



ROBINSON & COLE LLP

Employee Benefits & Compensation



SPECIAL EDITION

IRS Postpones Effective Date of Relative Value Regulations

In the January edition of Benefits E-News, we reported that the IRS had issued final regulations requiring plan administrators to provide retiring participants with more complete information regarding the relative value and financial effect of a plan's optional forms of benefit. The regulations are intended to enable participants to compare the relative values of each distribution option using easily understandable information. Those regulations were to apply to distributions with annuity starting dates on or after October 1, 2004. In response to concerns that plan sponsors needed additional time to prepare appropriate comparisons of the relative value of optional forms of benefits, the IRS has announced that it is postponing the effective date of these regulations for certain qualified joint and survivor annuity (QJSA) explanations. The October 1, 2004 effective date remains if a plan provides a form of benefit that is subject to Section 417(e) of the Code and that has an actuarial equivalent present value that is less than the present value of the QJSA. Generally, only defined benefit plans that offer a lump sum benefit may still have to comply by the October 1, 2004 effective date. For other forms of benefit, the extensive information required to be provided by the final regulations will be required to be included in QJSA explanations provided to participants with annuity starting dates on or after February 1, 2006.

The IRS has also provided additional guidance on the final regulations. The final regulations permit plan sponsors to use one of two methods to disclose the relative value and financial effect of optional forms of benefit. Under the participant specific method, information must be provided on the relative value and financial effect of each form of benefit that is specific to the participant to whom the notice is being provided. Under the generalized notice method, a participant is informed of the amount of the benefit payable as the normal form of benefit and is provided additional information with respect to a hypothetical plan participant. The final regulations stated that reasonable estimates are permissible under the participant specific method. The IRS has clarified that reasonable estimates can also be used under the generalized notice method. The additional information required under the generalized notice method can be provided in a chart or other comparable device showing the financial effect and relative value of optional forms of benefits in a series of examples. The IRS has clarified that a plan can base a comparison chart or other additional information in part on participant specific data if it so chooses as long as the generalized notice requirements are otherwise satisfied.

Plan sponsors should determine whether or not they are required to meet the October 1, 2004 effective date. If a plan sponsor is able to take advantage of the postponed effective date, the QJSA explanations that are furnished until February 1, 2006 must be in compliance with the disclosure currently required. Plan sponsors should review current disclosures to ascertain whether they are in compliance with current requirements.

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