For calendar year plans, the 2015 certification is due by March 31, 2015. MPRA also amended certain provisions of the Pension Protection Act of 2006 (PPA).

Pension Protection Act changes

MPRA made the following changes for zone certifications:

- Made permanent the annual requirement to certify a plan's funding zone. Before MPRA was passed, the annual certification requirement was scheduled to "sunset" on or after December 31, 2014.
- Election of Critical status: Plans projected to be in Critical status in any of the succeeding five plan years may elect to be in Critical status in the current plan year. Plans may bypass Endangered status by making this election.
- Changes made to emergence from Critical status: This was amended to include a condition for projected insolvency and special rules for plans with automatic amortization extensions.

Zone status changes

MPRA added a new zone status available for a plan actuary's annual certification. MPRA also added special rules allowing a plan to be treated as being in a particular zone when, before enactment, the plan would have been in a different zone. The new zone and special rules are indicated in **bold** below.

- Neither Endangered nor Critical (**new special rule**): A plan is treated as Neither Endangered nor Critical if it's projected to be in that status as of the end of the

10th plan year following the current plan year. The plan must not have been in either Critical status or Endangered status in the immediately preceding plan year.

- Endangered.
- Seriously Endangered.
- **Critical (new special rule)**: A plan can elect to be treated as Critical if the plan is projected to be in Critical status in any of the succeeding five plan years, but not in Critical status in the current plan year.
- **Critical and Declining**: This is the new zone status that applies if the plan is in Critical status for the current plan year and is projected to become insolvent in the current year or any of the succeeding 14 plan years. The period in which the plan is projected to become insolvent is extended from 14 plan years to 19 plan years if the ratio of inactive participants to active participants exceeds 2:1, or if the funded percentage is less than 80%.

Email and e-fax available for certifications

Actuaries can submit the Annual Actuarial Certification by email, e-fax or regular mail. Certifications must be filed by 90 days after the beginning of the plan year (March 31, 2015, for calendar year plans). The Employee Plans Compliance Unit (EPCU) doesn't provide return-receipt acknowledgements.

File a certification using **only one** of the following methods:

- **Email**: EPCU@irs.gov
(Note: IRS cannot guarantee internet security for incoming email submissions)
- **E-fax**: 855-215-7122
- **Mail**: Internal Revenue Service
Employee Plans Compliance Unit
Group 7602 (TEGE:EP:EPCU)
230 S. Dearborn Street
Room 1700 - 17th Floor
Chicago, IL 60604

EPCU offers more information on [submission requirements](#) and the actions taken if [certifications are not received](#).

Automatic approval for change in funding method for takeover plans (single-employer defined benefit plans)

Single-employer DB plans subject to Internal Revenue Code Section 430 may be eligible for automatic approval of a change in funding method due to a change in the plan's enrolled actuary and the business organization that provides actuarial services (takeover plans). This automatic approval is available for plan years beginning on or after January 1, 2013, for plans that meet the conditions outlined in [Announcement 2015-3](#).

This is an expansion of the automatic approval opportunities previously available to single-employer DB plans under [Announcement 2010-3](#).

Conditions for automatic approval under Announcement 2015-3

When a new actuary takes over a plan, he or she is likely to calculate slightly different valuation results than the prior actuary, due to differences in valuation software, techniques, etc., even if the new actuary is otherwise using the same funding method and assumptions. These differences are generally small, but they constitute a change in funding method. Announcement 2015-3 permits automatic approval for this change in funding method if it meets certain conditions:

- Both the enrolled actuary and the business organization providing actuarial services for the plan are changed.
- The new actuary uses different valuation software, or otherwise applies the same funding method used by the prior actuary in a different way to determine the funding target, target normal cost and actuarial value of assets.
- The new actuary's calculations for the prior plan year are within 5% of the prior actuary's calculations (using the prior actuary's assumptions) reported in the prior plan year's Schedule SB or actuarial report for the:
 - funding target,
 - target normal cost (without taking into account adjustments for employee contributions and plan-related expenses), and
 - actuarial value of plan assets.
- The new actuary uses a funding method to determine the funding target, target normal cost, and actuarial value of assets that is substantially the same as that used by the prior enrolled actuary and consistent with the description of the method contained in the prior plan year's Schedule SB.

Alternatively, the new actuary may use the current plan year to compare the funding target, target normal cost, and actuarial value of assets as long as the prior actuary has issued an actuarial report that includes those results or has provided the new actuary with a signed Schedule SB for the current plan year. However, the new actuary cannot revise a signed Schedule SB unless a revision would be permitted under existing rules.

See [Announcement 2015-3](#) for additional details.

Scope of automatic approval

If the plan qualifies for automatic approval, 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 IRC Sections 430(h) and 412(d)(1). For example, Announcement 2015-3 doesn't provide automatic approval for a change in valuation date or asset valuation method.

Expansion of prior automatic approval opportunities

This announcement expands the automatic approval in Announcement 2010-3 by allowing the new actuary to:

- perform the 5% comparison for the year in which the takeover occurs (instead of requiring that the new actuary compare the results for the prior year), and
- use a signed actuarial valuation report issued by the prior enrolled actuary for the plan (instead of requiring the comparison to be made based on the plan's Schedule SB).

One area in which this will be particularly helpful is in connection with the change in interest rates used for minimum funding purposes under the Highway and Transportation Funding Act of 2014 (HATFA). Under HATFA, a plan sponsor is allowed to use the HATFA interest rates retroactively for the 2013 plan year, even if the 2013 Schedule SB was already filed.

Under Announcement 2010-3, if a new enrolled actuary began providing actuarial services to a plan for the 2014 year, the actuary would have had to reproduce the prior actuary's valuation results for the 2013 year within 5% (and meet other conditions specified in the announcement) in order for the takeover to qualify for automatic approval effective with the 2014 plan year.

If the plan sponsor decided to apply the HATFA interest rates retroactively for 2013 and asked the new actuary to produce 2013 results under HATFA and sign the 2013 Schedule SB reflecting these results, the takeover would be effective in 2013 instead of 2014. That means that (under the previous rules) the work done to reproduce the prior actuary's pre-HATFA 2013 valuation results could not be used to determine if the 2013 takeover is automatically approved, and the new actuary would have to reproduce the results of the prior actuary for the 2012 valuation in order to obtain automatic approval for the takeover in 2013. Under Announcement 2015-3, the new actuary's comparison with the prior actuary's pre-HATFA results for 2013 could be used for determining whether the 2013 takeover is eligible for automatic approval.