



October 19, 2026

Frank J. Bisignano, Chief Executive Officer
Internal Revenue Service
Attn: CC:PA:01:PR (REG-107855-25) Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Re: Comments on Proposed Regulations for Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans (REG-107855-25)

Dear Mr. Bisignano:

On behalf of the Pension Committee (Committee) of the American Academy of Actuaries,¹ we appreciate the opportunity to provide comments on the Internal Revenue Service's (IRS) [Proposed Regulations for Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans](#). We have outlined three specific areas of the proposed regulations that we believe could benefit from additional clarity.

1. Definition of Plan-Related and Investment-Related Expenses in Proposed § 1.430(d)-1(b)(1)(iii)(B) and (C)

We agree with the clarification in the proposed regulations that plan-related expenses included in target normal cost should exclude investment-related expenses, and we appreciate the guidance around the investment-related expenses not included in target normal cost. However, we believe that the Explanation of Provisions in the preamble to the proposed regulations is clearer on how the distinction should be applied than the proposed regulations. The preamble provides examples of types of expenses, such as custodial and trustee fees, which are associated with the investment of plan assets but not directly related to the investment of a plan's assets. They, therefore, should be included in the plan-related expenses. We believe it would be helpful to include items such as custodial and trustee fees among the plan-related expenses listed in proposed § 1.430(d)-1(b)(1)(iii)(B) as follows:

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 (including custodial and trustee fees), and premiums paid to the Pension Benefit Guaranty Corporation, among other items.

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We also believe it would be helpful to include asset advisory and allocation services in the list of plan-related expenses that are not directly related to the investment of plan assets. Examples include performance monitoring, manager selection, or OCIO services. As some practitioners may view these expenses as being directly related to the investment of plan assets, while other practitioners may view these expenses as only indirectly related to the investment of plan assets, including these services in the examples listed in proposed § 1.430(d)-1(b)(1)(iii)(B) would help ensure that practitioners include such expenses in target normal cost, if that is the intent of the proposed regulations.

We appreciate the simplification provided in proposed § 1.430(d)-1(b)(1)(iii)(C) that allows all expenses of a bank or trust company to be treated as investment-related expenses, excluding them from target normal cost if the total amount is expected to be less than \$5,000. This consequently eliminates the need to itemize small amounts of expenses. We believe that this is only clear from the Explanation of Provisions in the preamble to the proposed regulations and not in the proposed regulations themselves. We recommend adding the language from the preamble to the end of proposed § 1.430(d)-1(b)(1)(iii)(C) as follows:

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. If the total payments from plan assets to a service provider are expected to be less than \$5,000 and consist of some investment-related expenses, all payments are treated as 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.

Also, while the applicability date noted in the proposed regulations states that “For earlier plan years, taxpayers may apply either the rules of this section or the rules described in 26 C.F.R. § 1.430(d)-1 (as it appeared in the April 1, [2026], edition of 26 CFR part 1),” there may be some concern among actuaries about whether a change in the type of expenses included in plan-related expenses constitutes a change in funding method, which would require approval from the Secretary to change. We recommend either addressing this concern in the preamble to the final regulations or revising the final regulations to address this automatic approval explicitly. Additionally, we support retaining the flexibility regarding earlier plan years.

2. Reflecting § 412(d)(2) Elections under § 1.430(d)-1(d)(1)(ii)(A)

The existing regulatory text for § 412(d)(2) treatment of plan amendments is succinct and very clear, as provided in [§ 1.430\(d\)-1\(d\)\(1\)\(ii\)](#):

Plan provisions adopted after valuation date. 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 this paragraph (d). Section 412(d)(2) applies to any plan amendment adopted no later than 2 1/2 months after the close of the plan year, including an amendment adopted during the plan year. Thus, if an amendment is adopted after the valuation date for a plan year (and no later than 2 1/2 months after the close of the plan year), but takes effect by the last day of the plan year, the amendment is taken into account in determining the plan's funding target and target normal cost for the plan year if the plan administrator makes the election described in section 412(d)(2) with respect to such

amendment.

In the proposal, the language was significantly edited and introduces two issues that may be problematic for plan sponsors and practitioners:

- 1) For a plan amendment adopted after the valuation date that takes effect after the adoption date and before the end of the plan year, this revised language appears to prohibit the sponsor from reflecting the amendment in the current year valuation. For example, a sponsor of a calendar year plan that bargains with its union for a new benefit multiplier effective July 1 and adopts this amendment on May 1 could not choose to reflect this amendment in the valuation.
- 2) This modification also appears to give a plan sponsor the ability to adopt an amendment after the end of the plan year, which makes it retroactive but not effective within the current plan year, and also includes that amendment in the current year valuation. For example, suppose that the sponsor of a calendar year plan amends the plan on January 5, 2027, for an amendment effective January 1, 2027. As drafted, the proposed regulations appear to grant the ability to reflect this amendment in the 2026 valuation. Only by referring back to Internal Revenue Code § 412(d)(2) itself for the context of amendments to a prior plan year, is it clear that this is not allowed. It is cumbersome to have to reference the statute to infer intent in this regard, and we are concerned that this could lead to misinterpretation.

To address both of these concerns, we recommend either moving the existing language in § 1.430(d)-1(d)(1)(ii) into a new subparagraph (A) or adjusting the proposed language as follows:

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~~ last day of that plan year. The preceding sentence applies even if the plan amendment is adopted during the plan year.

3. "Special Rule" under § 1.430(d)-1(d)(2)

We believe the proposed regulations better capture the intent of the existing rule, which is to prevent sponsors from deferring the cost of amendments that are adopted and effective in the current year until the next plan year valuation. The rule clearly identifies that amendments are funded in the current year as part of the target normal cost or with § 436 contributions, rather than being deferred and amortized.

The proposed regulations indicate that a plan amendment must be reflected in the current year's valuation if the rate of increase in target normal cost due to the amendment is more than twice the rate at which the funding target for active participants increases.

We believe that the current proposed regulation is reasonable and a significant improvement over the existing special rule text. We support the proposed disproportionality threshold of two times the percentage increase in the active participant funding target and recommend that the final regulation use a threshold that is not significantly less.

The Committee appreciates the efforts of the IRS and the opportunity to provide our feedback on the proposed language. If you have any questions or would like to discuss these comments further, please contact Matthew Sonduck, the Academy's director, public policy (sonduck@actuary.org).

Sincerely,

Grace Lattyak, MAAA, EA, FCA, FSA
Chairperson, Pension Committee
