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newsflash™

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Buck Comments to Treasury on Cash Balance Conversion Issue

Buck Consultants has written to senior officials at the Internal Revenue Service and U.S. Treasury requesting that they reverse an IRS position that threatens to revoke the tax-qualified status of certain cash balance pension plans with generous conversion provisions. Buck's letter can be found here.

IRS personnel have indicated that certain cash balance plans that have been converted from traditional defined benefit plans and provide generous transition benefits may need to be amended to avoid plan disqualification. Under these plans, the benefit for some or all employees is the greater of the cash balance benefit and the ongoing prior traditional plan benefit. The IRS says that these plans violate ERISA's "anti-backloading rules," which are intended to limit the extent to which benefit accruals can be deferred to later years of service. In fact, the cash balance plan designs potentially affected do precisely the opposite – they accelerate accruals to earlier years.

If this IRS position is sustained, the most generous cash balance sponsors will be forced to retroactively redesign their plans, which will increase benefit costs and/or severely complicate plan design and administration. Buck believes that the current IRS approach will cause many cash balance plan sponsors to consider exiting the defined benefit system and may also affect thousands of other plans that provide "greater of" benefits under two or more formulas not involving cash balance benefits.

In our letter, we urge the IRS to cease immediately its threat to disqualify plans based on this issue. Buck also proposes two alternative approaches to regulatory interpretation that do not penalize plans that "front load" (i.e., accelerate) benefit accruals.

This Newsflash is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.

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