(iii) *Example 3: Sale of fully depreciated property*—(A) *Facts.* DC, a domestic corporation, holds a machine for use in its trade or business. The machine has an adjusted depreciable basis of zero because it has been fully depreciated under section 167. During the taxable year, DC sells the machine to FP, an unrelated foreign person.

(B) *Analysis.* In the hands of DC, the machine is treated as property that is of a character subject to the allowance for depreciation under section 167. Therefore, the machine constitutes other excluded property, and DC's income or gain from the sale of the machine to FP is excluded property sales income.

(C) *Alternative facts—nonrecognition transaction.* The facts are the same as in paragraph (h)(4)(iii)(A) of this section, except that DC acquired the machine in a nonrecognition transaction for use in DC's trade or business and, at the time of the acquisition, the machine was fully depreciated by the previous owner. Notwithstanding the fact that the machine was not depreciated in the hands of DC (because it had been fully depreciated when acquired by DC), the machine is property that is of a character subject to the allowance for depreciation under section 167 in the hands of DC. Therefore, DC's income or gain from the sale of the machine to FP is excluded property sales income.

(iv) *Example 4: Sales of inventory and other excluded property used in a trade or business*—(A) *Facts.* DC, a domestic corporation, owns 100 airplanes. DC holds five of the airplanes for use in its trade or business and, accordingly, the planes are property that is of a character subject to the allowance for depreciation under section 167. DC holds the remaining 95 airplanes in inventory. During the taxable year, DC sells to FP, an unrelated foreign person, two airplanes that DC uses in its trade or business and 35 airplanes that DC holds in inventory.

(B) *Analysis.* DC's sales of the two airplanes are sales of other excluded property because the two airplanes are property that is of a character subject to the allowance for depreciation under section 167. Therefore, DC's income or gain from the sales of the two airplanes is excluded property sales income. DC's sales of the 35 airplanes to FP are not sales or other dispositions of other excluded property because the 35 airplanes are held as inventory and are not property that is of a character subject to the allowance for depreciation under section 167. Therefore, DC's income or gain from the sales of the 35 airplanes is not excluded property sales income.

(v) *Example 5: Sales involving members of a consolidated group.*—(A) *Facts.* P is the common parent of a consolidated group (as defined in § 1.1502–1(h)). P owns all of the only class of stock of subsidiaries DC1 and DC2, which are members (as defined in § 1.1502–1(b)) of the P consolidated group. DC1 owns ten airplanes that are property that is of a character subject to the allowance for depreciation under section 167. In Year 1, DC1 sells all ten airplanes to DC2, recognizing $100x of gain, which is deferred. DC2 holds these airplanes in inventory. In Year 2, DC2 sells all ten airplanes to an unrelated foreign person, recognizing $85x of gains.

(B) *Analysis.* The treatment of DC1's and DC2's gains on their respective sales is subject to redetermination under § 1.1502–13(c) to the extent necessary to achieve single entity treatment for the group. If DC1 and DC2 were divisions of a single corporation, the ten airplanes would be, or would have been, property that is of a character subject to the allowance for depreciation under section 167. Therefore, to achieve single entity treatment, both DC1's $100x of gain and DC2's $85x of gains are treated in Year 2 as income or gain from the sales of other excluded property and are excluded property sales income.

(vi) *Example 6: Related-party anti-abuse rule*—(A) *Facts.* DC1 is a domestic corporation that owns an 80 percent interest in the profits and capital of a domestic partnership, PRS. Unrelated persons own the remaining interests in PRS. PRS owns all of the only class of stock of DC2, a domestic corporation. DC1 owns 20 cars that are other excluded property in the hands of DC1. With a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb), DC1 transfers all 20 cars to PRS in an exchange described in section 721(a), and PRS transfers all 20 cars to DC2 in an exchange described in section 351(a). Under section 723, PRS's basis in the cars transferred to it by DC1 is the same as DC1's basis in the cars at the time of the transfer. Under section 362, DC2's basis in the cars transferred to it by PRS is the same as the basis of the cars in the hands of PRS. DC2 holds the cars in inventory and recognizes gain on the subsequent sales of all 20 cars to an unrelated foreign person.

(B) *Analysis.* DC1, PRS, and DC2 are members of a modified affiliated group for purposes of paragraph (h)(3) of this section. Because DC2 acquired property that was other excluded property in the hands of DC1, a member of DC2's modified affiliated group for purposes of paragraph (h)(3) of this section, in a series of transactions in which the basis of the property was determined by reference to the basis in the hands of the transferor and with a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb), the 20 cars are treated as other excluded property in the hands of DC2. Therefore, DC2's gain from the sales of the 20 cars are excluded property sales income.

■ **Par. 5.** Section 1.250(b)–3 is amended by adding two new sentences at the end of paragraph (b)(16) to read as follows:

§ 1.250(b)–3 Foreign-derived deduction eligible income (FDDEI) transactions.

* * * * *

(b) * * *

(16) * * * The definition of *sale* in this paragraph (b)(16) does not apply for purposes of § 1.250(b)–1(c)(15)(vii) and (h). *See* § 1.250(b)–1(h)(2)(iii) for the definition of *sale or other disposition* for purposes of determining excluded property sales income.

* * * * *

■ **Par. 6.** Section 1.250(b)–4 is amended by removing and reserving paragraphs (d)(2)(iv)(B)(*3*) through (*5*), and (*8*), to read as follows:

§ 1.250(b)–4 Foreign-derived deduction eligible income (FDDEI) sales.

* * * * *

(d) * * *

(2) * * *

(iv) * * *

(B) * * *

(*3*) [Reserved]

(*4*) [Reserved]

(*5*) [Reserved]

* * * * *

(*8*) [Reserved]

* * * * *

Frank J. Bisignano,

Chief Executive Officer.

[FR Doc. 2026–17019 Filed 8–19–26; 8:45 am]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–107855–25]

RIN 1545–BR50

Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations that would modify

rules in the existing regulations relating to the minimum funding requirement applicable to single-employer defined benefit pension plans. The modifications include changes to the rules relating to the determination of a plan's target normal cost and funding target and would implement certain statutory amendments that have not yet been reflected in the regulations. These proposed regulations would affect participants in, beneficiaries of, employers maintaining, and administrators of single-employer defined benefit plans.

DATES: Written or electronic comments and requests for a public hearing must be received by October 19, 2026.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically. Submit electronic submissions via the Federal eRulemaking Portal at *https://www.regulations.gov* (indicate IRS and REG–107855–25) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the ''Comments and Requests for a Public Hearing'' section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comment received to its public docket. Send paper submissions to: CC:PA:01:PR (REG–107855–25), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Tom Morgan at (202) 317–6700; concerning submissions of comments and requests for a public hearing, contact the Publications and Regulations Section at (202) 317–6901 (not a toll-free number) or by email to *publichearings@irs.gov* (preferred).

SUPPLEMENTARY INFORMATION:

Authority

The proposed regulations are issued under the delegation of authority in section 430(g)(3)(B) of the Internal Revenue Code (Code), which provides that a plan may determine the value of plan assets on the basis of the averaging of fair market values, but only if that method is permitted under regulations prescribed by the Secretary of the Treasury or the Secretary's delegate (Secretary); and section 430(h)(3), which provides that, generally, the Secretary shall prescribe by regulation mortality tables to be used in determining any present value or making any computation under section 430.

In addition, the proposed regulations are issued under the delegation of authority in section 7805. Section 7805(a) directs the Secretary of the Treasury or his delegate to prescribe all needful rules and regulations for the enforcement of that section and other provisions of the Code, including such rules and regulations as may be necessary by reason of any alteration of law relating to internal revenue.

Background

This document contains proposed amendments to the Income Tax Regulations (26 CFR part 1) under section 430 of the Code, which was added by the Pension Protection Act of 2006, Public Law 109–280, 120 Stat. 780 (2006). The proposed amendments to the regulations primarily reflect changes to section 430 of the Code made by: (1) the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA '08), Public Law 110–458, 122 Stat. 5092 (2008); (2) the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), Division O of the Further Consolidated Appropriations Act, 2020, Public Law 116–94, 133 Stat. 2534 (2019); and (3) the SECURE 2.0 Act of 2022 (SECURE 2.0 Act), Division T of the Consolidated Appropriations Act, 2023, Public Law 117–328, 136 Stat. 4459 (2022).

A. Plan Qualification Timing Rules Under Section 401(b)

Section 401(b)(1), as amended by section 201 of the SECURE Act, provides that a plan is considered as satisfying the qualification requirements of section 401(a) for the period beginning with the date on which it was put into effect, or for the period beginning with the earlier of the date on which there was adopted or put into effect any amendment that caused the plan to fail to satisfy those requirements, and ending with the time prescribed by law for filing the return of the employer for his taxable year in which the plan or amendment was adopted (including extensions) or any later time as the Secretary may designate, if all provisions of the plan that are necessary to satisfy those requirements are in effect by the end of that period and have been made effective for all purposes for the whole of that period.

Section 401(b)(2), as added by section 201 of the SECURE Act and amended by Section 317 of the SECURE 2.0 Act, provides that if an employer adopts a plan after the close of a taxable year but before the time prescribed by law for filing the return of the employer for the taxable year (including extensions), then the employer may elect to treat the plan as having been adopted as of the last day of the taxable year.

Section 401(b)(3), as added by Section 316 of the SECURE 2.0 Act, provides that if (A) an employer amends a plan to increase benefits accrued under the plan effective as of any date during the immediately preceding plan year (other than increasing the amount of matching contributions), (B) that amendment would not otherwise cause the plan to fail to meet any of the requirements of sections 401 through 436 of the Code, and (C) that amendment is adopted before the time prescribed by law for filing the return of the employer for the taxable year (including extensions) which includes the effective date of the amendment, then the employer may elect to treat that amendment as having been adopted as of the last day of the plan year in which the amendment is effective.

Section 1.401(b)–1 provides rules regarding remedial amendments under section 401(b). Under § 1.401(b)–1(a), a plan that does not satisfy the requirements of section 401(a) on any date solely as a result of a disqualifying provision (as determined under § 1.401(b)–1(b)) is considered to have satisfied those requirements on that date if, on or before the end of the remedial amendment period (as defined in § 1.401(b)–1(d) through (f) with respect to the disqualifying provision), all provisions of the plan that are necessary to satisfy all requirements under section 401(a) are in effect and have been made effective for all purposes for the entire remedial amendment period. The second sentence of § 1.401(b)–1(a) notes that under some facts and circumstances, it may not be possible to amend a plan retroactively so that all provisions of the plan which are necessary to satisfy the requirements of section 401(a) are in fact made effective for the whole remedial amendment period.[1]

Pursuant to § 1.401(b)–1(d)(2), the remedial amendment period generally ends with the time prescribed by law, including extensions, for filing the income tax return (or partnership return of income) of the employer for the employer's taxable year in which falls the latest of: (1) the date on which the remedial amendment period begins, (2) the date on which the disqualifying provision is adopted, or (3) the date on

[1] In these circumstances, the plan would have to be operated in accordance with the expected future amendment prior to when the amendment is adopted.

which the disqualifying provision is made effective. However, under § 1.401(b)–1(d)(2), the Commissioner may extend the remedial amendment period.

Revenue Procedure 2022–40, 2022–47 I.R.B. 487, extended the expiration of the remedial amendment period for a disqualifying provision with respect to a provision of a new plan or the absence of a provision from a new plan to the last day of the second calendar year following the calendar year in which the plan is put into effect. In addition, many deadlines for plan amendments made pursuant to specific legislative changes have been further extended in the corresponding legislation. See, for example, section 501 of the SECURE 2.0 Act.

B. Minimum Funding Requirements and Related Provisions for Single-Employer Defined Benefit Plans

Statutory Provisions

Section 412 provides minimum funding requirements that generally apply for pension plans (including both defined benefit pension plans and money purchase pension plans). Pursuant to section 412(a)(2)(A), section 430 specifies the minimum funding requirements that apply to single-employer defined benefit pension plans (including multiple-employer plans) other than CSEC plans described in section 414(y).

Section 412(d)(1) provides that if the funding method or a plan year for a plan is changed, the change will take effect only if approved by the Secretary.[2] Section 412(d)(2) provides that, for purposes of section 412, any amendment applying to a plan year which is adopted no later than 2½ months after the close of the plan year (or, in the case of a multiemployer plan, no later than 2 years after the close of such plan year), does not reduce the accrued benefit of any participant determined as of the beginning of the first plan year to which the amendment applies, and does not reduce the accrued benefit of any participant determined as of the time of adoption except to the extent required by the circumstances, will, at the election of the plan administrator, be deemed to have been made on the first day of the plan year.

Under section 430, the minimum required contribution for a plan year is a function of the target normal cost under section 430(b)(1), shortfall amortization charge under section 430(c)(1), funding target under section 430(d)(1), waiver amortization charge under section 430(e)(1), and value of plan assets under section 430(g)(3). If the value of plan assets (less the sum of the plan's prefunding balance and funding standard carryover balance determined under section 430(f)) is less than the funding target, section 430(a)(1) defines the minimum required contribution as the sum of the plan's target normal cost and the shortfall and waiver amortization charges for the plan year. If the value of plan assets (less the sum of the plan's prefunding balance and funding standard carryover balance) equals or exceeds the funding target, section 430(a)(2) defines the minimum required contribution as the plan's target normal cost for the plan year reduced (but not below zero) by the amount of any such excess.

Section 430(b)(1) as amended by WRERA '08, provides that, except as otherwise provided in section 430(i)(2) (regarding a plan that is in at-risk status), a plan's target normal cost for a plan year is the sum of the present value of all benefits expected to accrue or be earned under the plan during the plan year (with any increase in any benefit attributable to services performed in a preceding plan year by reason of a compensation increase during the current plan year treated as having accrued during the current plan year) and the amount of plan-related expenses expected to be paid from plan assets during the plan year, reduced by the amount of mandatory employee contributions expected to be made during the plan year.

Section 430(d)(1) provides that, except as otherwise provided in section 430(i)(1) (regarding a plan that is in at-risk status), a plan's funding target for a plan year is the present value of all benefits accrued or earned under the plan as of the beginning of the plan year.

Under section 430(h)(5), if, with respect to a single-employer defined benefit plan, the aggregate unfunded vested benefits as of the close of the preceding plan year (combined with the unfunded vested benefits for all other plans maintained by the contributing sponsors and members of such sponsors' controlled groups) exceeded $50 million, then certain changes in actuarial assumptions must be approved by the Secretary. The changes in actuarial assumptions that require approval are changes that result in a decrease in the funding shortfall of the plan for the current plan year (determined after taking into account any changes in interest rate and mortality table) that exceeds $50 million (or that exceeds $5 million and that is 5 percent or more of the funding target of the plan before that change).

Section 404(o)(6) provides that any computations under section 404(o), which relates to the deduction for contributions to a single-employer defined benefit plan, must use the same actuarial assumptions that are used for the plan year under section 430, except that the interest rate corridor under section 430(h)(2)(C)(iv) does not apply, and section 404(o)(7) provides that any term used in section 404(o) which is also used in section 430 has the same meaning given to that term by section 430. Thus, except for the difference in interest rates, the funding target and target normal cost under section 430 (determined taking into account plan provisions that are recognized under the rules of section 430) are also used to determine the maximum deductible contributions under section 404(o).

Section 436(c)(1) provides that, generally, no amendment to a defined benefit plan which is a single-employer plan which has the effect of increasing liabilities of the plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable may take effect during any plan year if the adjusted funding target attainment percentage (AFTAP) for such plan year is less than 80 percent, or would be less than 80 percent taking into account the amendment.[3] However, section 436(c)(2) provides that such an amendment can take effect if the plan sponsor makes a contribution (in addition to the minimum required contribution) equal to the amount of the increase in the funding target of the plan for the plan year attributable to the amendment (if the AFTAP is less than 80 percent) or (in other cases) the amount necessary to result in an AFTAP of 80 percent.

Regulatory Provisions

On October 15, 2009, final regulations regarding the determination of the target normal cost under section 430(b) and the funding target under section 430(d) were published in the **Federal Register**

[2] The Secretary has prescribed procedures allowing plans subject to section 412 to receive automatic approval to change their funding method in limited circumstances. *See* Rev. Proc. 2017–56, 2017–44 IRB 465 (applicable to single-employer plans), and Rev. Proc. 2000–40, 2000–42 IRB 357 (applicable to multiemployer plans). The Secretary has also prescribed procedures allowing plans to receive automatic approval to change their plan year if certain conditions are met. *See* Rev. Proc. 87–27, 1987–1 CB 769, as amended by Ann. 88–97, 1988–26 IRB 47.

[3] Section 436(c)(3) provides for a limited exception for certain benefit increases under a formula which is not based on a participant's compensation.

(TD 9467, 74 FR 53004). Those regulations apply to plan years beginning on or after January 1, 2010.

Section 1.430(d)–1(b)(1)(i) provides that, subject to the adjustments in § 1.430(d)–1(b)(1)(iii), the target normal cost of a defined benefit plan that is not in at-risk status under section 430(i) for a plan year is the present value (determined as of the valuation date) of all benefits under the plan that accrue during, are earned during, or are otherwise allocated to service for the plan year.

Section 1.430(d)–1(b)(1)(iii)(A) provides that the target normal cost of the plan for the plan year is adjusted (not below zero) by adding the amount of plan-related expenses expected to be paid from plan assets during the plan year and subtracting the amount of mandatory employee contributions that are expected to be made during the plan year. Section 1.430(d)–1(b)(1)(iii)(B) is reserved for a definition of plan-related expenses.

Under § 1.430(d)–1(d)(1)(i), a plan's funding target and target normal cost for a plan year generally are determined based on plan provisions that are adopted no later than the valuation date for the plan year and that take effect on or before the last day of the plan year.

Section 1.430(d)–1(d)(1)(ii) provides rules regarding the impact of an election under section 412(d)(2), which is available with respect to a plan amendment adopted no later than 2½ months after the close of the plan year (including an amendment adopted during the plan year). Under § 1.430(d)–1(d)(1)(ii), if a plan administrator makes the election described in section 412(d)(2) with respect to a plan amendment, then the plan amendment is treated as having been adopted on the first day of the plan year for purposes of § 1.430(d)–1(d). However, because a section 412(d)(2) election merely deems the amendment to have been made on the first day of the plan year, it does not determine when the plan amendment takes effect. Accordingly, regardless of whether a section 412(d)(2) election is made, an amendment is taken into account for the plan year only if it takes effect by the last day of the plan year.

Section 1.430(d)–1(d)(1)(iii) provides that, for purposes of § 1.430(d)–1(d)(1), the determination of whether an amendment that increases benefits takes effect and when it takes effect is determined in accordance with the rules of section 436(c) and § 1.436–1(c)(5). Section 1.436–1(c)(5) provides that, for purposes of section 436(c) and § 1.436–1(c), in the case of an amendment that increases benefits, the amendment takes effect under a plan on the first date on which any individual who is or could be a participant or beneficiary under the plan would obtain a legal right to the increased benefit if the individual were on that date to satisfy the applicable requirements for entitlement to the benefit (such as the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death, disability, or severance from employment). Section 1.430(d)–1(d)(1)(iii) similarly provides that in the case of an amendment that decreases benefits, the amendment takes effect under a plan on the first date on which the benefits of any individual who is or could be a participant or beneficiary under the plan would be less valuable than those benefits would be under the pre-amendment plan provisions if the individual were on that date to satisfy the applicable conditions for the benefits.

Section 1.430(d)–1(d)(2) provides that, in the case of a plan amendment that is not required to be taken into account under the rules of § 1.430(d)–1(d)(1) because it is adopted after the valuation date for the plan year, the plan amendment must be taken into account in determining a plan's funding target and target normal cost for the plan year if the amendment (i) takes effect by the last day of the plan year; (ii) increases the liabilities of the plan by reason of increases in current benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable; and (iii) would not be permitted to take effect under a modified version of the rules of section 436(c). The modified version of the section 436(c) rules is set forth in § 1.430(d)–1(d)(2)(iii), which provides that those rules are applied by treating the increase in the target normal cost for the plan year attributable to the amendment (and all other amendments that must be taken into account solely because of the application of the rules in § 1.430(d)–1(d)(2)) as if the increase were an increase in the funding target for the plan year, and by taking into account all unpredictable contingent event benefits permitted to be paid for unpredictable contingent events that occurred during the current plan year and all plan amendments that took effect in the current plan year (including all amendments to which § 1.430(d)–1(d)(2) applies for the plan year).

C. Actuarial Assumptions

Section 1.430(d)–1(f)(1)(i) provides that the determination of any present value or other computation under section 430 and this section must be made on the basis of actuarial assumptions and a funding method. Section 1.430(d)–1(f)(1)(ii) provides that actuarial assumptions established for a plan year cannot subsequently be changed for that plan year unless the Commissioner determines that the assumptions that were initially used are unreasonable. Similarly, a funding method established for a plan year cannot subsequently be changed for that plan year unless the Commissioner determines that the initial use of that funding method for that plan year is impermissible. Section 1.430(d)–1(f)(1)(iii) provides that generally, the actuarial assumptions and funding method for a plan year are established by the filing of an actuarial report under section 6059 (Schedule SB of Form 5500, *Annual Return/Report of Employee Benefit Plan*).

Section 1.430(d)–1(f)(3) provides that, in the case of actuarial assumptions other than those specified in sections 430(h)(2), 430(h)(3), and 430(i), each of those actuarial assumptions must be reasonable (taking into account the experience of the plan and reasonable expectations). In addition, the actuarial assumptions (other than those specified in sections 430(h)(2), 430(h)(3), and 430(i)) must, in combination, offer the plan's enrolled actuary's best estimate of anticipated experience under the plan based on information determined as of the valuation date.

Section 1.430(d)–1(f)(4)(ii) provides that any determination of present value or any other computation under that section must take into account the probability that future benefit payments under the plan will be made in the form of any optional form of benefit provided under the plan (including single-sum distributions), determined on the basis of the plan's experience and other related assumptions, in accordance with § 1.430(d)–1(f)(3); and must take into account any difference in the present value of future benefit payments that results from the use of actuarial assumptions in determining the amount of benefit payments in any such optional form of benefit that are different from those prescribed by section 430(h).

Section 1.430(d)–1(f)(4)(iii)(A) provides that, in the case of a distribution that is subject to section 417(e)(3) and that is determined using the applicable interest rates and applicable mortality table under section 417(e)(3), for purposes of applying § 1.430(d)–1(f)(4)(ii), the computation of the present value of that distribution is treated as having taken into account any difference in present value that results from the use of actuarial assumptions that are different from those prescribed by section 430(h) (as required under § 1.430(d)–1(f)(4)(ii)(B)) if and only if the present value of the distribution is determined in accordance with § 1.430(d)–1(f)(4)(iii).

Section 1.430(d)–1(f)(4)(iii)(B) provides that, generally, the present value of a distribution is determined in accordance with § 1.430(d)–1(f)(4)(iii) if that present value is determined as the present value, using special actuarial assumptions, of the annuity (either the deferred or immediate annuity) which is used under the plan to determine the amount of the distribution. Under these special assumptions, for the period beginning with the expected annuity starting date for the distribution, the current applicable mortality table under section 417(e)(3) that would apply to a distribution with an annuity starting date occurring on the valuation date is substituted for the mortality table under section 430(h)(3) that would otherwise be used. In addition, under these special assumptions, the valuation interest rates under section 430(h)(2) are used for purposes of discounting the projected annuity payments from their expected payment dates to the valuation date (as opposed to the interest rates under section 417(e)(3), which the plan uses to determine the amount of the benefit).

Section 1.430(d)–1(f)(4)(iii)(C) provides some alternative assumptions that may be used in determining the present value of a distribution under § 1.430(d)–1(f)(4)(iii). In the case of a plan for which the generational mortality tables are generally used to determine present values under section 430(d), § 1.430(d)–1(f)(4)(iii)(C) allows for the use of a 50–50 male-female blend of the annuitant mortality rates under the § 1.430(h)(3)–1(a)(4) generational mortality tables in lieu of the applicable mortality table under section 417(e)(3).[4] Section 1.430(d)–1(f)(4)(iii)(C) also provides that adjustments to interest rates are permitted to take into account the differences between the phase-in of the section 430(h)(2) segment rates under section 430(h)(2)(G) and the adjustments to the segment rates under section 417(e)(3)(D)(iii).

Section 1.430(d)–1(f)(5)(i) provides that, in the case of an applicable defined benefit plan described in section 411(a)(13)(C), if the amount of a future distribution is based on an interest adjustment applied to the current accumulated benefit, then the amount of that distribution is determined by projecting the future interest credits or equivalent amount under the plan's interest crediting rules using actuarial assumptions that satisfy the requirements of § 1.430(d)–1(f)(3).

Section 1.430(d)–1(f)(5)(ii)(A) provides that, in the case of an applicable defined benefit plan described in section 411(a)(13)(C), if the amount of an annuity distribution is based on either the balance of a hypothetical account maintained for a participant or the accumulated percentage of a participant's final average compensation, then the amount of that annuity distribution is calculated by converting the projected account balance (or accumulated percentage of final average compensation), in accordance with § 1.430(d)–1(f)(5)(i), to an annuity by applying the plan's annuity conversion provisions using the rules of § 1.430(d)–1(f)(5)(ii).

Section 1.430(d)–1(f)(5)(ii)(B) provides that generally, if the plan bases the conversion of the projected account balance (or accumulated percentage of final average compensation) to an annuity using the applicable interest rates and applicable mortality table under section 417(e)(3), then the amount of the annuity distribution is determined by dividing the projected account balance (or accumulated percentage of final average compensation) by an annuity factor corresponding to the assumed form of payment using, for the period beginning with the annuity starting date, the current applicable mortality table under section 417(e)(3) that would apply to a distribution with an annuity starting date occurring on the valuation date (in lieu of the mortality table under section 430(h)(3) that would otherwise be used) and the valuation interest rates under section 430(h)(2) (as opposed to the interest rates under section 417(e)(3) which the plan uses to determine the amount of the annuity).

Section 1.430(d)–1(f)(5)(ii)(C) provides that, in determining the amount of an annuity distribution under § 1.430(d)–1(f)(5)(ii)(B), a plan is permitted to apply the optional applications of generational mortality and phase-in of interest rates described in § 1.430(d)–1(f)(4)(iii)(C).

Explanation of Provisions

These proposed regulations would facilitate the adoption of amendments that increase benefits. Under these proposed regulations, such amendments adopted after the end of the plan year can be taken into account in determining the actuarial results for a plan year which, in turn, will result in an increased deductible limit for the taxable year for the plan sponsor. These proposed regulations would also: (1) clarify the plan-related expenses that are includable in target normal cost; (2) provide rules for plans that are adopted after the end of a plan year; (3) provide rules for when certain plan amendments must be taken into account in the actuarial results for a plan year; (4) extend the deadline for making certain changes in actuarial assumptions or funding methods; and (5) make minor changes to the rules for actuarial assumptions to eliminate references to statutory provisions that are no longer applicable and to conform them to other regulatory provisions.

A. Investment-Related Expenses Not Included in Target Normal Cost

Proposed § 1.430(d)–1(b)(1)(iii)(B) would provide that plan-related expenses consist of all amounts that are expected to be paid from plan assets that are neither benefits paid to participants and beneficiaries (treating the purchase of an annuity as the payment of benefits), nor investment-related expenses described in proposed § 1.430(d)–1(b)(1)(iii)(C).

Proposed § 1.430(d)–1(b)(1)(iii)(C) would provide that investment-related expenses consist of investment manager fees and other expenses directly related to the investment of the plan's assets. However, if the total payments from plan assets to a service provider are expected to be $5,000 or more for a plan year and consist of both investment-related expenses and expenses for other services (such as recordkeeping services), only those amounts that the service provider itemizes as investment management fees or other expenses directly related to the investment of the plan's assets are treated as investment-related expenses. Amounts itemized as expenses for other services are not treated as investment-related expenses.[5] An example of other services would be if the assets of the pension fund are held by a bank or trust company affiliated with the fund's investment manager and the plan assets are used to pay custodial or trustee fees for the safekeeping of the investment assets, such as holding securities, settling trades, or collecting income. This exclusion means that if the total payments from plan assets to a service provider are expected to be less than $5,000, all payments are treated as

[4] The applicable mortality table under section 417(e)(3) is a projected static mortality table, based on the mortality table specified for the plan year under section 430(h)(3)(A) (without regard to section 430(h)(3)(C) or (D)), modified as appropriate by the Secretary.

[5] This $5,000 threshold is consistent with the reporting requirement on Form 5500, Schedule C for service providers who have rendered services to, or who had transactions with, the plan during the reporting year if the service provider received, directly or indirectly, $5,000 or more in reportable compensation in connection with services rendered or their position with the plan.

investment-related expenses and the service provider does not need to itemize the expenses in order for the plan to exclude these payments from target normal cost.

B. Plans or Plan Amendments That Are Adopted After the End of the Plan Year

Proposed § 1.430(d)–1(d)(1) would provide rules for which plan provisions are used to determine a plan's funding target and target normal cost for a plan year based on when the plan provisions were adopted and, if applicable, what election the plan administrator made. For plan provisions adopted by the plan's valuation date, proposed § 1.430(d)–1(d)(1)(i) would provide that, except as otherwise provided in proposed § 1.430(d)–1(d)(1)(ii) and (iii), a plan's funding target and target normal cost for a plan year are determined based on plan provisions that are adopted no later than the valuation date for the plan year and that take effect on or before the last day of the plan year. For example, in the case of a plan amendment adopted on or before the valuation date for the current plan year that has an effective date occurring in the current plan year, the plan amendment is taken into account in determining the funding target and the target normal cost for the current plan year if it is permitted to take effect under the rules of section 436(c) for the current plan year, but the amendment is not taken into account for the current plan year if it does not take effect until a future plan year.

For plan provisions adopted after the plan's valuation date, the rules that apply are determined by the election made by the plan administrator. Proposed § 1.430(d)–1(d)(1)(ii)(A) would provide that if the plan administrator makes an election under section 412(d)(2) with respect to a plan amendment that is adopted no later than 2½ months after the end of the plan year, then the plan amendment will be taken into account in determining the plan's funding target and target normal cost for that plan year, provided that the plan amendment takes effect no later than the date it is adopted. This rule would apply even if the plan amendment were adopted during the plan year, consistent with prior revenue rulings.[6]

Proposed § 1.430(d)–1(d)(1)(ii)(B) would provide that if an employer adopts a plan after the last day of the employer's taxable year and before the due date for the employer's income tax return for that taxable year (including extensions) and makes an election under the first sentence of section 401(b)(2), then the plan is treated as adopted on the last day of that taxable year. In such a case, the target normal cost and funding target for the plan's first plan year are determined based on the adopted plan provisions, provided that (1) the plan takes effect no later than the date the plan is adopted; and (2) if the plan's valuation date is before the date the plan is treated as being adopted, a section 412(d)(2) election is made.

Proposed § 1.430(d)–1(d)(1)(ii)(C) would provide that if, before the due date (including extensions) for an employer's income tax return for a taxable year, the employer adopts an amendment increasing benefits accrued under a plan effective as of any date during the plan year that immediately precedes the date of adoption, and makes an election under section 401(b)(3) with respect to the plan amendment, then the plan amendment is treated as having been adopted as of the last day of that preceding plan year. In such a case, the target normal cost and funding target for that preceding plan year are determined taking the plan amendment into account, provided that (1) the amendment takes effect no later than the date it is adopted, and (2) if the plan's valuation date is before the date the amendment is treated as being adopted, a section 412(d)(2) election is made.

Employers that make an election under either section 401(b)(2) or section 401(b)(3) should note that the deadline for minimum required contributions under section 430(j)(1) is 8½ months after the end of the plan year, while the deadline for adopting a section 401(b)(2) or section 401(b)(3) amendment under either proposed § 1.430(d)–1(d)(1)(ii)(B) or (C) can be after that deadline, depending on the timing of the plan year and the employer's taxable year.

C. Remedial Amendments

Proposed § 1.430(d)–1(d)(1)(iii) would provide rules under which certain planned amendments are taken into account once plan operations are changed pursuant to those planned amendments. The existing rule in § 1.430(d)–1(d)(1)(iii) would be revised as § 1.430(d)–1(d)(1)(iv) and is discussed later in part C of this Explanation of Provisions. Under proposed § 1.430(d)–1(d)(1)(iii)(A), if plan operations are changed during a remedial amendment period (within the meaning of § 1.401(b)–1(d)) to make effective a future remedial amendment, then the provisions of the future remedial amendment would be treated as adopted on the date that the plan operations are changed. To the extent the actual remedial amendment that is adopted is different from the way the plan has been operated, the actual remedial amendment is treated as adopted when plan operations are changed to reflect the actual remedial amendment (if that change in plan operations occurs before the adoption date of the amendment). For example, this could happen in the case of a plan that is operated in accordance with a statutory change and then plan operations are updated to reflect published guidance interpreting that statutory change.

Proposed § 1.430(d)–1(d)(1)(iii)(B) would provide that a plan makes effective a future remedial amendment when (1) it is required to be amended to address a disqualifying provision that has been designated as such by the Commissioner pursuant to § 1.401(b)–1(b)(3), (2) the remedial amendment period with respect to that required amendment has not ended, and (3) plan operations are changed in anticipation of a proposed amendment to the plan relating to the disqualifying provision.

Proposed § 1.430(d)–1(d)(1)(iv) would provide substantially the same rule as existing § 1.430(d)–1(d)(1)(iii). However, proposed § 1.430(d)–1(d)(1)(iv) would not include the existing language regarding the effect of an election made under section 412(d)(2), as that issue would be separately addressed in proposed § 1.430(d)–1(d)(1)(ii)(A).

D. Anti-Abuse Rule for Mid-Year Amendments That Increase Target Normal Cost Disproportionately

Proposed § 1.430(d)–1(d)(2)(i) would modify the special rule in existing § 1.430(d)–1(d)(2) under which certain plan amendments that are not required to be taken into account under the rules of § 1.430(d)–1(d)(1), because the amendment is adopted after the valuation date for the plan year, must nonetheless be taken into account in determining a plan's funding target and target normal cost for the plan year. A plan amendment would be subject to this rule if it (1) increases the liabilities of the plan by reason of increases in current benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable; (2) would not be permitted to take effect under the rules of section 436 as described in proposed § 1.430(d)–1(d)(2)(ii); and (3) would increase the target normal cost disproportionately, as described in § 1.430(d)–1(d)(2)(iii).

Under proposed § 1.430(d)–1(d)(2)(i)(C), the anti-abuse rule in

[6] See, for example, Rev. Rul. 79–325, 1979–2 C.B. 190.

§ 1.430(d)–1(d)(2) would apply only if the plan amendment increases the target normal cost disproportionately. For this purpose, proposed § 1.430(d)–1(d)(2)(iii) would provide that a plan amendment increases the target normal cost disproportionately if the percentage increase in target normal cost as the result of the amendment is more than twice the percentage increase in the funding target as a result of the amendment (taking into account only the benefits of participants currently employed in the service of the employer). Comments are requested regarding other appropriate methods of measuring whether a plan amendment is considered to increase the target normal cost disproportionately, such as by comparing the present value of current year accruals with the present value of accruals in succeeding plan years.

E. Change in Actuarial Assumptions or Funding Method

Proposed § 1.430(d)–1(f)(1)(ii) would revise the existing rule in § 1.430(d)–1(f)(1)(ii) to address the situation in which an application to change actuarial assumptions or funding method has been submitted to the Secretary,[7] but the Secretary has not yet approved the application when the assumptions or method are established for the plan year. In these situations, the proposed regulations would be amended to provide that the assumptions or funding method can be changed for that plan year in accordance with the Secretary's approval of that application.

F. Other Rules Regarding Actuarial Assumptions

Proposed § 1.430(d)–1(f)(4)(iii)(C) would provide rules for determining the present value of a distribution under § 1.430(d)–1(f)(4)(iii) that are substantially the same as a rule in existing § 1.430(d)–1(f)(4)(iii)(C). However, the proposed rule would not include the existing reference to the phase-in of the section 430(h)(2) segment rates that applied under section 430(h)(2)(G) for plan years beginning in 2008 or 2009.

Proposed § 1.430(d)–1(f)(5)(i) and (f)(5)(ii)(A) are substantially the same as the corresponding provisions in the existing regulations but would make conforming edits to update the terminology used in those provisions to conform to the terminology used in § 1.411(a)(13)–1.

Proposed § 1.430(d)–1(f)(5)(ii)(C) would provide that the option under § 1.430(d)–1(f)(4)(iii)(C) to substitute the generational mortality table may be used for purposes of determining the amount of an annuity distribution under § 1.430(d)–1(f)(5)(ii)(B). This provision is substantially the same as existing § 1.430(d)–1(f)(5)(ii)(C), except that the heading would be revised to reflect that the option to adjust the present values to take into account the phase-in of segment rates under section 430(h)(2)(G) is no longer applicable.

Proposed Applicability Date

The regulations are proposed to apply to plan years beginning on or after 6 months after the date of publication of the Treasury decision adopting these amendments to the regulations as final regulations in the **Federal Register**.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

OMB's Office of Information and Regulatory Affairs has determined that this proposed rule is not significant and is not subject to review under section 6(b) of Executive Order 12866, as amended. This proposed rule is expected to be an Executive Order 14192 deregulatory action.

II. Paperwork Reduction Act

This proposed rulemaking does not impose or revise any information collections subject to 44 U.S.C. Chapter 35.

III. Regulatory Flexibility Act

The Regulatory Flexibility Act requires consideration of the regulatory impact on small businesses. It is hereby certified that these proposed regulations, if adopted, will not have a significant economic impact on a substantial number of small entities within the meaning of section 601(6) of the Regulatory Flexibility Act (5 U.S.C. chapter 6).

The economic impact of these regulations is not expected to be significant. These regulations are not expected to result in economically meaningful changes in behavior. They would update existing regulations in order to implement statutory changes enacted after the publication of the 2009 regulations. They provide guidance for administrators and sponsors of single-employer defined benefit plans regarding the determination of target normal cost and the funding target.

For the reasons stated, a regulatory flexibility analysis under the Regulatory Flexibility Act is not required. Notwithstanding the above, the Treasury Department and the IRS invite comments on the impact the proposed rules would have on small entities.

Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

IV. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. The proposed regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

V. Executive Order 13132: Federalism

Executive Order 13132 (entitled Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. The proposed regulations do not have federalism implications, do not impose substantial direct compliance costs on State and local governments, and do not preempt State law within the meaning of the Executive order.

Comments and Requests for a Public Hearing

Before these proposed amendments to the final regulations are adopted as final regulations, consideration will be given to comments that are submitted timely to the IRS as prescribed in this preamble under the **ADDRESSES** heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any comments submitted will be made available at *https://www.regulations.gov* or upon request.

A public hearing will be scheduled if requested in writing by any person who timely submits electronic or written comments. Requests for a public hearing are also encouraged to be made electronically. If a public hearing is scheduled, notice of the date and time

[7] Rev. Proc. 2017–57, 2017–44 I.R.B. 474, sets forth the procedure for obtaining approval by the IRS for a change in the funding method or actuarial assumptions used for a single-employer defined benefit plan.

for the public hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these proposed regulations is Tom Morgan of the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and IRS propose to amend 26 CFR part 1 as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

* * * * *

Section 1.430(d)–1 is also issued under 26 U.S.C 430(g)(3)(B) and 26 U.S.C. 430(h)(2).

* * * * *

■ **Par. 2.** Section 1.430(d)–1 is amended by:

■ 1. Revising paragraph (b)(1)(iii)(B).

■ 2. Adding paragraph (b)(1)(iii)(C).

■ 3. Revising and republishing paragraphs (d)(1) and (2).

■ 4. Revising paragraphs (f)(1)(ii) and (f)(4)(iii)(C),(f)(5)(i),(f)(5)(ii)(A) and (C) and (g).

The revisions and additions read as follows:

§ 1.430(d)–1 Determination of target normal cost and funding target.

* * * * *

(b) * * *

(1) * * *

(iii) * * *

(B) *Plan-related expenses.* For purposes of this paragraph (b)(1)(iii), plan-related expenses consist of all amounts that are expected to be paid from plan assets that are neither benefits paid to participants or beneficiaries (treating the purchase of an annuity contract as the payment of benefits) nor investment-related expenses described in paragraph (b)(1)(iii)(C) of this section. Plan-related expenses include fees paid for professional services (such as legal, actuarial, and audit services), plan administration, and premiums paid to the Pension Benefit Guaranty Corporation, among other items.

(C) *Investment-related expenses.* Investment-related expenses consist of investment management fees and other expenses directly related to the investment of the plan's assets. However, if the total payments from plan assets to a service provider are expected to be $5,000 or more for a plan year and consist of investment-related expenses and expenses for other services (such as recordkeeping services), only those amounts that the service provider itemizes as investment management fees or other expenses directly related to the investment of the plan's assets are treated as investment-related expenses. Amounts itemized as expenses for other services are not treated as investment-related expenses.

* * * * *

(d) *Plan provisions taken into account*—(1) *General rule*—(i) *Plan provisions adopted by valuation date.* Except as otherwise provided in paragraphs (d)(1)(ii) and (iii), and (d)(2) of this section, a plan's funding target and target normal cost for a plan year are determined based on plan provisions that are adopted no later than the valuation date for the plan year and that take effect on or before the last day of the plan year. For example, in the case of a plan amendment adopted on or before the valuation date for the current plan year that has an effective date occurring in the current plan year, the plan amendment is taken into account in determining the funding target and the target normal cost for the current plan year if it is permitted to take effect under the rules of section 436(c) for the current plan year, but the amendment is not taken into account for the current plan year if it does not take effect until a future plan year.

(ii) *Plan provisions adopted after valuation date*—(A) *Impact of section 412(d)(2) election.* If the plan administrator makes an election under section 412(d)(2) with respect to a plan amendment that is adopted no later than 2½ months after the end of a plan year, then the amendment will be taken into account in determining the plan's funding target and target normal cost for that plan year, provided that the amendment takes effect no later than the date the amendment is adopted. The preceding sentence applies even if the plan amendment is adopted during the plan year.

(B) *Impact of section 401(b)(2) election.* If an employer adopts a plan after the last day of the employer's taxable year and before the due date for the employer's income tax return for that taxable year (including extensions) and makes an election under the first sentence of section 401(b)(2), then the plan is treated as adopted on the last day of that taxable year. In such a case, the target normal cost and funding target for the plan's first plan year are determined based on the adopted plan provisions, provided that—

(*1*) The plan takes effect no later than the date the plan is adopted; and

(*2*) If the plan's valuation date is before the date the plan is treated as being adopted, a section 412(d)(2) election is made.

(C) *Impact of section 401(b)(3) election.* If, before the due date (including extensions) for an employer's income tax return for a taxable year, the employer adopts an amendment increasing benefits accrued under a plan effective as of any date during the plan year that immediately precedes the date of adoption, and makes an election under section 401(b)(3) with respect to the plan amendment, then the plan amendment is treated as having been adopted as of the last day of that preceding plan year. In such a case, the target normal cost and funding target for that preceding plan year are determined taking the plan amendment into account, provided that—

(*1*) The amendment takes effect no later than the date it is adopted; and

(*2*) If the plan's valuation date is before the date the amendment is treated as being adopted, a section 412(d)(2) election is made.

(iii) *Special rule to reflect plan operations during a remedial amendment period*—(A) *Requirement to reflect future remedial amendment.* For purposes of this paragraph (d), if plan operations are changed during a remedial amendment period (within the meaning of § 1.401(b)–1(d)) to make effective a future remedial amendment, then the provisions of the future remedial amendment are treated as adopted on the date that the plan operations are changed. To the extent the language of the plan's remedial amendment differs from the way the plan was operated at any point during the remedial amendment period, the remedial amendment is treated as adopted only when plan operations were changed to reflect the language ultimately adopted in that amendment.

(B) *Future remedial amendment.* A plan makes effective a future remedial amendment when—

(*1*) The plan is required to be amended to address a disqualifying provision that has been designated as such by the Commissioner pursuant to § 1.401(b)–1(b)(3),

(*2*) The remedial amendment period with respect to that required amendment has not ended, and

(*3*) Plan operations are changed in anticipation of a proposed amendment to the plan relating to the disqualifying provision.

(iv) *Determination of when an amendment takes effect.* For purposes of this paragraph (d)(1)—

(A) The determination of whether an amendment that increases benefits takes effect and when it takes effect is made in accordance with the rules of section 436(c) and § 1.436–1(c)(5); and

(B) In the case of an amendment that decreases benefits, the amendment takes effect under a plan on the first date on which the benefits of any individual who is or could be a participant or beneficiary under the plan would be less valuable than those benefits would be under the pre-amendment plan provisions if the individual were on that date to satisfy the applicable conditions for the benefits.

(2) *Special rule for certain amendments increasing liabilities*—(i) *In general.* In the case of a plan amendment that takes effect by the last day of the plan year but is not required to be taken into account under the rules of paragraph (d)(1) of this section because it is adopted after the valuation date for the plan year, the plan amendment must nonetheless be taken into account in determining a plan's funding target and target normal cost for the plan year if the plan amendment—

(A) Increases the liabilities of the plan by reason of increases in current benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable;

(B) Would not be permitted under section 436, as described in paragraph (d)(2)(ii) of this section; and

(C) Disproportionately increases target normal cost, as described in paragraph (d)(2)(iii) of this section.

(ii) *Plan amendment that would not be permitted under section 436.* A plan amendment is described in this paragraph (d)(2)(ii) if the plan amendment would not be permitted to take effect under the rules of section 436(c) as applied under this paragraph (d)(2)(ii). The rules of section 436(c) are applied under this paragraph (d)(2)(ii) by—

(A) Treating the increase in the target normal cost for the plan year attributable to the amendment (and all other amendments that must be taken into account solely because of the application of the rules in this paragraph (d)(2)) as if the increase were an increase in the funding target for the plan year; and

(B) Taking into account all unpredictable contingent event benefits permitted to be paid for unpredictable contingent events that occurred during the current plan year and all plan amendments that took effect in the current plan year (including all amendments to which this paragraph (d)(2) applies for the plan year).

(iii) *Plan amendment resulting in disproportionate increase in target normal cost.* A plan amendment is described in this paragraph (d)(2)(iii) if the percentage increase in target normal cost as the result of the amendment is more than twice the percentage increase in the funding target as a result of the amendment (taking into account only the benefits of participants currently employed in the service of the employer).

* * * * *

(f) * * *

(1) * * *

(ii) *Changes in actuarial assumptions and funding method.* Actuarial assumptions established for a plan year cannot subsequently be changed for that plan year unless the Secretary of the Treasury or the Secretary's delegate (Secretary) either approves a request for a change in actuarial assumptions that was submitted before the actuarial assumptions were established for the plan year or determines that the assumptions that were used are unreasonable. Similarly, a funding method established for a plan year cannot subsequently be changed for that plan year unless the Secretary either approves a request for a change in funding method that was submitted before the funding method was established for the plan year or determines that the use of that funding method for that plan year is impermissible.

* * * * *

(4) * * *

(iii) * * *

(C) *Optional application of generational mortality.* In determining the present value of a distribution under this paragraph (f)(4)(iii), if the generational mortality tables under § 1.430(h)(3)–1(b) or § 1.430(h)(3)–2 are used for a plan, then an equal-weighted blend of the annuitant mortality rates under the § 1.430(h)(3)–1(b) generational mortality tables for males and females may be used in lieu of the applicable mortality table under section 417(e)(3) that would apply to a distribution with an annuity starting date occurring on the valuation date.

* * * * *

(5) * * *

(i) *In general.* In the case of a statutory hybrid plan described in § 1.411(a)(13)–1(d)(5), if the amount of a future distribution is based on an interest adjustment applied to the current accumulated benefit, then the amount of that distribution is determined by projecting the future interest credits or equivalent amount under the plan's interest crediting rules using actuarial assumptions that satisfy the requirements of paragraph (f)(3) of this section. Thus, if a plan provides for a single sum distribution equal to the balance of a participant's hypothetical account under a cash balance plan, then the amount of that future distribution is equal to the projected account balance at the expected date of payment determined using actuarial assumptions that satisfy the requirements of paragraph (f)(3) of this section.

(ii) * * *

(A) *General rule.* In the case of a statutory hybrid plan with a lump sum-based benefit formula as described in § 1.411(a)(13)–1(d)(3), if the amount of an annuity distribution is based on either the balance of the hypothetical account maintained for a participant or the accumulated percentage of a participant's final average compensation, then the amount of that annuity distribution is calculated by converting the projected account balance (or accumulated percentage of final average compensation), in accordance with paragraph (f)(5)(i) of this section, to an annuity by applying the plan's annuity conversion provisions using the rules of this paragraph (f)(5)(ii).

* * * * *

(C) *Optional application of generational mortality.* The option under paragraph (f)(4)(iii)(C) of this section to substitute the generational mortality table may be used for purposes of determining the amount of an annuity distribution under paragraph (f)(5)(ii)(B) of this section.

* * * * *

(g) *Applicability date.* This section applies to plan years beginning on or after [DATE SIX MONTHS AFTER DATE OF PUBLICATION OF FINAL RULE]. For earlier plan years, taxpayers may apply either the rules of this section or the rules described in 26 CFR 1.430(d)–1 (as it appeared in the April 1, [2026], edition of 26 CFR part 1).

Frank J. Bisignano,

Chief Executive Officer.

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