

25-Year Average Segment Rates and Adjusted 24-Month Average Segment Rates Used for Pension Funding for Plan Years Beginning in 2013

Notice 2013-11

This notice provides guidance on the 25-year average segment rates that are applied to adjust the otherwise applicable 24-month average segment rates that are used to compute the minimum contribution requirements for single-employer defined benefit plans under § 430 of the Internal Revenue Code (Code) and § 303 of the Employee Retirement Income Security Act of 1974 (ERISA) for plan years beginning in 2013. The guidance reflects the changes made to the Code and ERISA by the Moving Ahead for Progress in the 21st Century Act (MAP-21), Pub. L. No.112-141.

BACKGROUND

Section 430 specifies the minimum funding requirements that generally apply to single-employer defined benefit pension plans pursuant to § 412. Section 430(h)(2) specifies interest rates that are used for purposes of calculating the minimum required contribution. The interest rates that are used for this purpose are a set of three segment rates described in § 430(h)(2)(C)(i), (ii), and (iii), or, alternatively, a full yield curve as described in § 430(h)(2)(D)(ii).

Each segment rate described in § 430(h)(2)(C)(i), (ii), and (iii) is, for any month, the single rate of interest determined by the Secretary for the month on the basis of the applicable corporate bond yield curve for that month, taking into account only that portion of the yield curve applicable to that segment. Section 430(h)(2)(D)(i) provides that the Secretary shall prescribe a corporate bond yield curve applicable for each month. The applicable corporate bond yield curve is, with respect to any month, a yield curve which reflects a 24-month average (the average of the yield curve values for the preceding month and the prior 23 months) of the yields on investment grade corporate bonds with varying maturities that are in the top 3 quality levels available. Under § 430(h)(2)(D)(ii), an employer may elect to use the corporate bond yield curve determined without regard to the 24-month averaging in lieu of the segment rates.

Section 40211(a) of MAP-21 adds § 430(h)(2)(C)(iv), generally effective for plan years beginning on or after January 1, 2012. Section 430(h)(2)(C)(iv) provides that, for a plan year, each of the three segment rates described in § 430(h)(2)(C)(i), (ii), and (iii) is adjusted as necessary to fall within a specified range that is determined based on a percentage of the average of the corresponding segment rates for the 25-year period ending on September 30 preceding the calendar year that includes the first day of that plan year. Under § 430(h)(2)(C)(iv)(II), for plan years beginning in 2013, each segment rate is adjusted so that it is no less than 85% and no more than 115% of the corresponding 25-year average segment rate. For later plan years, this range is gradually expanded, so that the segment rates for plan years beginning after 2015 are no less than 70% and no more than 130% of the corresponding 25-year average segment rates. Section 430(h)(2)(C)(iv)(I) provides that the Secretary may prescribe equivalent rates for any years in the 25-year period for which segment rates are not available.

Section 430(h)(2)(F) (as amended by MAP-21) provides that each month the Secretary shall publish the corporate bond yield curve, the segment rates in § 430(h)(2)(C), and the 25-year average of the segment rates. Section 430(h)(2)(F) also provides that the Secretary shall publish a description of the methodology used to determine the yield curve and the segment rates in sufficient detail to enable plans to make reasonable predictions regarding the yield curve and rates for future months.

Notice 2007–81, 2007–2 C.B. 899, provides guidelines for determining the monthly corporate bond yield curve and the 24-month average corporate bond segment rates. Notice 2012-55, 2012-36 I.R.B. 332, provides information on the determination of the 25-year average segment rates for plan years beginning in 2012.

DEVELOPMENT OF 25-YEAR AVERAGE SEGMENT RATES FOR PLAN YEARS BEGINNING IN 2013

The Treasury Department has constructed the corporate bond yield curves for the period October 1987 to September 2005 using the method used for constructing the corporate bond yield curves for current periods. Using these historical yield curves, segment rates were calculated for each month from October 1987 to September 2005. Annual averages of those segment rates are listed in the Appendix at the end of this notice.

Based on the segment rates from October 1987 to September 2012, the 25-year averages for the period ending September 30, 2012, of the first, second, and third segment rates are 5.81, 7.23 and 7.95 percent, respectively.

ADJUSTED 24-MONTH AVERAGE SEGMENT RATES

In prior notices, the Treasury Department and the Internal Revenue Service issued 24-month average segment rates that did not reflect the adjustment required by § 430(h)(2)(C)(iv) (as added by MAP-21) for plan years beginning in 2013. The table below contains previously issued 24-month average segment rates without adjustment, and, for plan years beginning in 2013, the adjusted 24-month average segment rates taking into account the 85-115% corridor around the 25-year average segment rates:

For Plan Years Beginning In			24-Month Average Segment Rates Not Adjusted			Adjusted 24-Month Average Segment Rates, Based on Applicable Percentage of 25-Year Average Rates		
	Applicable Month		First Segment	Second Segment	Third Segment	First Segment	Second Segment	Third Segment
2013	February	2013	1.58	4.34	5.38	4.94	6.15	6.76
2013	January	2013	1.62	4.40	5.45	4.94	6.15	6.76
2013	December	2012	1.66	4.47	5.52	4.94	6.15	6.76
2013	November	2012	1.69	4.53	5.60	4.94	6.15	6.76
2013	October	2012	1.72	4.58	5.67	4.94	6.15	6.76
2013	September	2012	1.75	4.62	5.72	4.94	6.15	6.76

DRAFTING INFORMATION

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APPENDIX

**ANNUAL AVERAGE SEGMENT RATES
USED TO DEVELOP THE 25-YEAR AVERAGE AS OF SEPTEMBER 30, 2012**

Table 1: Annual Averages of 24-Month Segment Rates						
	<u>Annual Period</u>		<u>First Segment</u>	<u>Second Segment</u>	<u>Third Segment</u>	
	<u>From October of Year</u>	<u>To September of Year</u>				
1	1987	-	1988	8.19	9.52	9.86
2	1988	-	1989	8.78	9.83	10.01
3	1989	-	1990	9.22	9.61	9.67
4	1990	-	1991	9.13	9.44	9.66
5	1991	-	1992	8.36	9.25	9.89
6	1992	-	1993	6.81	8.49	9.66
7	1993	-	1994	5.55	7.59	8.98
8	1994	-	1995	6.03	7.62	8.64
9	1995	-	1996	6.66	7.73	8.51
10	1996	-	1997	6.44	7.37	8.18
11	1997	-	1998	6.33	7.18	7.92
12	1998	-	1999	6.03	6.73	7.51
13	1999	-	2000	6.20	6.91	7.59
14	2000	-	2001	6.73	7.50	8.02
15	2001	-	2002	5.90	7.29	7.96
16	2002	-	2003	4.27	6.56	7.57
17	2003	-	2004	3.16	5.88	7.17
18	2004	-	2005	3.06	5.53	6.80
19	2005	-	2006	4.02	5.49	6.40
20	2006	-	2007	4.99	5.66	6.29
21	2007	-	2008	5.21	5.97	6.48
22	2008	-	2009	5.23	6.54	6.75
23	2009	-	2010	4.38	6.57	6.71
24	2010	-	2011	2.67	5.66	6.41
25	2011	-	2012	1.90	4.92	6.04