New Legislation provides Funding Relief for Defined Benefit Plans

If you have a defined benefit plan you know how effective they are if your goal is to accelerate your retirement savings and maximizing tax deductions. The recently enacted "Moving Ahead for Progress in the 21st Century Act", referred to as MAP-21, included provisions that will become effective for defined benefit plan years beginning in 2013.

Under these new rules, higher interest rates will be utilized in the calculation of the plan's <u>minimum</u> required contribution. In a defined benefit plan, a higher interest rate assumption means that the current contribution is lower. That's because If one assumes the plan assets will grow at a higher rate of return, the amount that must be contributed now to meet the targeted defined benefit at retirement age is lower since the money that is already in the plan and future contributions to the plan are expected to grow at a higher rate of return.

Interest rates have been at historic lows over the last several years, which have edged up contribution levels and benefit payouts. This new legislation is good news for those clients who are interested in having a lower required contribution. In addition, <u>the maximum deductible</u> contribution level will be unaffected since the legislation calls for using the current lower interest rate structure for this calculation.

The new interest rate structure is optional for 2012, but we don't anticipate wide spread usage of the new rates this year unless specific circumstances warrant it. Actuarial studies predict the new interest rates will only temporarily reduce the funding obligations through 2014 and after that point, may actually cause contributions to be higher than they would otherwise have been if the contributions for the next couple of years are lower.

MAP-21 interest rates are a useful tool while some plan sponsors continue to struggle to meet their pension plan funding obligations in the short term. As with most new legislation, IRS requires defined benefit plans across the nation to amend their plans to incorporate the new language by the end of this year. We are working closely with our clients to ensure these amendments are adopted timely to meet the deadline.

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