2018 IRS Mortality Tables Finally Released
What Plan Sponsors Need to Know

By: David Weaver, FSA, EA, MAAA
- Cowden Associates, Inc.
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On October 3, 2017, the IRS released Notice 2017-60, which summarizes rules provided in regulations to be released October 5, 2017 in regard to 2018 mortality and mortality improvement tables that are to be used for the following:

- Minimum funding calculations under IRC §430 for single employer defined benefit pension plans, and
- Calculating minimum lump sums and other accelerated forms of payment subject to IRC §417(e)(3).

The October regulations generally require the use of updated base mortality and updated mortality improvement assumptions as provided by the Society of Actuaries Retirement Plan Experience Committee (RPEC) in their RP-2014 mortality and MP-2016 mortality improvement publications. For the purposes of §430 minimum funding calculations, new tables based on these mortality and mortality improvement tables are generally required for valuation dates beginning with those occurring in 2018, unless a plan sponsor uses a one-time option to delay use of the tables for one year. Plans with valuation dates that are not the first day of the plan year will be subject to the new tables for plan years prior to 2018 if the valuation date falls in the 2018 calendar year.

The use of the updated mortality and mortality improvement rates for calculation of lump sums and other accelerated payment forms will apply to distributions with annuity starting dates that occur during stability periods beginning during that calendar year. For calendar year plan years, this means the new rates will apply starting January 1, 2018. For off-calendar year plans, the rates may begin to apply before the end of the 2017 plan year if the stability period begins during 2018. That is, if an off-calendar year plan determines updated lump sum rates more than once per year, any period that begins during 2018 must use the updated tables.

The tables selected by the IRS are not adjusted for collar and are based on pay-related benefits, regardless of whether or not a plan's participants are primarily blue or white collar, and regardless of whether or not benefits are based on a participant's earnings.

Potential One-Year Delay in Application of These Tables for Minimum Funding Calculations

The Notice and regulations updating mortality tables under regulation §1.430 will be amended to allow plan sponsors who *do not use* custom mortality tables for minimum funding purposes to opt to use 2018 tables that are based on prior rules (those in effect for 2008-2017 valuation years). In order to delay use of the new tables for one year, a plan sponsor must:

- Conclude that for 2018, use of the new tables would be administratively impracticable or would result in an adverse business impact that is greater than *de minimis, and*
- Notify the plan actuary of the plan's intent to use the mortality table under the prior basis

An initial reading of the notice and regulations does not clearly explain what qualifies as de minimis, but sponsors will likely want to choose to delay use of the new tables if possible. PBGC premiums are generally calculated using demographic assumptions that are used for minimum funding calculations, and opting to delay application of the new tables may substantially reduce 2018 PBGC premiums.

Additional guidance may also be needed for plans that pay a significant portion of their benefits via accelerated forms of payment, since minimum funding assumptions generally use §417(e)(3) mortality table rates when calculating minimum contribution requirements.

This one-year delay is not available for applicable mortality rates under §417(e)(3) – those used to pay lump sums and other accelerated payment forms — regardless of whether or not a sponsor opts out of the updated tables for 2018 funding *valuation dates*.

Impact on Plan Sponsors

2018 minimum funding results and calculation of PBGC premiums will be significantly affected by use of the new tables, with likely increases in the mid-single digits by percentage, depending on a plan's benefit structure and demographics of its participants.

PBGC premium calculations are especially sensitive to this because sponsors will be subjected to variable rate premiums of at least $38 per $1,000 of underfunding on a PBGC basis in 2018, unless a plan has already reached the PBGC variable rate premium cap.

In the preamble to the regulations, the IRS offers rationale for its decision that these mortality and mortality improvement rates are the best choice for 2018 calculations. However, significant questions were raised when draft rules were provided at the end of 2016. The use of total-dataset rates directly from the RPEC tables leaves us with several concerns:

- RPEC has stated that the next two years of finalized mortality improvement will likely be below expectations (possibly negative based on preliminary CDC age adjusted death rates), and made minor adjustments to their model this year in anticipation of this data. This preliminary data is otherwise not reflected in the published rates, and the tables will, with near certainty, overstate improvement with additional years (and these additional years are those that are already in the past). Overly-conservative rates are costly to plan sponsors, both in potential overstatement of lump sum values and in overpayment of the new higher PBGC premium rates.
- The last several iterations of MP (mortality improvement) updates have significantly decreased liability from the original rates released in 2014. The original intent was to have an accurate projection of future near and long-term improvement that would lessen the volatility associated with changing mortality assumptions. However, in two years, updates to the original improvement tables have dropped liabilities by several percent, with updates likely to continue to do the same until or unless there is a reversal of the current trend of lower mortality improvement.
- The IRS selection is a single total-dataset table. A general interpretation for sponsors is that the rates are based on overall experience for participants in private plans. RPEC provided alternative rates for plan populations with white and blue collar backgrounds (longer and shorter life

expectancy vs. the average, respectively) as well as *headcount*-based tables which lower average life expectancy slightly when benefits are not pay-related. Rule of thumb adjustments for plans with populations differing from the average could have easily been made as an alternative to releasing several tables, but these are not reflected in the final rates. Only large plans with enough experience (from 100-1000 deaths or more per gender over a period of several years) to create their own rates can work around this. Medium and small plans who may have lower life expectancy in general will be stuck with rates that, on average, overstate their liabilities. Primarily white-collar populations, on the other hand, will likely understate their liabilities on a relative basis.

The regulations discuss that it is likely that new rates will be published each year (beyond a simple additional one-year projection of the tables.) At the same time, RPEC has suggested in comments provided with MP-2016 that a change in the methodology used to produce their rates is fair game. What that might be, we do not know.

What Should Plan Sponsors Do?

We suggest that all plan sponsors of small and medium-sized plans consider the option to delay use of the new tables for calculating contribution requirements until 2019 if no additional guidance regarding "de minimis" business impact is provided, especially if the PBGC confirms that the election applies to premium-related calculations.

Due to the significant increase in assumed life expectancy under the new tables, sponsors of large plans may benefit from generating their own mortality assumptions, even if their plan experience did not warrant doing so in the past. A glance at recent mortality experience by the Plan's actuary should be all that is needed to determine whether or not the significant effort of generating plan-specific rates is worthwhile.

For more information please contact:

David Weaver, FSA, EA, MAAA
Senior Consultant and Actuary
Ph: 412-394-9992
Email: davidw@cowdenassociates.com