

IRS Revises Mortality Table for Plan Benefits and Limitations

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In new Revenue Ruling 2001-62, the Service revised the prescribed mortality table for adjusting benefits or limitations in defined benefit plans under Code Section 415(b)(2) and for determining the present value of plan benefits under Code Section 417(e)(3) and the corresponding provisions of ERISA. This mortality table is also known as the "applicable mortality table" and is currently the 83 GAM blended table, as stated in Revenue Ruling 95-6. The mortality table in Rev. Rul. 2001-62 is based on a fixed blend of 50 percent of the unloaded male mortality rates and 50 percent of the unloaded female mortality rates underlining the mortality rates in the 1994 Group Annuity Reserving (94 GAR) table projected in 2002. A quick review shows little difference in annuity purchase rates calculated under this table when compared to the old mortality table.

This new mortality table is required when calculating distributions with annuity starting dates on or after December 31, 2002, except that a plan may specify any earlier date during calendar year 2002 as the effective date. This effective date is to be referred to as the plan's 94 GAR effective date. According to the revenue ruling, a plan's 94 GAR effective date must apply uniformly for purposes of §§415 and 417(e) of the Code and §205(g)(3) of ERISA.

A plan amendment incorporating the new mortality table will not violate Section §411(d)(6)(B) of the Code and the corresponding provision of ERISA solely because of a reduction in any annuity distribution with an annuity starting date on or after the later of the adoption date or the effective date of this amendment if the cause of the reduction is the substitution of the table in this revenue ruling for the previous applicable mortal-

ity table. If the effective date is earlier than the adoption date of this plan amendment, payments made after the adoption date of the amendment must be reduced actuarially by the value of the excess, if any, of the annuity distributions already made that exceeded what would have been permissible under the new mortality table in order to satisfy Code Section §415(b)(2)(B).

The latest date by which a plan may be amended to comply with this revenue ruling is the last day of the plan year that contains the plan's 94 GAR effective date. Thus, according to the revenue ruling, a plan with a July 1 to June 30 fiscal plan year ending June 30, 2002, must be amended no later than June 30, 2002, if the effective date is between January 1, 2002 and June 30, 2002. If such a plan is amended during its July 1, 2002 to June 30, 2003 plan year, the plan's 94 GAR effective date may be no earlier than July 1, 2002. Plan documents may incorporate the mortality table by reference to Revenue Ruling 2001-62.

Two model amendments are provided in the revenue ruling for complying with the required changes. The first model amendment will have the effect of using the new mortality table to adjust any benefit or limitation under Code Sections 415 or 417, while the second is used solely to substitute the new mortality table for the previous mortality table as specified under Revenue Ruling 95-6 in all places in the plan document where such reference is made. The Service will rule on a plan amendment that incorporates this change if submitted in a determination letter request, but the sponsor has reliance on a previous favorable determination letter if a model amendment is used.

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