Benefits Alert

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American Rescue Plan Act guidance by IRS for single employer DB plans emphasizes written elections for compliance

Internal Revenue Service (IRS) Notice 2021-48 has been released with compliance guidance under the American Rescue Plan Act of 2021 (ARPA) for single employer defined benefit (DB) pension plan sponsors and their U.S. tax-qualified retirement plan advisors. The Notice emphasizes that the permissible actions for meeting the cash contribution requirements for plan years in 2019, 2020, 2021, and 2022, which offer significant flexibility to adopt ARPA provisions, must be memorialized by plan sponsors' written elections.

This *Benefits Alert* is an abbreviated version designed to provide our readers with the headline provisions. A detailed analysis will follow in a subsequent *Client Action Bulletin.*

ARPA made two significant changes to minimum funding rules for single employer DB plans. The IRS Notice informs the plan sponsors how to voluntarily elect the changes.

- The pension plan deficit, known as the funding target shortfall in pension law, i.e., the excess of the funding target over plan assets, is reset in the first plan year beginning in 2022. This "fresh-start" deficit is amortized over 15 years instead of seven years under prior pension law. Alternatively, plan sponsors may elect to implement this provision in any plan year beginning in 2019 or 2020 or 2021. Section IV of the IRS Notice recites the required details for the election. The plan sponsor is not required to provide a reason for electing the specific plan year to reset the pension deficit.
- The funding target is valued using three interest rates referred to as the "segment interest rates" prescribed by the IRS. Under ARPA, each of the three rates may be higher than under previous pension law as a corridor around the rates (based on a 25-year arithmetic average of prior interest rates) and will be set to no less than 95% of the average, nor any higher than 105% of the average. The amended 95% to 105% corridor for calculating the funding target is effective for plan years starting in 2020. However, by written election, the plan sponsor can alternatively defer the use of the 95% to 105% corridor to plan years starting in 2021 or 2022. The plan sponsor is not required to provide a reason for electing the specific plan year when new ARPA interest rates begin to apply for purposes of calculating the plan's funding target. There are other technical details, including that the 25-year average for each of the three segment rates cannot be less than 5.00%.

Written elections must be made by the later of the last day of the plan year starting in 2021 or December 31, 2021. However, no election is required if the plan sponsor applies these provisions of ARPA on their respective default effective dates, which are 2022 for the amortization period reset and 2020 for interest rate relief.

Other details regarding how ARPA elections impact credit balances, market rates of return for statutory hybrid plans, and amending completed IRS Forms 5500 will follow in a *Client Action Bulletin*.

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