

Yield Curve Guidance – Hot off the Press

This morning, in a Special Edition of its [Employee Plans News](#), the IRS issued guidance on the selection of the corporate bond yield curve for determining defined benefit plan liabilities under Internal Revenue Code Section 430. Buck actuaries were instrumental in raising the issues the IRS has now addressed.

Background

Under previously issued proposed funding regulations, sponsors that elect to use the corporate bond yield curve in lieu of segment rates in determining plan funding liability would have been required to use the yield curve for the month immediately preceding the valuation date. (For calendar year plans, this is the yield curve for December published in January.) Most practitioners read the provision in the Pension Protection Act (PPA) as permitting the same lookback opportunity afforded those using segment rates to those who elect to use the full yield curve. Today's guidance represents an important change.

The Guidance

The guidance states that employers can rely on a reasonable interpretation of the funding rules for valuing their pension liabilities until the first plan year following the date the funding regulations are finalized. Further, the guidance states that using the full yield curve as of any of the "lookback months" for 2009 plan years will be considered a reasonable interpretation. Therefore, for a calendar year plan with a January 1, 2009 valuation date, the IRS will not challenge the use of a monthly yield curve for January 2009, or for any one of the four months immediately preceding January 2009.

In addition, the yield curve election can be changed for 2009 without IRS approval. One note of caution – we do not know if the final regulations will allow another change for 2010. This may be a concern for some employers who would prefer to be able to use the segment rate to reduce volatility.

The IRS cautioned in remarks made at a conference today that this is not an indication that the IRS has changed the position it took in the proposed regulations limiting the use of the yield curve to only one month. The IRS will address this issue in final regulations.

Conclusion

Buck is available to review this guidance with you along with the possible ramifications of any yield curve decisions on your plan.

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.