



IRS Issues Guidance on Defined Benefit Pension Plan Elections Relating to Minimum Required Funding and Benefit Restrictions

Background: On August 8, 2014, President Obama signed the Highway Transportation Funding Act of 2014 (“HATFA”), which included a five year extension (2012 to 2017) of the single employer defined benefit pension plan funding stabilization (or smoothing) provisions originally included in 2012 legislation generally referred to as MAP-21. On September 11, 2014, the IRS issued Notice 2014-53 with comprehensive guidance for the sponsors of defined benefit pension plans and pension plan actuaries about the election options under these revised smoothing provisions, which apply to the minimum required funding and benefit restriction provisions in the Internal Revenue Code and ERISA.

Effective Date: The changes to these smoothing provisions in HATFA are effective for the 2013 plan year, but the legislation permits plan sponsors to elect to have the funding stabilization changes first become effective for the 2014 plan year. This deferral election can specify that it applies for both funding and benefit restriction purposes, or just for benefit restriction purposes. Furthermore, if a plan sponsor files a Form 5500 annual report for the 2013 plan year on or before December 31, 2014 with a 2013 Form SB, (Actuarial Information), using MAP-21 smoothing interest rates, the plan sponsor is deemed to have elected to defer the effective date of the HATFA smoothing provisions to the 2014 plan year.

Effective Date Election Procedures: If an election to defer the HATFA smoothing provisions to the 2014 plan year is not “deemed” and the plan sponsor wishes to defer the effective date, a 2014 plan year election may be made by the plan sponsor providing written notification to the plan’s enrolled actuary and to the plan administrator (if the Plan Administrator is not the plan sponsor) by the later of:

- 1) the Form 5500 deadline for the plan year beginning in 2013; or
- 2) December 31, 2014.

Other Elections: IRS Notice 2014-53 also provides detailed guidance about other elections, such as an election to reverse a 2013 plan year reduction of credit balances and elections regarding how to take the new smoothing provisions into account for benefit restriction purposes (such as restrictions on lump sum benefit payments).

Take-A-Way: We recommend you contact your plan actuary as soon as practicable to determine whether you need to make any special elections for minimum funding, benefit restriction or other purposes (which may have a deadline of not later than December 31, 2014).