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NEW MORTALITY TABLE FOR DEFINED BENEFIT PLANS

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In October 2017, the IRS and the Department of Treasury issued a new mortality table for defined benefit ("DB") plans for 2018, making it even more expensive to sustain and de-risk these plans. This October 2017 guidance included final regulations (T.D. 9826), IRS Notice 2017-60 (which sets forth the new static mortality table for 2018 under Internal Revenue Code Section 417(e)), and Rev. Proc. 2017-55.

The Pension Protection Act of 2006 (PPA) required that the Treasury provide updated mortality tables at least every 10 years for DB plans. The tables were last updated in 2008 and the October 2017 guidance reflects the trend that mortality rates have lowered over the past 10 years. Lower mortality rates generally means an increase in the present value of plan liabilities (for example, higher lump sums because people are expected to live longer in 2018 than they were in 2008) along with an increase in minimum funding requirements. The new mortality table is applicable to lump-sum and other distributions tied to Code Section 417(e) made on or after January 1, 2018. The new mortality table rules may also result in increased PBGC variable rate premiums as such are computed, in part, based on a DB plan's funded status.

For plan sponsors who use plan-specific tables, this recent guidance includes a special exception to the general rule that requires a plan to apply for approval at least 7 months prior to the beginning of the plan year for which a plan-specific table is to apply. With respect to calculating the minimum funding requirements, the final regulations provide that plans that currently utilize plan-specific mortality tables approved under the 2008 regulations may continue to do so for 2018 calculations if the approved period to use such tables extends to 2018. A plan that does not have approval from the IRS to use a plan-specific table for 2018 may submit an application to the IRS to do so by February 28, 2018 (but the plan sponsor must agree to a 90-day extension of the 180-day review period).

DB plans that used the prior generally applicable mortality tables in 2017 may continue to use such tables for valuation and minimum funding purposes if it would be either (a) administratively impracticable to implement the new tables or (b) result in an "adverse business impact that is greater than de minimis." Plan sponsors that qualify for this exception must elect to do so by notifying the plan actuary (which notification should be in writing and retained with plan records). There is no requirement to file notice of this election with the IRS or the PBGC. This exception is only applicable for 2018 and all single-employer defined benefit plans must apply the new mortality tables by the beginning of the 2019 plan year, except as otherwise noted above. At that time, plans that use approved plan-specific mortality tables must integrate mortality improvement factors prescribed by the new rules.

If you have any questions with how these provisions may affect your defined benefit plan, contact **Matthew I. Whitehorn** or **Stephanie L. Searles**.