



October 19, 2026

Internal Revenue Service
Attn: CC:PA:01:PR (REG-107855-25)
Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

RE: REG-107855-25, Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans

The American Retirement Association (“ARA”) is writing in response to the Notice of Proposed Rulemaking regarding the determination of target normal cost and funding target for single-employer defined benefit plans under Internal Revenue Code (“IRC”) §430, published in the Federal Register on August 20, 2026, and referenced above (the “Proposed Rule”).¹ ARA thanks the Internal Revenue Service (“IRS” or the “Service”) and the Department of the Treasury (“Treasury”) for the opportunity to provide input on these matters.

ARA is a national organization of over 40,000 members who provide consulting and administrative services to American workers, savers, and sponsors of retirement plans and IRAs. ARA members are a diverse group of retirement plan professionals of all disciplines, including financial advisors, consultants, administrators, actuaries, accountants, and attorneys. ARA is the coordinating entity for its five underlying affiliate organizations, representing the full spectrum of America’s private retirement system: the American Society of Pension Professionals and Actuaries (“ASPPA”), the National Association of Plan Advisors (“NAPA”), the National Tax-Deferred Savings Association (“NTSA”), the American Society of Enrolled Actuaries (“ASEA”), and the Plan Sponsor Council of America (“PSCA”). ARA’s membership is diverse but united in a common dedication to America’s employer-based retirement plan system.

Summary

ARA appreciates Treasury’s and the Service’s efforts to update the funding rules for single-employer defined benefit plans to reflect recent legislation and to facilitate the adoption of amendments that increase benefits. The Proposed Rule addresses important actuarial and administrative questions. ARA’s comments focus on four provisions that present practical compliance challenges for plan sponsors and plan service providers.

To ensure that timely adopted amendments are recognized and that the funding rules remain clear and administrable, ARA recommends that Treasury and the Service:

- Retain the current rule that an amendment for which a §412(d)(2) election is made is taken into account if it takes effect by the last day of the plan year, rather than requiring that the amendment take effect no later than the date it is adopted;
- Treat custodial and trustee fees as investment-related expenses, provide a safe harbor where itemization is unavailable, and exclude small plans from any itemization requirement;
- Clarify the new special rule to reflect plan operations during a remedial amendment period by using an objective date to determine when a required change is taken into account; and

¹ Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans, 91 Fed. Reg. 53803 (August 20, 2026).

- Remove the new disproportionate-increase condition added to the special rule for amendments adopted after the valuation date.

Discussion

The Proposed Rule would update the final regulations under IRC §430 issued in 2009 (the “2009 Regulations”)² to reflect statutory changes made by the Worker, Retiree, and Employer Recovery Act of 2008 (“WRERA”), the SECURE Act, and the SECURE 2.0 Act. ARA supports the efforts of Treasury and the Service to update the 2009 Regulations and provide clear rules for enrolled actuaries and plan sponsors. ARA’s comments address four areas where additional clarification or modification would improve administration and reduce unintended consequences.

I. Retain the Year-End Effective Date Rule for §412(d)(2) Amendments

The Proposed Rule provides that when a §412(d)(2) election is made, an amendment that otherwise meets the requirements of that section may not be taken into account in determining the funding target or target normal cost for that plan year unless “the amendment takes effect no later than the date the amendment is adopted.” This new requirement applies both to amendments adopted during the plan year and to amendments adopted within 2½ months after the end of the plan year. For example, ERISA §204(h) requires at least 15 days’ advance notice before a freeze takes effect. A sponsor with a January 1 valuation date that adopts a freeze on January 31, effective February 15, can reflect the freeze in the January 1 valuation under current rules by making a §412(d)(2) election. Under the Proposed Rule, the freeze could not be taken into account, even if a §412(d)(2) election is made, because it takes effect after it is adopted, and the sponsor would potentially have to fund benefits that will never be earned. The same result applies to other amendments a sponsor reasonably adopts in advance, such as a subsidized early retirement window adopted on March 1 and effective June 1 so that participants receive notice of the amendment beforehand.

ARA recommends that the final regulations retain the current rule that an amendment for which a §412(d)(2) election is made is taken into account if it takes effect on or before the last day of the plan year. The proposed “take effect no later than the date the amendment is adopted” requirement appears to be designed to align §412(d)(2) elections with the Proposed Rule’s new provisions for elections under IRC §§401(b)(2) and 401(b)(3), added by the SECURE Act and the SECURE 2.0 Act. Those elections treat a plan or amendment adopted after the end of a year as adopted on the last day of that earlier year, and the condition prevents a sponsor from counting, for a year that has already ended, provisions that were not yet in effect when adopted. A §412(d)(2) election does not present the same risk because the amendment must still take effect by the last day of the plan year.

II. Treat Custodial and Trustee Fees as Investment-Related Expenses and Ease Itemization

The Proposed Rule states that if total payments to a service provider are expected to be \$5,000 or more for a plan year and include both investment and other 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” and excluded from target normal cost. In describing other services, the preamble lists custodial and trustee fees, even though practitioners typically treat those fees as directly related to plan investments.

This treatment creates particular challenges for small plans, where the investment advisor and custodian are often the same firm or affiliated entities and a single bundled fee is charged. For example, if a small plan pays its affiliated advisor and custodian a bundled annual fee of \$8,000 that is not itemized, the entire \$8,000 would be added to target normal cost, even though most of the fee relates to managing and holding the plan’s investments. Plans that lack the bargaining power to

² Determination of Target Normal Cost and Funding Target for Single Employer Defined Benefit Plans, T.D. 9467, 74 Fed. Reg. 53004 (October 15, 2009).

require separately stated fees would bear higher funding obligations solely because of how their provider invoices.

ARA recommends that the final regulations: (1) treat custodial and trustee fees directly associated with maintaining plan investments (such as holding securities, settling trades, and collecting income) as investment-related expenses; (2) provide a safe harbor for plans where itemization is not available from the service provider—for example, permitting a specified percentage of total fees to be treated as investment-related; (3) apply any \$5,000 itemization threshold only to plans required to file a Schedule C with their Form 5500, so no additional reporting or administrative burden is imposed on small plans; and (4) provide that changing the method of allocating expenses between investment-related and plan-related categories is not treated as a change in funding method requiring approval by the Service, at least as a transition rule for the first Schedule SB filed after the effective date of the final regulations.

Requiring itemization of expenses exceeds what existing disclosure rules require. Schedule C is filed only by large plans and permits service providers to report compensation using all applicable service codes without allocating it among services,³ and the ERISA §408(b)(2) service provider disclosure regulation permits direct compensation to be disclosed “either in the aggregate or by service.”⁴

III. Clarify the Special Rule to Reflect Plan Operations During a Remedial Amendment Period

The Proposed Rule adds a new special rule to reflect plan operations during a remedial amendment period (the “Remedial Operations Rule”). If plan operations are changed during a remedial amendment period “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.” The Remedial Operations Rule applies only if the plan “is required to be amended to address a disqualifying provision that has been designated as such by the Commissioner,” the remedial amendment period has not ended, and “plan operations are changed in anticipation of a proposed amendment.”

ARA recommends that the final regulations replace the plan operations trigger with an objective date, such as the date the change is required to be in effect. Whether and when “plan operations are changed” is a factual question that may not have a single answer. Changes may be implemented at different times for different participants, and the date may differ depending on whether it is measured by administrative systems, participant communications, or benefit payments. The conditions which determine when the Remedial Operations Rule applies add further uncertainty. It is not clear whether a change for which the amendment deadline is set by statute is a disqualifying provision “designated as such by the Commissioner” or whether the remedial amendment period for that change ends on the statutory amendment deadline or an extended period. Using an objective trigger eliminates this uncertainty, will reduce the burden of plan operations, and will improve compliant administration.

If Treasury and the Service retain the plan operations trigger, **ARA recommends** that the final regulations (1) define when plan operations are considered changed, (2) confirm that the rule applies to changes required by statute and that the remedial amendment period for those changes ends on the applicable statutory amendment deadline, as extended, and (3) include examples.

³ See Instructions for Schedule C (Form 5500), U.S. Department of Labor (2025), <https://www.dol.gov/sites/dolgov/files/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500/2025-instructions.pdf>.

⁴ 29 C.F.R. §2550.408b-2(c)(1)(iv)(C)(1), <https://www.ecfr.gov/current/title-29/subtitle-B/chapter-XXV/subchapter-F/part-2550/section-2550.408b-2>.

IV. Remove the Disproportionate-Increase Condition

The Proposed Rule adds a new requirement to the special rule. An amendment adopted after the valuation date is subject to it only if, among other things, “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.” The special rule already applies only to an amendment that takes effect by the last day of the plan year, increases plan liabilities, and would not be permitted under a modified application of IRC §436(c). The new condition narrows that group further, and every amendment adopted after the valuation date would need to be tested against it. The preamble to the Proposed Rule does not explain why the condition was added or what conduct it is meant to address. Imposing this additional condition will require additional testing and increase the cost of administration.

ARA recommends that the final regulations remove the new condition and keep the existing special rule. The preamble to the 2009 Regulations describes the special rule’s purpose: preventing a sponsor from avoiding IRC §436(c) by adopting a benefit increase after the valuation date. The existing three conditions already serve that purpose. ARA recognizes that the new condition would narrow the application of the special rule, but the 2-to-1 ratio may exclude amendments that the 2009 Regulations were designed to reach. If Treasury and the Service keep the condition, **ARA recommends** that the final regulations (1) explain the specific conduct it addresses and how that conduct differs from what the existing rule covers, and (2) include examples showing how the test applies.

Conclusion

The Proposed Rule provides a sound framework for determining target normal cost and funding target for single-employer defined benefit plans, and ARA supports the efforts of Treasury and the Service to update the 2009 Regulations to reflect later statutory changes. Retaining the current rule that an amendment for which a §412(d)(2) election is made is taken into account if it takes effect by the last day of the plan year, treating custodial and trustee fees as investment-related expenses with a safe harbor for plans where itemization is unavailable, using an objective date to determine when required changes are taken into account during a remedial amendment period, and removing the new disproportionate-increase condition would avoid conflicts with ERISA §204(h) notice requirements, reduce burdens on small plans and enrolled actuaries, provide clarity in applying the funding rules, and preserve a special rule that already serves its intended purpose. We appreciate Treasury’s and the Service’s consideration of these comments.

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These comments are submitted on behalf of ARA and were prepared by ASEA’s Government Affairs Committee. ARA appreciates the opportunity to submit these comments and would welcome the opportunity to discuss them further. Please contact Kelsey Mayo, Chief of Retirement Policy and Regulatory Affairs, at kmayo@usaretirement.org or (703) 516-9300, with any questions regarding this matter. Thank you for your time and consideration.

Sincerely,

/s/

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/s/

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