During a September 12, 2011, Internal Revenue Service (IRS) phone forum regarding participant loans, an IRS representative, responding to a question, indicated that participant loans with interest rates set at less than the “prime rate” plus 2% might not meet the "reasonable” interest rate requirement under the Internal Revenue Code. The ASPPA Government Affairs Committee reached out to the IRS and requested clarification based on conflicting DOL guidance. In response, the most recent edition of the IRS publication, Retirement News for Employers provides additional discussion and commentary regarding the determination of a “reasonable” interest rate for a participant loan. The article includes several examples taken from the DOL regulations that describe the process that should be followed in determining a “reasonable” rate. What the examples clearly demonstrate is that the interest rate should be based on the current commercial lending rates for loans to individuals of similar creditworthiness, which is not necessarily the “prime rate” plus 2%. ASPPA’s Government Affairs Committee greatly appreciates the timely clarification provided by the IRS on this important topic.

Are you interested in retirement plan issues? ASPPA is looking for members for its Government Affairs Committee (GAC)! If you’re interested in sharing your thoughts about issues affecting retirement plans, sign up for GAC’s new general membership. More information is available here. Become a general member today! Just complete the application form and submit it by email to asppa@asppa.org or by fax to (703) 516-9308.