26 CFR § 601.201 Rulings and determination letters.

Automatic approval for certain funding method changes for single-employer defined benefit pension plans subject to the minimum funding requirements of § 430

Rev. Proc. 2017-56

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SECTION 1. PURPOSE AND SCOPE

.01 The purpose of this revenue procedure is to update Rev. Proc. 2000-40, 2000-2 C.B. 357, to take into account the provisions of § 430 of the Internal Revenue Code (Code), which was enacted as part of the Pension Protection Act of 2006, Pub. L. 109-280. This revenue procedure provides automatic approval for certain changes in funding method used for single-employer defined benefit plans for calculations described under § 430. A funding method is a recognized actuarial technique utilized for establishing the amount and incidence of the annual actuarial cost of pension plan benefits and expenses. The approvals under this revenue procedure are granted in accordance with § 412(d)(1) of the Code and section 302(d)(1) of the Employee Retirement Income Security Act of 1974, Pub. L. 93-406, as amended (ERISA).

.02 Section 3 of this revenue procedure provides automatic approval for three asset valuation method changes, automatic approval for two valuation date changes, and automatic approval for one type of change in the treatment of benefits funded through insurance contracts. Section 4 of this revenue procedure provides automatic approval for a change in funding method in special situations in which there is a change in the plan's actuary, actuarial software, or the data elements used in the actuarial valuation, and for fully funded terminating plans. Section 5 of this revenue procedure provides automatic approval for a change in funding method in connection with a plan merger.

.03 Taxpayers, plan administrators, and enrolled actuaries are cautioned to consider the overall restrictions on use of automatic approval under this revenue procedure (see section 6 of this revenue procedure), and the specific restrictions with respect to each of the approvals.

.04 The application of a funding method approved under this revenue procedure must conform to all of the requirements of the regulations under § 430. Thus, for example, the funding method must comply with the requirements for the determination of target normal cost and funding target, as required under § 1.430(d)-1. Similarly, in accordance with § 1.430(a)-1(c)(2), the difference in the funding shortfall attributable to the change in funding method is used, in conjunction with the present value of existing amortization installments, to determine the shortfall amortization base for the year of the change.

SECTION 2. BACKGROUND

.01 Sections 412 and 430 set forth the minimum funding standards that apply generally with respect to single-employer defined benefit pension plans.[1] Under § 412(d)(1), a change of funding method may take effect for a plan year only if the change is approved by the Internal Revenue Service (IRS).

.02 A funding method is used for a plan year if it is used to determine the minimum required contribution for that year. Section 1.430(d)-1(f)(1)(iii) provides the procedure for establishing the funding method for a plan. In the case of a plan for which an actuarial report under § 6059 (Schedule SB of Form 5500, "Annual Return/Report of Employee Benefit Plan") is required to be filed, the funding method is established by the filing of the Schedule SB, if it is filed no later than the due date (with extensions) for that filing. In the case of a plan for which Schedule SB is not required to be filed, the funding method is established by the delivery of the completed Schedule SB to the employer, if it is delivered no later than what would have been the due date (with extensions) for filing the Schedule SB, were such a filing required.

.03 Section 1.430(d)-1(f)(1)(iv) provides that the funding method of a plan includes not only the overall funding method used by the plan but also each specific method of computation used in applying the overall method. However, the choice of which actuarial assumptions are used is not a part of the funding method. See Section 3.02 of Rev. Proc. 2017-57, 2017-44 I.R.B. xx, for examples of changes in funding method and changes in actuarial assumptions.

.04 Regulations under § 430 provide for a number of changes in funding method that are treated as approved by the IRS and may be implemented without any further action by the IRS. For example, § 1.430(d)-1(g)(3)(iii) provides that any change in a plan's funding method for the first plan year to which § 430 applies to determine the plan's minimum required contribution is automatically approved by the IRS. In addition, under § 1.430(g)-1(b)(2)(iv), if a plan ceases to be eligible for the small plan exception for a plan year because the number of participants exceeded 100 in the prior plan year, then any required change in the valuation date to the first day of the plan year is automatically approved by the IRS.

.05 Rev. Proc. 2000-40 grants automatic approval for certain changes in funding method, but does not take into account the provisions of § 430. This revenue procedure modifies Rev. Proc. 2000-40 for plans subject to the requirements of § 430. Rev. Proc. 2000-40 continues to provide automatic approval for certain changes in funding method for defined

[1] Sections 302 and 303 of ERISA contain funding rules which apply generally to single-employer defined benefit plans and are parallel to the rules of §§ 412 and 430 of the Code.

benefit plans that are not subject to the required minimum funding rules of § 430. Rev. Proc. 2017-57 provides the procedure for obtaining the IRS's approval for a change in funding method if that change is not eligible for automatic approval.

.06 Announcement 2010-3, 2010-4 I.R.B. 333, provides for automatic approval of changes in funding method for takeover plans (plans for which there has been a change in both the plan's enrolled actuary and the business organization providing actuarial services to the plan) and changes in pension valuation software with respect to single-employer defined benefit plans subject to § 430, provided certain conditions are satisfied. Announcement 2010-3 was effective for plan years beginning on or after January 1, 2009. Announcement 2015-3 amplified Announcement 2010-3 and provided for additional circumstances under which automatic approval for a change in funding method for takeover plans is available. Announcement 2015-3 was effective for plan years beginning on or after January 1, 2013. These two announcements provided interim automatic approval for changes in funding method prior to the issuance of the more comprehensive guidance regarding changes in funding method under § 430 set forth in this revenue procedure. Section 8 of this revenue procedure specifies a time after which the automatic approvals set forth in those two announcements may no longer be used.

SECTION 3. APPROVAL FOR SPECIFIED CHANGES IN FUNDING METHOD

Subject to the restrictions of section 6 of this revenue procedure and to the conditions under the applicable change in funding method described in section 3.01, 3.02, or 3.03 of this revenue procedure, approval is granted for a change in funding method described in this section 3.

.01 Approval for changes in asset valuation method. Approval is granted for the following changes in asset valuation method, provided that the asset valuation method was not changed in any of the four preceding plan years.

(1) A change in asset valuation method to a method that determines the value of plan assets as fair market value, as defined in § 1.430(g)-1(c)(1)(ii).

(2) A change in asset valuation method to a method that determines the value of plan assets as the average of the fair market value on the valuation date and the adjusted fair market value of assets determined for one or more earlier determination dates, as described in § 430(g)(3)(B) and the regulations and other published guidance thereunder. (See § 1.430(g)-1(c)(2) and Notice 2009-22, 2009-14 I.R.B. 741.) The asset value determined under the method must be restricted so that it is not greater than 110% and not less than 90% of the fair market value, as described in § 1.430(g)-1(c)(2)(iii).

(3) A change in asset valuation method to a method that applies a phase-in for the determination of the value of plan assets. Under this method, the value of plan assets is

determined as the average of the fair market value on the valuation date and the adjusted fair market value of assets determined for one or more earlier determination dates, as described below. The asset value determined under this method must be restricted so that it is not greater than 110% and not less than 90% of the fair market value, as described in § 1.430(g)-1(c)(2)(iii).

In the first plan year this asset valuation method is used, the value of plan assets is the fair market value. In the second plan year this asset valuation method is used, the value of plan assets is the average of the fair market value of assets on the valuation date and the adjusted fair market value of assets from the immediately preceding valuation date. In the third plan year this asset valuation method is used, the value of plan assets is the average of the fair market value of assets on the valuation date and the adjusted fair market value of assets from the two immediately preceding valuation dates.

The phase-in that applies under this method is not a change in funding method in years two and three. The first plan year of the four-year limitation on changes receiving automatic approval as described in this section 3.01 starts in the first year of this phase-in method. Failure to apply this method for the second or third plan year would be considered a change in funding method for the year for which the failure occurred, which would require approval for that year.

This approval is available only if the determination dates used for the adjusted fair market values after the phase-in of the new asset valuation method are not the same as the determination dates used for this purpose prior to the change in asset valuation method. Accordingly, this automatic approval may not be used merely to restart the asset valuation method in use prior to the change in funding method.

.02 Approval for changes in valuation date. Approval is granted for the following changes in valuation date, provided that the valuation date was not changed in any of the four preceding plan years.

(1) A change in the valuation date to the day that is the first day of the plan year.

(2) A change in the valuation date to the last day of the plan year, if there was a change in the plan year and the valuation date for the prior plan year was the last day of that plan year.

.03 Approval for change in treatment of benefits funded through insurance contracts. Approval is granted for a change in the treatment of benefits funded through insurance contracts if, as of the prior plan year's valuation date, none of the plan benefits were funded through insurance contracts.

SECTION 4. APPROVAL FOR CHANGES IN FUNDING METHOD IN SPECIAL

SITUATIONS

Subject to the restrictions of section 6 of this revenue procedure and to the conditions under the applicable change in funding method described in section 4.01, 4.02, 4.03 or 4.04 of this revenue procedure, approval is granted for a change in funding method described in this section 4.

.01 Approval for change in funding method for takeover plans. Approval is granted for a change in funding method, including a change in the valuation date to the last day of the plan year (without regard to whether there is also a change in plan year) or a change in software, if all the conditions set forth in paragraphs (1) through (4) of this section 4.01 are satisfied.

(1) Both the enrolled actuary for the plan and the business organization providing actuarial services to the plan have changed.

(2) The new method is substantially the same as the method used by the prior enrolled actuary and is consistent with the description of the method contained in the prior actuarial report or prior Schedule SB (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 4.01).

(3) The funding target and target normal cost (without regard to any adjustments for employee contributions and plan-related expenses), as determined by the new enrolled actuary as of the valuation date for the prior plan year (using the actuarial assumptions of the prior enrolled actuary and using the data elements and valuation software of the new enrolled actuary), are both within 3% of those values as determined for that prior plan year by the prior enrolled actuary.

(4) The actuarial value of plan assets, as determined by the new enrolled actuary as of the valuation date for the prior plan year (using the actuarial assumptions of the prior enrolled actuary), is within 2% of the value for that prior plan year as determined by the prior enrolled actuary.

Alternatively, the comparisons described in paragraphs (3) and (4) of this section 4.01 may be made on the basis of the current plan year, provided that the prior enrolled actuary has issued an actuarial report that includes the results for the current plan year (or has provided a signed Schedule SB to the new enrolled actuary for the current plan year, to the extent guidance issued by the IRS would permit the new enrolled actuary to revise those entries on that Schedule SB).

For purposes of this revenue procedure, an actuarial report must be signed by the enrolled actuary for the plan and must meet the applicable standards of performance under regulations issued by the Joint Board for the Enrollment of Actuaries. See 20 CFR 901.20. In addition, for purposes of this section 4.01, the current plan year means the first plan year for which a Schedule SB is signed by the new enrolled actuary, and the prior plan year means the plan year that immediately precedes the current plan year.

.02 Approval for change in funding method due to change in valuation software. Approval is granted for a change in funding method that results from a change in valuation software if all the conditions set forth in paragraphs (1) through (5) of this section 4.02 are satisfied. Note that certain changes in valuation software may not constitute changes in funding method. For example, the update of the valuation software to incorporate the actual social security taxable wage base for the current year is not a change in funding method. Also, if all of the results of each specific computation are the same after the change in valuation software, there is no change in funding method.

(1) The enrolled actuary for the plan is the same as the enrolled actuary for the plan for the prior plan year or the business organization providing actuarial services to the plan is the same as the business organization that provided actuarial services to the plan for the prior plan year. (Accordingly, the approval under section 4.01 of this revenue procedure is not available.)

(2) The new method is substantially the same as the method used for the prior plan year (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 4.02).

(3) The new valuation software generally will be used by the enrolled actuary for the single-employer plans to which the enrolled actuary provides actuarial services.

(4) For either the prior plan year or the current plan year, the funding target, target normal cost (without regard to any adjustments for employee contributions and plan-related expenses), and actuarial value of assets determined under the new valuation software are each within 1% of the respective values determined under the valuation software used for the prior plan year (all other factors being held constant). However, the 1% threshold is increased to 2% of the respective values if the approval under this section 4.02 was not used in the prior year.

(5) The modifications to the computations in the valuation software or the use of a different valuation software system are designed to produce results that are no less accurate than the results produced prior to the modifications or change.

.03 Approval for change in funding method due to change in selection of data elements. Approval is granted for a change in funding method used in valuing liabilities due to a change in the selection of data elements[2] that are used in the actuarial valuation if all of the conditions

[2] Data elements are types of data, such as compensation, dates of birth or hire, or gender, used to value the plan liabilities. See section 3.02 of Rev. Proc. 2017-57 for examples of changes in the selection of data elements.

set forth in paragraphs (1) through (4) of this section 4.03 are satisfied. For example, a change from using the prior years' actual compensation with an adjustment to the current valuation date to using the current annual rate of pay is approved, if the applicable conditions are satisfied.

(1) The enrolled actuary for the plan is the same as the enrolled actuary for the plan for the prior plan year or the business organization providing actuarial services to the plan is the same as the business organization that provided actuarial services to the plan for the prior plan year.

(2) Other than the change in data elements described in this section 4.03, the new method is the same (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 4.03).

(3) The funding target and target normal cost (without regard to any adjustments for employee contributions and plan-related expenses) determined using the all of the new data elements (for either the current plan year or the prior plan year) are each within 1% of the respective values determined using the prior data elements (with all other factors being held constant).

(4) The use of any new data element is designed to produce results that are no less accurate than the results produced prior to the modifications or change.

.04 Approval for change in funding method for fully funded terminated plans. Approval is granted for a change in funding method described in paragraph (1) of this section 4.04 for the plan year in which the plan is terminated, if all the conditions set forth in paragraph (2) of this section 4.04 are satisfied.

(1) Any or all of the following changes in funding method may be made:

(a) The asset valuation method may be changed to a method that determines the value of plan assets as the fair market value of assets, even if that change does not otherwise satisfy the conditions of section 3.01 of this revenue procedure.

(b) For a plan that is eligible to designate any day during the plan year as its valuation date pursuant to § 430(g)(2)(B), the valuation date may be changed to the date of termination or the first day of the plan year, even if the change does not otherwise satisfy the conditions of section 3.02 of this revenue procedure.

(c) The funding method may be changed as a result of a change in both the enrolled actuary for the plan and the business organization providing actuarial services to the plan, even if the change does not otherwise satisfy the conditions of section 4.01 of this revenue procedure.

(d) The funding method may be changed as a result of a change in the valuation software, even if the change does not otherwise satisfy the conditions of section 4.02 of this revenue procedure.

(e) The funding method may be changed as a result of a change in the data elements, even if the change does not otherwise satisfy the conditions of section 4.03 of this revenue procedure.

(2) The conditions which must be satisfied to receive automatic approval under this section 4.04 are:

(a) As of the date of termination, the assets of the plan (exclusive of contributions receivable) are sufficient to satisfy all benefit liabilities (whether or not the corresponding benefits are vested).

(b) If applicable, a timely notice of intention to terminate was filed with the Pension Benefit Guaranty Corporation pursuant to section 4041(b)(2)(A) of ERISA.

SECTION 5. APPROVAL FOR CHANGES IN FUNDING METHOD IN CONNECTION WITH PLAN MERGERS

Subject to the restrictions of section 6 of this revenue procedure and to the conditions under the applicable change in funding method described in section 5.01, 5.02, or 5.03 of this revenue procedure, approval is granted for a change in funding method described in this section 5.

Any contribution that is made to the trust after the date of the merger may be credited on the Schedule SB for either plan, provided that the contribution is made within the period described in § 430(j) for the plan year for which the contribution is credited. Alternatively, a contribution made after the date of the merger may be treated as a contribution to the merged plan.

.01 Approval for change in funding method in connection with *de minimis* merger. Approval is granted for a change in funding method in connection with a *de minimis* merger if the condition set forth in paragraph (1) of this section 5.01 is satisfied, and the procedures set forth in paragraphs (2) through (5) of this section 5.01 are followed. A *de minimis* merger is a merger of a smaller plan (within the meaning of § 1.414(l)-1(h)(1)) and a larger plan (within the meaning of § 1.414(l)-1(h)(1). The rules of §§ 1.414(l)-1(h)(2), 1.414(l)-1(h)(3), and 1.414(l)-1(h)(4) apply in determining whether a merger is *de minimis.*

(1) The smaller plan is treated as terminated on the date of the merger for purposes of § 430, and by 8½ months after the date of the merger, sufficient contributions have been made

for the smaller plan to eliminate any unpaid minimum required contribution for any plan year ending before the date of the merger and to satisfy the minimum required contribution for the short plan year that ends on the date of the merger.[3]

(2) If the valuation date for the larger plan for the plan year in which the merger occurs precedes the date of the merger, the minimum required contribution for the ongoing plan for that plan year is determined without regard to the merger.

(3) For the actuarial valuation of the ongoing plan as of the valuation date coincident with or next following the date of the merger, except to the extent automatic approval has been provided for a change in funding method without regard to this section 5.01, the funding method used (including asset valuation method) is that for the larger plan. The funding method used for the smaller plan is disregarded.

(4) For the actuarial valuation of the ongoing plan as of the valuation date coincident with or next following the date of the merger, the interest rates used are those that would have been used for the larger plan unless the plan sponsor of the ongoing plan elects an alternative interest rate available under § 1.430(h)(2)-1(e) or requests approval under the procedures set forth in Rev. Proc. 2017-57 to revoke an interest rate election that was in effect for the larger plan. The interest rates used for the smaller plan are disregarded.

(5) Any amortization installments, funding standard carryover balance, and prefunding balance existing prior to the valuation date of the larger plan coincident with or next following the date of the merger continue for the ongoing plan as if the merger had never occurred. These amounts with respect to the smaller plan are disregarded for purposes of applying § 430 with respect to the ongoing plan.

For purposes of this section 5, references to the ongoing plan mean the plan as designated by the plan administrator (within the meaning of § 414(g)), whose name and plan number will be reported on Schedule SB for the first plan year that begins on or after the merger.

.02 Approval for change in funding method in connection with a merger of plans with same plan year and merger date of first or last day of plan year. Approval is granted for a change in funding method in connection with a merger of one plan with another plan in a given plan year if all the conditions set forth in paragraphs (1) through (3) of this section 5.02 are satisfied, and the procedures set forth in paragraphs (4) through (6) of this section 5.02 are followed.

[3] If the plan year that ends on the date of the merger is less than a 12-month plan year, the minimum required contribution for the smaller plan for this period is determined in accordance with § 1.430(a)-1(b)(2)(ii). The smaller plan is subject to the generally applicable reporting requirements, including filing Schedule SB, for that plan year.

(1) Both plans have the same plan year and each plan has a valuation date that is either the first or last day of the plan year.

(2) The date of the merger is either the first day of the plan year or the last day of the plan year of the two plans.

(3) In a case in which the date of the merger is the first day of the plan year, by 8½ months after the date of the merger, sufficient contributions have been made for each plan to eliminate any unpaid minimum required contribution and to satisfy the minimum required contribution for any plan year that ends before the date of the merger. In a case in which the date of the merger is the last day of the plan year, by 8½ months after the date of the merger, sufficient contributions have been made for each plan to eliminate any unpaid minimum required contribution for the plan for any plan year ending before the date of the merger, and to satisfy the minimum required contribution for the plan year that ends on the date of the merger.

(4) If the date of the merger is the first day of the plan year, the minimum required contribution under § 430 is determined for the ongoing plan for the entire plan year in which the merger occurs in the manner provided in paragraph (5) of this section 5.02. Consequently, for the plan year in which the merger occurs, only one Schedule SB is required for the merged plan.

(5) For the plan year of the ongoing plan following the plan year in which the merger occurs, the minimum funding requirements under § 430 for the ongoing plan are determined in accordance with the rules set forth in paragraphs (a) through (d) of this paragraph 5.02(5).

(a) If the asset valuation method that was used for each of the two plans was identical in all respects (including with respect to the determination dates used if the asset valuation method is the averaging method under § 430(g)(3)(B)), the asset valuation method used for the ongoing plan is that method (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.02). If the same asset valuation method was not used for each of the two plans (for example, a method that determines the value of plan assets as the fair market value was used for one of the plans, and a method that determines the value of plan assets as the average of fair market value on the valuation date and adjusted fair market value determined for the two prior determination dates was used for the other plan), the asset valuation method used for the ongoing plan must be the asset valuation method that was used for one of the two plans (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.02). If an averaging method is the method chosen for the ongoing plan, that asset valuation method must reflect the historical cash flows for both plans, even if this requires the reconstruction of historical cash flows and expected earnings for a plan that was not valued using the method chosen for the ongoing plan.

(b) If all components of the funding method (other than the asset valuation method) used for each of the two plans were the same, then the funding method (other than the asset valuation method) for the ongoing plan must be that method (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.02). If all components of the funding method (other than the asset valuation method) used for each of the two plans were not the same, then the funding method (other than the asset valuation method) for the ongoing plan must be one of the funding methods for one of the two plans (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.02).

(c) The interest rates used for the plan after the merger are those that would have been used for one of the two plans. However, the interest rates may be changed if the plan sponsor of the ongoing plan elects an alternative interest rate available under § 1.430(h)(2)-1(e) or requests approval under the procedures set forth in Rev. Proc. 2017-57 to revoke an interest rate election that was in effect for one of the two plans.

(d) All amortization installments that were maintained for the two plans continue to be maintained for the ongoing plan, except as provided under § 430(c)(6).

(6) If the date of the merger is the last day of the plan year, the minimum required contribution under § 430 for each of the plans for the plan year in which the merger occurs is determined without regard to the merger. Consequently, separate Schedules SB are required for the plans for the plan year in which the merger occurs without regard to the merger in such a case. For the plan year following the plan year in which the merger occurs, the minimum required contribution is determined for the plan after the merger by following the procedures set forth in paragraph (5) of this section 5.02 as if the merger occurred on the first day of the following plan year.

.03 Approval for change in funding method in connection with certain mergers with transition period not exceeding 12 months. Approval is granted for a change in funding method that results from a merger of one plan with another plan if all the conditions set forth in paragraphs (1) through (4) of this section 5.03 are satisfied, and the procedures set forth in paragraphs (5) through (8) of this section 5.03 are followed.

(1) Each of the plans, prior to the merger, had a valuation date that was the first day of the plan year.

(2) The plans do not have the same plan year, or if both plans have the same plan year, the date of the merger is not the first day or the last day of the plan year.

(3) The period from the first day of the plan year of the plan that is not the ongoing plan during which the merger takes place to the end of the plan year of the ongoing plan during which the merger takes place (the “transition period”) does not exceed 12 months.

(4) The plan that is not the ongoing plan is treated as terminated on the date of the merger for purposes of § 430, and by 8½ months after the date of the merger, sufficient contributions have been made for that plan to eliminate any unpaid minimum required contribution for any plan year that ends before the date of the merger, and to satisfy the minimum required contribution for the short plan year that ends on the date of the merger. For the ongoing plan, by 8½ months after the end of the last plan year that ends on or before the date of the merger, sufficient contributions have been made for that plan to eliminate any unpaid minimum required contribution and to satisfy the minimum required contribution for that prior plan year.

(5) The period from the date of merger to the end of the plan year of the ongoing plan is designated as the interim period. The target normal cost attributable to the plan that is not the ongoing plan for the interim period is the target normal cost determined for the period from the beginning of the plan year of that plan to the end of the interim period, reduced by the target normal cost for the short plan year described in paragraph (4) of this section 5.03. The amortization installments attributable to the plan that is not the ongoing plan for the interim period are the amounts that would otherwise be determined for that plan for the plan year that includes the date of the merger, prorated to reflect the duration of the interim period.

(6) Unless the date of the merger is the first day of the plan year of the ongoing plan, the funding requirement for the ongoing plan for the plan year in which the merger occurs is determined in accordance with the steps described in paragraphs (a) through (c) of this paragraph 5.03(6).

(a) In the first step, the target normal cost and amortization installments for the ongoing plan are the full year amounts determined without regard to the merger.

(b) In the second step, the target normal cost and amortization installments attributable to the plan that is not the ongoing plan are determined for the interim period as described in paragraph (5) of this section 5.03.

(c) In the third step, the target normal cost and amortization installments from the first two steps are combined in a manner similar to the treatment for separate plans under § 413(c)(4)(A).

A Schedule SB is required for the ongoing plan for the plan year in which the merger occurs with the combined target normal cost and amortization installments described in paragraph (c) of this paragraph 5.03(6).

(7) For the plan year of the ongoing plan following the plan year in which the merger occurs, the minimum funding requirements under § 430 for the ongoing plan are determined in accordance with the rules set forth in paragraphs (a) through (d) of this paragraph 5.03(7).

(a) If the asset valuation method that was used for each of the two plans was identical in all respects (including, if the asset valuation method is the averaging method under § 430(g)(3)(B), the determination dates), the asset valuation method used for the ongoing plan is that method (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.03). If the same asset valuation method was not used for each of the two plans (for example, a method that determines the value of plan assets as the fair market value was used for one of the plans, and a method that determines the value of plan assets as the average of fair market value on the valuation date and adjusted fair market value determined for the two prior determination dates was used for the other plan), the asset valuation method used for the ongoing plan must be the asset valuation method that was used for one of the two plans (disregarding any difference attributable to a change in funding method for which automatic approval for the change is provided without regard to this section 5.03). If an averaging method is the method chosen for the ongoing plan, that asset valuation method must reflect the historical cash flows for both plans, even if this requires the reconstruction of historical cash flows and expected earnings for the plan that was not valued using the method chosen for the ongoing plan.

(b) If all components of the funding method (other than the asset valuation method) used for each of the two plans were the same, then the funding method (other than the asset valuation method) for the ongoing plan must be that method (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.03). If all components of the funding method (other than the asset valuation method) used for each of the two plans were not the same, then the funding method (other than the asset valuation method) for the ongoing plan must be one of the funding methods for one of the two plans (disregarding any difference attributable to a change in funding method for which automatic approval is provided without regard to this section 5.03).

(c) The interest rates used for the plan after the merger must be the interest rates that would have been used for one of the two plans. However, the interest rates may be changed if the plan sponsor of the ongoing plan elects an alternative interest rate available under § 1.430(h)(2)-1(e) or requests approval under the procedures set forth in Rev. Proc. 2017-57 to revoke an interest rate election that was in effect for one of the two plans.

(d) All amortization installments that were maintained for the two plans continue to be maintained for the ongoing plan, except as provided under § 430(c)(6).

(8) If the date of the merger is the first day of the plan year of the ongoing plan, the following calculations are made as if the merger had occurred on the last day of the preceding plan year of that plan:

(a) The minimum required contribution for the plan that is not the ongoing plan is determined for the short plan year as described in paragraph (4) of this section 5.03.

(b) The minimum required contribution for the ongoing plan for the plan year of the merger fully reflects the merger in the manner described in paragraph (7) of this section 5.03. However, as there is no interim period, the calculations described in paragraph (5) of this section 5.03 are not made.

(9) The following examples illustrate the application of this section 5.03.

Example 1. Mid-year merger of two plans with same plan year

(a) Plan A has a plan year that begins on January 1 and ends on the following December 31. The valuation date for Plan A is January 1, the first day of the plan year.

(b) Plan B has a plan year that begins on January 1 and ends on the following December 31. The valuation date for Plan B is January 1, the first day of the plan year.

(c) Plan B is merged into Plan A (so that Plan A is the ongoing plan) on April 1, 2018. Thus, the interim period runs from April 1, 2018, to December 31, 2018, and for Plan B, there is a short plan year that runs from January 1, 2018, to March 31, 2018.

(d) The actuarial valuation for Plan A as of January 1, 2018, based on a 12-month plan year, results in a target normal cost of $200,000 and a shortfall amortization installment for 2018 of $116,852, attributable to a shortfall amortization base established January 1, 2018. There are no other shortfall or waiver amortization bases for Plan A as of January 1, 2018.

(e) The actuarial valuation for Plan B as of January 1, 2018, based on a 12-month plan year, results in a target normal cost of $110,000 and a shortfall amortization installment for 2018 of $185,000, attributable to a shortfall amortization base established January 1, 2018. There are no other shortfall or waiver amortization bases for Plan B as of January 1, 2018.

(f) The minimum required contribution for Plan B for the short plan year described in paragraph (4) of this section 5.03 (January 1, 2018, to March 31, 2018) is determined as follows:

(i) The target normal cost for the short plan year is redetermined to reflect that there is a short plan year. The new calculation shows that the target normal cost for the short plan year (based on the accruals for that short plan year) is $25,000.

(ii) In accordance with § 1.430(a)-1(b)(2)(ii)(A), the shortfall amortization installment is prorated to reflect the three months covered by the short plan year. Accordingly, the shortfall amortization installment for the short plan year is $46,250 (that is, $185,000 multiplied by 3/12).

(iii) The total minimum required contribution for the short plan year is $71,250 (that is, the sum of the target normal cost of $25,000 plus the shortfall amortization installment of $46,250). A final Schedule SB is filed for Plan B for this short plan year based on these results. Pursuant to paragraph (4) of this section 5.03, to be eligible for the automatic approval in this section 5.03, by 8½ months after the date of the merger of March 31, 2018 (that is, December 15, 2018), sufficient contributions must have been made to Plan B to eliminate any unpaid minimum required contribution for any plan year that ended prior to January 1, 2018, and to satisfy the minimum required contribution for the short plan year that ended on March 31, 2018.

(g) The target normal cost and amortization installment attributable to Plan B for the interim period (April 1, 2018, to December 31, 2018, which is the period from the date of the merger to the end of the plan year of the ongoing plan) are determined as follows:

(i) The target normal cost attributable to Plan B for the interim period is $85,000 (that is, $110,000 for the 12-month plan year minus $25,000 for the short plan year).

(ii) The shortfall amortization installment attributable to Plan B for the interim period is $138,750 (that is, $185,000 for the 12-month plan year multiplied by 9/12).

(h) Following the rules of paragraph (6) of this section 5.03, the total minimum required contribution for Plan A for the plan year from January 1, 2018, to December 31, 2018, is $540,602. This is the total of the target normal cost of $285,000 (the total of the target normal cost for Plan A disregarding the merger of $200,000 and the target normal cost attributable to Plan B for the interim period of $85,000) plus the total amortization installment of $255,602 (the total of the amortization installment for Plan A disregarding the merger of $116,852 plus the amortization installment attributable to Plan B for the interim period of $138,750). A Schedule SB is filed for Plan A reflecting the merger. Pursuant to paragraph (4) of this section 5.03, to be eligible for the automatic approval under this section 5.03, Plan A must not have any unpaid minimum required contribution and must satisfy the minimum required contribution for the 2017 plan year as of the contribution deadline of September 15, 2018 (8½ months after the close of the 2017 plan year).

Example 2. Mid-year plan merger of two plans with different plan years.

(a) Plan C has a plan year that begins on July 1 and ends on the following June 30. The valuation date for Plan C is July 1, the first day of the plan year.

(b) Plan D has a plan year that begins on January 1 and ends on the following December 31. The valuation date for Plan D is January 1, the first day of the plan year.

(c) Plan D is merged into Plan C (so that Plan C is the ongoing plan) on February 28, 2018. Thus, the interim period runs from March 1, 2018, to June 30, 2018, and for Plan D, there is a short plan year that runs from January 1, 2018, to February 28, 2018.

(d) The actuarial valuation for Plan C as of July 1, 2018, based on a 12-month plan year, results in a target normal cost of $200,000 and a shortfall amortization installment of $116,852, attributable to a shortfall amortization base established July 1, 2018. There are no other shortfall or waiver amortization bases for Plan C as of July 1, 2018. Thus, the minimum required contribution for Plan C without regard to the merger is the $316,852 (that is, $200,000 plus $116,852).

(e) The actuarial valuation for Plan D as of January 1, 2018, based on a 12-month plan year, results in a target normal cost of $110,000 and a shortfall amortization installment for 2017 of $185,000, attributable to a shortfall amortization base established January 1, 2018. There are no other shortfall or waiver amortization bases for Plan D as of January 1, 2018.

(f) The minimum required contribution for Plan D for the short plan year described in paragraph (4) of this section 5.03 is determined as follows:

(i) The target normal cost for the short plan year is redetermined to reflect that there is a short plan year. The new calculation shows that the target normal cost for the short plan year (based on the accruals for the period from January 1, 2018, through February 28, 2018) is $20,000.

(ii) In accordance with § 1.430(a)-1(b)(2)(ii)(A), the shortfall amortization installment is prorated to reflect the two months covered by the short plan year. Accordingly, the shortfall amortization installment for the short plan year is $30,833 (that is, $185,000 multiplied by 2/12).

(iii) The total minimum required contribution for the short plan year is $50,833 (that is, the sum of the target normal cost of $20,000 plus the shortfall amortization installment of $30,833). A final Schedule SB is filed for Plan D for this short plan year based on these results. Pursuant to paragraph (4) of this section 5.03, to be eligible for the automatic approval in this section 5.03, by 8½ months after the date of the merger of February 28, 2018 (that is, November 15, 2018), sufficient contributions must have been made to Plan D to eliminate any unpaid minimum required contribution for any plan year that ended prior to January 1, 2018, and to satisfy the minimum required contribution for the short plan year that ended on February 28, 2018.

(g) The target normal cost and amortization installments attributable to Plan D for the interim period (March 1, 2018, to June 30, 2018, which is the period from the date of the merger to the end of the plan year of the ongoing plan) is determined as follows:

(i) Based on a determination that the present value of benefits earned from January 1, 2018, to June 30, 2018, is $58,000, the target normal cost attributable to Plan D for the interim period is $38,000 (that is, the difference between $58,000 and the $20,000 amount determined in paragraph (f)(i) of this Example 2 based on accruals for the period from January 1, 2018, to February 28, 2018).

(ii) The shortfall amortization installment for the interim period is $61,667 (that is, $185,000 multiplied by 4/12).

(h) Following the rules of paragraph (6) of this section 5.03, the total minimum required contribution for Plan C for the plan year from July 1, 2017, to June 30, 2018, is $416,519. This is the total of the target normal cost of $238,000 (the total of the target normal cost for Plan C disregarding the merger of $200,000 and the target normal cost attributable to Plan D for the interim period of $38,000) plus the total amortization installment of $178,519 (the total of the amortization installment for Plan C disregarding the merger of $116,852 plus the amortization installment attributable to Plan D for the interim period of $61,667). A Schedule SB is filed for Plan C reflecting the merger. Pursuant to paragraph (4) of this section 5.03, to be eligible for the approval under this section 5.03, Plan C must not have any unpaid minimum required contribution and must satisfy the minimum required contribution for the plan year ending June 30, 2017, as of the contribution deadline of March 15, 2018 (8½ months after the close of that plan year).

Example 3. Mid-year plan merger of two plans using different asset valuation methods.

(a) The facts are the same as in Example 2. Both Plan C and Plan D use an actuarial asset valuation method that determines the value of plan assets as the average of fair market value on the valuation date and adjusted fair market value determined for two prior determination dates which are 12 months and 24 months before the valuation date. The methods are the same in all respects, except that, for Plan C, the determination dates are July 1 of each year and, for Plan D, the determination dates are January 1 of each year (corresponding to their respective valuation dates). The expected rates of return that were used to determine the actuarial value of assets for the plan years beginning in 2016, 2017, and 2018 were 6.0% for Plan C and 6.5% for Plan D.

(b) The determination dates for Plan D are changed to correspond to the valuation date of the ongoing plan. Therefore, the determination dates for the July 1, 2018, valuation (the first valuation after the date of the merger) will be July 1, 2016, and July 1, 2017, and the cash flows for Plan D will need to be reconstructed to correspond to the periods from July 1, 2016, through June 30, 2017, and from July 1, 2017, through June 30, 2018.

(c) The expected earnings for the period from July 1, 2016, through June 30, 2017, and for the period from July 1, 2017, through June 30, 2018, are calculated separately for the reconstructed cash flow for Plan D (using Plan D's expected earnings rate of 6.5%, limited so that it does not exceed the applicable third segment rate under § 430(h)(2)(C)(iii)) and for the cash flow from Plan C (using Plan C's expected earnings rate of 6.0%, limited so that it does not exceed the applicable third segment rate under § 430(h)(2)(C)(iii)). The resulting expected earnings are then added and used to determine the adjusted fair market value as of July 1, 2016, and July 1, 2017, as described in § 430(g)(3) and Notice 2009-22 (or subsequent guidance).

(d) For plan years beginning July 1, 2018, or later, the expected earnings for the ongoing plan will be determined using a single expected earnings rate, equal to the actuary's best estimate of the anticipated rate of return on the combined assets of Plan C and Plan D, limited so that it does not exceed the applicable third segment rate under § 430(h)(2)(C)(iii). The actuarial value of assets for the ongoing plan as of July 1, 2019, will reflect the expected earnings for the period from July 1, 2017, through June 30, 2019, determined using:

(i) The expected earnings for the period July 1, 2017, through June 30, 2018, based on the combined expected earnings from Plan C and Plan D, determined as described in paragraph (c) of this example, and

(ii) The expected earnings for the period from July 1, 2018, through June 30, 2019, based on the single expected earnings rate described in this paragraph (d).

SECTION 6. RESTRICTIONS ON USE OF AUTOMATIC APPROVAL UNDER THIS REVENUE PROCEDURE

.01 This revenue procedure does not apply unless the plan administrator (within the meaning of § 414(g)) or an authorized representative of the plan sponsor indicates on the Form 5500 series return filed for the plan for the plan year for which the change is effective that the plan administrator or plan sponsor agrees to the change in funding method. In the case of special approval for a change in funding method described in section 4 of this revenue procedure (other than the approval for fully funded terminating plans in section 4.04 of this revenue procedure), and approval for a change in funding method in connection with plan mergers described in section 5 of this revenue procedure, the requirement that the plan administrator or authorized representative of the plan sponsor agree to the change is satisfied if the plan administrator or an authorized representative of the plan sponsor is made aware of the change before the Schedule SB is filed (or, in the case of a plan for which Schedule SB is not required to be filed, by the time the Schedule SB is delivered to the employer).

.02 This revenue procedure does not apply for a plan year of a plan if a minimum funding waiver under § 412(c) has been granted and there is a waiver amortization charge for the plan year or a future year, or a plan sponsor has applied for a funding waiver under § 412(c) for the plan and the waiver application is pending.

.03 This revenue procedure does not apply if the plan is under an Employee Plans examination for any plan year, or if the plan sponsor, or a representative, has received verbal or written notification from the Tax Exempt and Government Entities Division of an impending

Employee Plans examination, or of an impending referral from another part of the IRS for an Employee Plans examination, or if the plan has been under such an examination and is in Appeals or in litigation for issues raised in an Employee Plans examination.

.04 This revenue procedure does not apply if the change in funding method is being made in connection with a plan merger (unless the change is made as provided in sections 5.01 through 5.03 of this revenue procedure) or in connection with a plan spin-off.

.05 This revenue procedure does not apply if the change in funding method is being made in connection with a plan merger if any of the following conditions apply:

(1) The adjusted funding target attainment percentages (AFTAPs), as defined in § 436(j), immediately before the plan merger, are not within the same range for all of the plans to be merged. For this purpose:

(a) The AFTAPs are the AFTAPs that have been certified as provided in § 1.436-1(h)(4) for the plan year of the change (or if no certification has been made, the presumed AFTAPs for the year of change). However, if no certification for the preceding year was issued during the preceding plan year, the deemed percentage continues as described in § 1.436-1(h)(1)(iii).

(b) The ranges are the ranges described in § 1.436-1(h)(4)(ii) (less than 60%, at least 60% but less than 80%, 80% or higher, or 100% or higher), except that an AFTAP of 80% or higher is treated as being in the same range as an AFTAP of 100% or higher.

(2) As of the most recent valuation date for each of the plans, one of the plans involved in the plan merger has a funding shortfall described in § 430(c)(4) and another of the plans involved in the plan merger does not have a funding shortfall.

(3) The asset valuation method is being changed and the asset valuation method was changed in any of the four preceding plan years for any of the plans involved in the merger.

(4) The valuation date is being changed and the valuation date was changed in either of the two preceding plan years for any of the plans involved in the merger.

.06 Except as provided in section 4.04 of this revenue procedure, this revenue procedure does not apply to a change that is made for a plan year in which the plan is terminated.

.07 This revenue procedure does not apply to a change that is made for a plan for which an election has been made pursuant to section 402(a) of the Pension Protection Act of 2006, Pub. L. 109-280 (120 Stat. 780) (including a change involving a merger of such a plan with a plan that has not made such an election).

SECTION 7. EFFECTIVE DATE

This revenue procedure is effective for plan years commencing on or after January 1, 2018. However, taxpayers may elect to apply this revenue procedure for earlier plan years.

SECTION 8. EFFECT ON OTHER DOCUMENTS

This revenue procedure modifies Rev. Proc. 2000-40 to provide that the automatic approvals set forth in Rev. Proc. 2000-40 do not apply to plans that are subject to section 430.

This revenue procedure modifies Announcements 2010-3 and 2015-3 to provide that the automatic approvals set forth in those announcements do not apply to a change in funding method for a plan year beginning on or after January 1, 2018. For earlier plan years, taxpayers may use either the automatic approvals set forth in those announcements or the automatic approvals set forth in sections 4.01 and 4.02 of this revenue procedure.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas Morgan, Office of the Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this revenue procedure, contact Mr. Morgan at (202) 317-6700 or Carolyn E. Zimmerman of the Employee Plans, Tax Exempt and Government Entities Division at (412) 404-9755.