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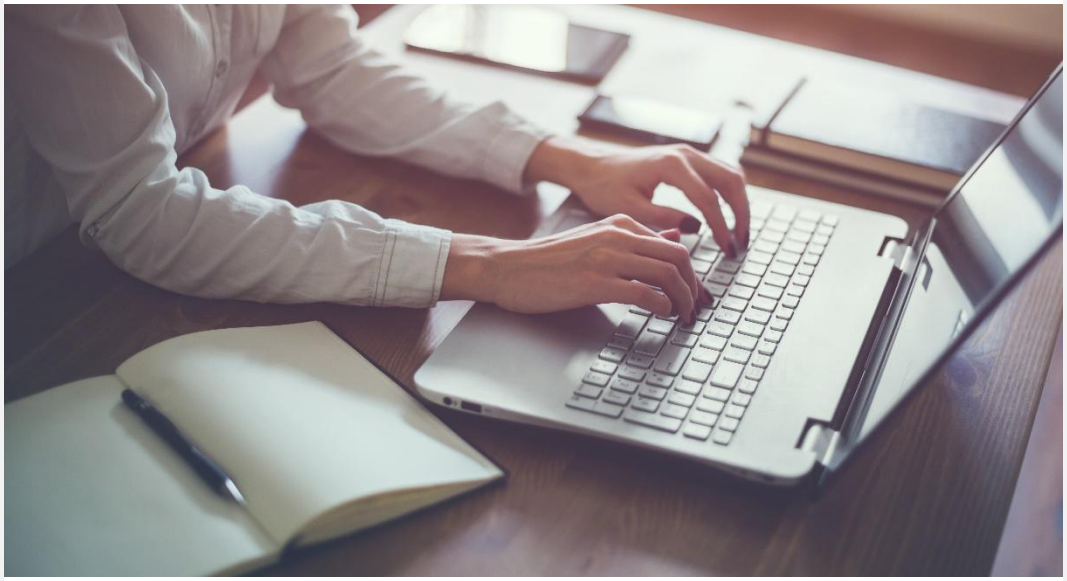

In this Issue:

Upcoming Compliance Reminders for Calendar Year Employee Benefit Plans

July 2026

27th: Summary of Material Modification (SMM) (or updated Summary Plan Description (SPD)) for 2025 amendments
31st: Form 5500 Due (without extension)
31st: PCORI Fee Due

Note: This is meant to be a reminder of certain upcoming compliance deadlines for employee benefit plans operating on a calendar year basis. It is not an exhaustive list of compliance obligations. Specific plans may be subject to different obligations and deadlines depending upon a variety of factors, including the plan type, plan year, and whether or not the plan is subject to ERISA, among other things.

Appeals Court Rules That Actuarial Equivalence Assumptions under ERISA Must Be Reasonable

The Eleventh Circuit Court of Appeals has become the latest appeals court to weigh in on ERISA's requirement that, when a defined benefit plan converts annuity benefits, the benefits must be the "actuarial equivalent" of each other. The Court ruled that ERISA requires the actuarial assumptions used in these conversions to be "reasonable" at the time the plan calculates the participant's benefit.

Background

ERISA requires that a defined benefit plan participant's qualified joint and survivor annuity ("QJSA") be the "actuarial equivalent" of their single life annuity ("SLA"). Actuarial equivalence is also required with respect to a survivor annuity pursuant to a qualified preretirement survivor annuity and a QJSA.

In recent years, several lawsuits have challenged the actuarial assumptions used by defined benefit plans when participants elect to convert their SLA into a QJSA. The key question in these lawsuits is whether ERISA requires the actuarial assumptions – i.e., interest and mortality assumptions – used in these benefit calculations to be "reasonable." The plaintiffs in these cases allege that, because the plans use mortality assumptions that are outdated – sometimes from decades prior to when the calculation is being made – it results in participants receiving smaller benefits than they are entitled to.

Similarly, some plaintiffs have also challenged the use of the same outdated mortality assumptions to determine the charge for a plan's qualified pre-retirement survivor annuity ("QPSA").

According to the plaintiffs in these cases, ERISA requires the actuarial assumptions used in an SLA-to-QJSA conversion, and in determining a QPSA charge, to be reasonable, even though the statute does not specifically contain a reasonableness requirement.

Note that these cases do not involve conversions to certain accelerated forms of distribution, including lump sums. Those conversions must be done using IRS prescribed interest and mortality assumptions pursuant to Code section 417(e)(3).

In 2022, a group of plaintiffs brought a lawsuit against a plan sponsor, alleging that it violated ERISA by using outdated – and therefore unreasonable – mortality assumptions when converting different forms of benefits and when calculating the plan's QPSA charge for married participants. A district court dismissed the lawsuit, concluding that ERISA's actuarial equivalence rule does not require the use of assumptions that are reasonable. The plaintiffs appealed to the Eleventh Circuit.

Eleventh Circuit Ruling

In May, the Eleventh Circuit reversed the district court's dismissal and ruled in *Drummond v. Southern Company* that ERISA's actuarial equivalence standard for converting an SLA to a JSA requires the actuarial assumptions used to be "reasonable" at the time the plan calculates the participant's benefit. The Eleventh Circuit also held that the reasonableness requirement applies in calculating QPSA charges.

The court explained that it came to this conclusion because, among other reasons, the Treasury Department has interpreted the actuarial equivalent requirement to include reasonable actuarial factors, and the requirement of reasonableness is baked into the concept of actuarial equivalence.

In addition, the court held that the defendant plan's failure to use reasonable assumptions in these contexts was impermissible because it violated ERISA's prohibition on the forfeiture of a plan participant's benefit after it has vested.

Defined benefit plan sponsors should be aware that another appeals court – the Sixth Circuit – recently adopted the same position as the Eleventh Circuit. Although these rulings only impact courts within the Sixth and Eleventh Circuits, it is still significant that there are now two appeals courts that have sided with plaintiffs in the actuarial equivalence cases. Defined benefit plan sponsors may want to consider if the mortality assumptions they use for these conversions could expose them to litigation.

Supreme Court Resolves Lower Court Split on Calculating Withdrawal Liability for Multiemployer Pension Plans

The Supreme Court ruled that when calculating an employer's multiemployer pension plan withdrawal liability, ERISA does not require the interest rate used in calculating that liability to be adopted before the end of the plan year preceding the year in which the employer withdraws. Rather, plans may use an interest rate that is adopted after the end of the plan year. The interest rate used in calculating withdrawal liability can have a significant impact on what the employer owes in withdrawal liability.

Background

When an employer withdraws from an underfunded multiemployer pension plan, ERISA requires the employer to make a withdrawal liability payment to cover its share of the underfunding.

The amount of an employer's withdrawal liability depends on several calculations, including actuarial assumptions regarding interest rates. Under ERISA, withdrawal liability must be calculated "as of the end of the plan year preceding the plan year in which the employer withdraws" – this is often referred to as the "measurement date." However, ERISA does not say when the actuarial assumptions used to calculate an employer's withdrawal liability as of the measurement must be adopted, and there has been disagreement among courts on this issue. Even small changes in the interest rate used to calculate withdrawal liability can have a significant impact on an employer's obligation.

In this case, a group of employers withdrew from a multiemployer pension plan in 2018. The measurement date for their withdrawal liability was December 31, 2017, at which point the most recent interest rate adopted by the plan was 7.5%. However, when calculating each employer's withdrawal liability, the plan's actuary used a 6.5% interest rate that had been adopted in January 2018. The use of the lower interest rate significantly increased the liability for these employers, who subsequently brought a lawsuit.

The D.C. Circuit Court of Appeals ruled that a plan is permitted to use actuarial assumptions that were adopted *after* the measurement date, as long as the assumptions are adopted based on information that was available as of the measurement date. In contrast, the Second Circuit ruled that withdrawal liability must be calculated using actuarial assumptions that are set as of the measurement date. In light of this split among the circuit courts, the Supreme Court agreed to hear the case.

Supreme Court Weighs In On Withdrawal Liability

In May, the Supreme Court ruled in *M&K Employee Solutions LLC v. Trustees of the IAM National Pension Fund* that, when calculating an employer's withdrawal liability, ERISA does not require the interest rate used as part of the actuarial assumptions to be selected on or before the measurement date. Instead, pension plans may apply an interest rate that is adopted after the measurement date.

In explaining its ruling, the Court reasoned that ERISA does not actually state that the actuarial assumptions used to calculate withdrawal liability must be adopted prior to the measurement date. In addition, the Court said that there

are other instances in ERISA where Congress specified a deadline for setting assumptions relevant to withdrawal liability, but there was no such deadline for the interest rate – thus, according to the Court, the omission of such a deadline must have been intentional.

IRS Announces 2027 HSA Limits

Even though summer is just beginning, open enrollment season is right around the corner. To help employers finalize the designs of high-deductible health plans that are compatible with health savings accounts (HSAs) and prepare communications about HSA contribution limits, etc., the IRS has issued Rev. Proc. 2026-24 to provide inflation-adjusted HSA and HDHP limits for 2027.

HSA and HDHP Limits

The following table summarizes the inflation-adjusted limits that will apply in 2027, and also includes the limits currently in effect plus historical data from 2024 and 2025 for comparison.

	2024	2025	2026	2027	Change
Contributions					
Annual Contribution Limit -- Self	$4,150	$4,300	$4,400	**$4,500**	$100
Annual Contribution Limit -- Family	$8,300	$8,550	$8,750	**$9,000**	$250
Age 55+ Catch-up Contribution	$1,000	$1,000	$1,000	**$1,000**	$0
High-Deductible Health Plans					
HDHP Minimum Deductible -- Self	$1,600	$1,650	$1,700	**$1,750**	$50
OOP Max -- Self	$8,050	$8,300	$8,500	**$8,700**	$200
HDHP Minimum Deductible -- Family	$3,200	$3,300	$3,400	**$3,500**	$100
OOP Max -- Family	$16,100	$16,600	$17,000	**$17,400**	$400
Direct Primary Care Service Arrangements					
Maximum monthly aggregate DPCSA fees	N/A	N/A	$150	**$150**	$0
Maximum monthly aggregate DPCSA fees if DCPSA covers more than one individual	N/A	N/A	$300	**$300**	$0

New this year are the inflation-adjusted maximum aggregate monthly fees for Direct Primary Care Service Arrangements (DPCSAs). The One, Big, Beautiful Bill Act (P.L. 119-21) amended Code Section 223 to provide that individuals covered by DPCSAs could still be eligible to contribute to HSAs, as long as certain requirements are satisfied. One requirement is that the monthly aggregate DPCSA fee cannot exceed $150 (or $300 if the DPCSA covers more than one person), as adjusted for inflation beginning in 2027. As noted below, the inflation adjustment did not result in any change to the monthly aggregate fee limit for the upcoming year.

Excepted Benefit HRAs

The revenue procedure also provides that the maximum amount that may be made newly available to excepted benefit health reimbursement arrangements (HRAs) will be $2,250 in 2027, up from $2,200 in 2026. Excepted benefit HRAs are a special category of HRAs that are not subject to the ACA's group health plan mandates, and do not have be integrated with a comprehensive group health plan.

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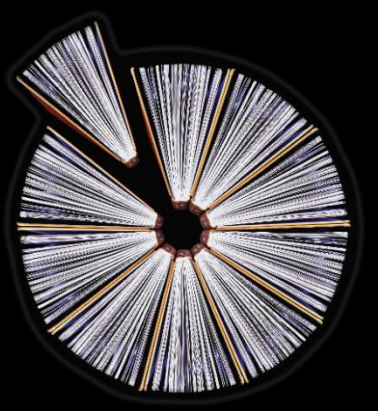

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