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# PENSION ANALYST

Important information – Plan Administration and Operation



**Prudential**  
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## IRS updates pension mortality tables

### Who's affected

This information applies to sponsors of qualified defined benefit pension plans including single employer and multiple employer plans that utilize mortality tables to calculate minimum funding requirements and the minimum present value of lump sum and other accelerated payments. It also applies to multiemployer plans for measuring current liability.

These changes impact defined benefit plans in accordance with the Internal Revenue Code (IRC) provisions discussed below and plans subject to similar provisions under the Employee Retirement Income Security Act of 1974 (ERISA).

### Background and summary

On October 3, 2017, the Internal Revenue Service (IRS) issued final regulations, which include a modified version of the mortality tables specified under Section 430 of the IRC. The updated tables, which generally apply to defined benefit plans, are used to calculate a plan's minimum funding requirements and, along with [Notice 2017-60](#), include tables to be used for the minimum present value for certain types of distributions including lump sum benefit payments and other accelerated forms of payment.

In addition, the IRS issued [Revenue Procedure 2017-55](#), which includes updates to the procedure for plan sponsors to request IRS approval to use plan-specific substitute mortality tables for minimum funding requirements. The new Revenue Procedure modifies and supersedes Revenue Procedure 2008-62.

The Pension Protection Act of 2006, which made changes to the minimum funding rules for defined benefit plans, requires the IRS to publish new tables at least every ten years to reflect the actual experience of pension plans and projected trends in such experience. The new mortality tables recognize recent increases in longevity and, therefore, are expected to increase plan liabilities for minimum required contributions. Lump sum payments are also expected to increase.

The updated tables are generally effective for plan years starting on or after January 1, 2018 with the possible option to defer reflection to 2019 in certain cases for minimum funding purposes.

### Actions and next steps

Plan sponsors should carefully review the information in this publication and consult with their actuary to understand the impacts of the updated mortality tables and how they apply to their plans.

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## Future mortality improvement

The updated mortality table reflects both current life expectancy as well as continued future improvements in life expectancies known as a generational mortality table. A modified version of this table, known as a static mortality table, was also published. Either of these may be used for minimum funding requirements while the static table is the basis for the table used for the determination of minimum present value under Section 417 and Section 205 of ERISA.

## Minimum present value

The updated mortality table is a modified unisex version of the static mortality tables and replaces the tables previously issued by the IRS in 2008. As it relates to minimum present value calculations, the new mortality tables apply to lump sum distributions and other accelerated forms of payment with annuity starting dates occurring during stability periods (the length of time the interest rate is held constant) beginning within the 2018 calendar year. This includes plan years beginning in 2017 with respect to stability periods starting in 2018. For calendar year plan years, the new tables apply for distributions on or after January 1, 2018 for minimum present value calculations. Plans not using a calendar plan year must apply the new tables at a later date based on the plan's stability period.

## Minimum funding requirements

The updated tables are also used to determine a plan's minimum funding requirements. This includes minimum required contributions and Pension Benefit Guaranty Corporation (PBGC) variable premiums. A plan's funding target for a plan year is generally the present value of all benefits accrued or earned under the plan as of the first day of that plan year. The new mortality tables apply to plan years beginning on or after January 1, 2018 for minimum funding requirements. The tables also apply for plan years beginning in 2017 with respect to valuation dates occurring in 2018. However, prior mortality tables may be used for a 2018 valuation date if the plan meets certain criteria.

## Option to delay

For purposes of calculating the minimum funding requirements, a plan sponsor may delay use of the new tables for up to one year and continue using the prior tables, if the sponsor determines that use of the new table:

- Is administratively impractical; or
- Would result in an adverse impact on the business that is greater than de minimis.

Although de minimis is not defined in the final rules, if a plan elects to delay use of the new tables, the plan sponsor must inform the plan's actuary of their intent. It is not necessary for the plan to inform or request approval from the IRS of its intent to delay.

The option to delay applies to minimum funding requirements and PBGC premiums, but is not available for minimum present value calculations.

## Plan-specific substitute mortality tables

The final rules allow for substitute mortality tables for minimum funding and PBGC premium purposes that meet the applicable requirements to be used in lieu of the standard mortality tables. Substitute mortality tables must reflect the actual mortality experience of the plan for which the tables are to be used and the mortality experience must be "credible."

Plan-specific mortality tables may be approved for a period not to exceed ten years.

For plan sponsors that maintain multiple plans or members within a controlled group, substitute mortality tables must generally be established and used for each plan subject to minimum funding requirements. The guidance includes special treatment and rules for multiple employer plans that should be reviewed.

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Changes from prior guidance include, but are not limited to:

- The addition of information needed to calculate the full credibility threshold, the mortality ratio, and the partial credibility weighting factor;
- Changes to the rules regarding what constitutes lack of credible mortality information as it relates to other plans in the plan sponsors controlled group; and
- Requirements to support the construction of base substitute mortality tables including populations with mortality experience that is only partially credible.

The final rules outline the requirements for requesting approval to use substitute tables including the information and data used for the experience study, the application and other necessary documents, applicable user fees, and additional information. A checklist, which must also be submitted with each request, is included in Appendix A of the Revenue Procedure.

The new rules are effective for all requests to use plan-specific substitute mortality tables for plan years beginning on or after January 1, 2018.

## Credibility of mortality experience

According to the final rules, a plan must have a sufficient number of participants and been maintained for a long enough period of time to have credible mortality experience. It is also necessary for the tables to reflect the actual experience of the plan and projected trends in general mortality experience.

Separate mortality tables must be established for each gender under the plan and, in general, substitute mortality tables are permitted to be established for a gender only if the plan has credible mortality experience with respect to that gender. However, the new rules provide an option for determining the credibility of mortality experience using the plan's combined mortality experience for both genders, and using that combined experience to develop separate substitute mortality tables for each gender.

The standard for mortality experience to be considered full credibility has been revised. The rule requiring a minimum of 1000 deaths during the period covered by the experience study has been eliminated. Instead, a population-specific calculation is required, which considers the dispersion of benefits within the population.

A population lacks credible mortality experience if less than 100 deaths occurred during the experience study. In this case, the period of time used to demonstrate the lack of credible mortality information (demonstration period) and number of deaths during that period must be included. Alternative information to demonstrate lack of credible mortality information may be provided in lieu of the number of deaths.

It is now necessary for substitute base tables to be constructed following a multiple-step process and they must be provided for populations with full credibility or partial credibility. The following information must be included for partially credible populations.

- A base substitute mortality table constructed as if the population had fully credible mortality experience;
- The partial credibility weighting factor for the population; and
- The substitute base table.

## Timing requirements for requesting approval to use plan-specific tables

To use plan-specific tables, a plan sponsor must request approval at least seven months before the first day of the first plan year for which the substitute mortality tables apply. *For example, if the first plan year to which substitute mortality tables are to apply is the plan year that begins January 1, 2020, then the deadline for submitting a request for approval to use substitute mortality tables is June 1, 2019.*

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Such requests may be submitted to the IRS in writing or electronically.

The current 180-day review period required by the IRS continues to apply. If other related plans maintained by the applicant have credible mortality information and a request for approval to use substitute mortality tables will be made for those plans in one or more separate applications, the plan sponsor must request that the 180-day review period be extended by 90 days.

For plan years beginning in 2018, a request will be considered timely if it is submitted on or before February 28, 2018, provided that the plan sponsor requests a 90-day extension of the 180-day review period.

## **Plan sponsor next steps**

Plan sponsors should consult with their enrolled actuary to understand the impacts of the updated mortality tables on funding strategies, as well as the appropriate effective date and specific mortality table to use.

Plan amendments may be necessary, depending on the current language that references the mortality tables. If Prudential Retirement provides document services for your plan, we will contact you regarding any changes needed to your plan document and will work with you to ensure documents are updated in a timely manner.

### **Pension Analyst by Prudential Retirement**

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