



November 2017

PENSION ANALYST

Important information – Plan Administration and Operation



Prudential
Bring Your Challenges™

IRS updates approval process for funding method changes

Who's affected

This information applies to sponsors of qualified defined benefit pension plans including single employer plans and multiemployer plans subject to minimum funding requirements.

These changes impact defined benefit plans in accordance with the Internal Revenue Code (IRC) provisions discussed below and plans subject to similar provisions under the Employee Retirement Income Security Act of 1974 (ERISA).

Background and summary

In October 2017, following the issuance of final mortality table rules, the Internal Revenue Service (IRS) provided two updated revenue procedures regarding approval of funding method changes.

[Revenue Procedure 2017-56](#) provides automatic approval for certain changes in funding method for single-employer defined benefit plans that are subject to minimum funding requirements under Section 430 of the IRC. This Revenue Procedure modifies previously issued guidance regarding automatic approvals that did not take minimum funding rules under Section 430 of the IRC into account. This guidance is effective for plan years beginning on or after January 1, 2018. Previous IRS guidance may be used for earlier plan years. Revenue Procedure 2000-40 continues to provide automatic approval for certain changes in funding method for defined benefit plans that are not subject to the required minimum funding rules under Section 430 of the IRC.

[Revenue Procedure 2017-57](#), which applies to single employer plans and multiemployer plans, provides the process for obtaining approval from the IRS for funding method changes that are not eligible for automatic approval. It also includes funding method changes for revoking an interest rate election under the minimum funding rules. This Revenue Procedure updates prior guidance for subsequent legislation. This guidance is effective for requests submitted on or after January 1, 2018, but plan sponsors may choose to apply it to earlier requests.

Actions and next steps

Plan sponsors should carefully review the information in this publication and consult with their actuary to understand how these changes apply to their plans.

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Automatic approval for certain funding method changes

The IRS provides automatic approval for specific changes, special situations, and changes related to plan mergers. Changes that qualify for automatic approval are treated as approved by the IRS and may be implemented without any further IRS action.

Specified changes in funding method

Automatic approval is granted for the following specified changes in funding method:

- Changes in asset valuation method. Approval is granted for certain changes in asset valuation method, provided the asset valuation method was not changed in any of the four preceding years;
- Changes in valuation dates. Approval is granted for certain changes in valuation date, provided the valuation date was not changed in any of the four preceding years; and
- A change in treatment of benefits funded through insurance contracts. Approval is granted if none of the plan benefits were funded through insurance contracts, as of the prior plan year's valuation date.

Changes in funding method in special situations

Automatic approval is granted for the following special situations, if certain criteria are satisfied:

- A change in funding method for takeover plans;
- A change in funding method due to a change in valuation software;
- A change in the selection of data elements used in the actuarial valuation; and
- A change in funding method for fully funded terminated plans for the plan year in which the plan is terminated.

Approval for changes in funding method in connection with plan mergers

Auto approval is granted for the following changes in funding method related to plan mergers:

- A de minimis merger of a smaller plan and a larger plan (certain rules apply in determining whether a merger is de minimis);
- A merger of plans with the same plan year and merger date of the first or last day of plan year; and
- Certain mergers with a transition period not exceeding 12 months.

Requesting approval for a change in funding method

Approval must be obtained from the IRS for funding method changes that do not meet the conditions and requirements for automatic approval. Requests for approval must be submitted to the IRS in writing and must satisfy [IRS procedures](#) for determination letters and opinion letters. A checklist with the required information is included in Appendix A of Revenue Procedure 2017-57. In addition, requests for funding method changes must include the reason for the proposed change and a statement explaining why automatic approval may not be used to make the change.

Revocation of an interest rate election

The revocation of an interest rate election is treated as a change in funding method. Therefore, requests to revoke an interest rate election should follow the same approval process.

Timing requirement for requesting approval

Requests for approval must be made no later than 2½ months following the close of the plan year for which the change is to be effective. Requests made after 2½ months following the close of the plan year generally will not be considered unless the request involves a plan merger.

In the case of a request for approval for a change in the funding method that involves a plan merger, the request should be made no later than four months before the Form 5500 filing deadline for the ongoing plan for the plan year in which the merger took place.

Plan sponsor next steps

Plan sponsors with questions on these changes should consult their enrolled actuary.

Pension Analyst by Prudential Retirement

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