Client Alert

Treasury and IRS Delay Relative Value Regulations Effective Date

On July 1, 2004, the Treasury Department and the Internal Revenue Service issued Announcement 2004-58, which provides a welcome delay in the effective date of the final "relative value regulations" in certain cases.

The relative value regulations require employers to provide retiring pension plan participants an explanation of the "relative value" and financial effect of choosing optional forms of benefits under the plans. These regulations apply to plans which provide for a qualified joint and survivor annuity (QJSA), such as defined benefit pension plans and money purchase pension plans. The relative value regulations were created originally in response to concerns that participants could not adequately compare benefits options, particularly in cases where some options were subsidized. These regulations require employers to disclose the financial effect of the benefit payment options to allow participants to make an informed choice.

The final relative value regulations were scheduled to become effective for all QJSA explanations provided with respect to annuity starting dates beginning on or after October 1, 2004. As a practical matter, because the QJSA explanation must be provided no later than 30 days and no earlier than 90 days before the annuity starting date, employers may have been required to provide the enhanced QJSA explanation starting as early as July 3, 2004 for annuity starting dates beginning October 1, 2004.

In response to growing concerns of employers and employee organizations regarding the complexity of the relative value regulations, Treasury and the IRS extended the effective date for enhanced QJSA explanations for annuity starting dates beginning on and after February 1, 2006. This means that employers must be prepared to comply fully with the final relative value regulations as early as November 3, 2005 (90 days before the February 1, 2006 effective date). The extension does not apply, however, to enhanced QJSA explanations for lump sum payments or other optional forms of benefit that are less valuable than the QJSA. Participants must still be given notice of the relative value calculations for lump sum payments and other optional forms of benefit that are less valuable than a QJSA beginning July 3, 2004 (for annuity starting dates beginning October 1, 2004).

Pension plan sponsors should use this opportunity to review their plans to eliminate undesirable optional forms of benefit and should consult with plan actuaries to develop the information needed to comply with these relative value regulations. We would be happy to assist in reviewing your plan's optional forms of benefit and work with your plan's actuary to ensure that QJSA explanations comply with the new regulations.

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For Additional Information

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