Mortality Tables for Pension Plans Updated for 2018



Pension plans for funding purposes are required to use prescribed mortality tables by the IRS. As expected, these were recently updated by the IRS and will be in effect for 2018. Plan sponsors should work with their actuaries to determine the impact to future funding requirements for these updated mortality tables.

More specifically, IRS notice 2017-60 sets forth the mortality table that is used for purposes of determining minimum present value under § 417(e)(3) of the Internal Revenue Code (Code) and section 205(g)(3) of the Employee Retirement Income Security Act of 1974, Public Law No. 93-406, as amended, for distributions with annuity starting dates that occur during stability periods beginning in the 2018 calendar year. This mortality table is a modified unisex version of the mortality tables.

This notice also provides updated static mortality tables determined using the methodology. These updated static mortality tables apply for plan years beginning during 2017 with respect to valuation dates occurring during 2018. These updated static mortality tables also apply for the plan year beginning during 2018 if the option under § 1.430(h)(3)-1(f)(2) is used for the plan.

Under Section 412 of the Code provides minimum funding requirements that generally apply for defined benefit plans. Section 412(a)(2) provides that § 430 specifies the minimum funding requirements that generally apply to defined benefit plans that are not multiemployer plans. Section 430(a) defines the minimum required contribution for such a plan by reference to the plan's funding target for the plan year. Under § 430(d)(1), a plan's funding target for a plan year generally is the present value of all benefits accrued or earned under the plan as of the first day of that plan year.

Section 430(h)(3) provides rules regarding the mortality tables that are generally used under § 430. Under § 430(h)(3)(A), except as provided in § 430(h)(3)(C) or (D), the Secretary is to prescribe by regulation mortality tables to be used in determining any present value or making any computation under § 430. Those tables are to be based on the actual experience of pension plans and projected trends in that experience. Section 430(h)(3)(B) requires the Secretary to revise any table in effect under § 430(h)(3)(A) at least every 10 years to reflect the actual experience of pension plans and projected trends in that experience.

Section 430(h)(3)(C) provides that, upon request by a plan sponsor and approval by the Secretary, substitute mortality tables that meet the applicable requirements may be used in lieu of the standard mortality

tables provided under § 430(h)(3)(A). Section 430(h)(3)(D) provides for the use of separate mortality tables with respect to certain individuals who are entitled to benefits on account of disability.

Section 417(e)(3) generally provides that the present value of certain accelerated forms of benefit under a qualified pension plan (including single-sum distributions) must not be less than the present value of the accrued benefit using applicable interest rates and the applicable mortality table. Section 417(e)(3)(B) defines the term "applicable mortality table" as the mortality table specified for the plan year under § 430(h)(3)(A) (without regard to § 430(h)(3)(C) or (D)), modified as appropriate by the Secretary.

Section 1.430(h)(3)-1 was amended on October 5, 2017, by T.D. 9826, 82 F.R. xxxxx, to revise the mortality tables used under § 430(h)(3)(A) for plan years beginning on or after January 1, 2018. The mortality tables used under § 430(h)(3)(A) are based on the tables contained in the RP-2014 Mortality Tables Report,[1] adjusted for mortality improvement. Section 1.430(h)(3)-1 sets forth base mortality tables with a base year of 2006. For valuation dates during 2018, these base mortality tables are adjusted for mortality improvement using the mortality improvement rates contained in the Mortality Improvement Scale MP-2016 Report.

Section 1.430(h)(3)-1(f)(2) provides under certain circumstances an option to apply mortality tables determined in accordance with regulations previously in effect for purposes of applying the rules of § 430 for the 2018 plan year. Under § 1.430(h)(3)-1(f)(2), for a plan for which substitute mortality tables are not used pursuant to § 1.430(h)(3)-2 for a plan year beginning during 2018, mortality tables determined in accordance with § 1.430(h)(3)-1 as in effect prior to amendment by T.D. 9826 (referred to in this notice as former § 1.430(h)(3)-1) may be used for purposes of applying the rules of § 430 for a valuation date occurring during 2018 if the plan sponsor: (1) concludes that use of mortality tables determined in accordance with § 1.430(h)(3)-1 for that plan year would be administratively impracticable or would result in an adverse business impact that is greater than *de minimis*, and (2) informs the actuary for the plan of the intent to apply the option under §1.430(h)(3)-1(f)(2).

Former § 1.430(h)(3)-1 provided for mortality tables based on the tables contained in the RP-2000 Mortality Tables Report, adjusted for mortality improvement. The regulations permitted plan sponsors to apply the projection of mortality improvement in either of two ways: (1) through use of static tables that were updated annually to reflect expected improvements in mortality, or (2) through use of generational tables. Former § 1.430(h)(3)-1(b)(1) generally required the use of separate tables for annuitant and nonannuitant periods for large plans (those with over 500 participants as of the valuation date). Sponsors of small plans (those with 500 or fewer participants as of the valuation date) were permitted to use combined tables that apply the same mortality rates to both annuitants and nonannuitants pursuant to former § 1.430(h)(3)-1(b)(2). Former § 1.430(h)(3)-1(a)(3) provided that the static mortality tables for valuation dates occurring in years after 2008 were to be provided in the Internal Revenue Bulletin.

Rev. Rul. 2007-67, 2007-2 CB 1047, provides that, except as otherwise stated in future guidance, the applicable mortality table under § 417(e)(3) is a static mortality table set forth in published guidance that is developed based on a fixed blend of 50 percent of the static male combined mortality rates and 50 percent of the static female combined mortality rates used under § 1.430(h)(3)-1. Rev. Rul. 2007-67 also provides that the applicable mortality table for a calendar year applies to distributions with annuity starting dates that occur during stability periods that begin during that calendar year.

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