

FYI[®] Alert

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2013 Pension plan funding stabilization rates released

The IRS guidance on the 25-year average segment rates to be used for determining 2013 minimum funding requirements for single-employer defined benefit plans subject to ERISA has just been released. Based on the segment rates from October 1987 to September 2012, the 25-year averages for the period ending September 30, 2012, of the first, second, and third segment rates are 5.81%, 7.23% and 7.95%, respectively. After application of the 15% corridor that applies for 2013 valuations, the rates are 4.94%, 6.15%, and 6.76%, respectively. These adjusted rates are lower than the stabilized rates for 2012 (after application of the 10% corridor: 5.54%, 6.85% and 7.52%) and will therefore generate higher liabilities and, generally, minimum contribution requirements for 2013.

Background

The “stabilized” rates were added to the ERISA funding rules, as modified by the Pension Protection Act of 2006 (PPA), by the Moving Ahead for Progress in the 21st Century Act (MAP-21) signed by President Obama on July 6, 2012. MAP-21’s aim is to address historically low rates that have been driving up current pension contribution requirements. Under MAP-21, the three PPA segment rates (averages of corporate bond rates for short-term, mid-term, and long-term periods) that are used to determine the present value of future benefits that will be paid by a plan are constrained for 2012 to a minimum of 90% of a 25-year average of these rates as of September 30, 2011. The rates for 2013 are constrained to a minimum of 85% of a 25-year average of these rates as of September 30, 2012.

Because plan actuaries needed 2012 segment rates under MAP-21 for reevaluating 2012 liabilities in time for plan sponsors to meet minimum funding deadlines that followed shortly after the law was enacted, the Treasury Department developed estimates of the historical rates. IRS Notice 2012-55 announced the 25-year average of segment rates for the period ending September 30, 2011 on this estimated basis.

Notice 2013-11

In [Notice 2013-11](#), IRS has announced the historical basis to be used for years after 2012 and the constraints to be used for 2013 valuation dates using the corporate bond yield curves that Treasury has developed for the period October 1987 through September 2005. These historical curves use the same method Treasury uses to construct more recent corporate bond yield curves under PPA. Notice 2013-11 shows that the rates for 2013 valuations that use lookback periods communicated to date (September 2012 through February 2013) will all be

constrained to the stabilized rates of 4.94%, 6.15%, and 6.76% for the first, second, and third segment rate periods, respectively.

In closing

These rates are likely to apply for all 2013 valuation dates unless interest rates spike upward tremendously and entirely unexpectedly between now and October.

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