



# Compliance Advisory

September 2008

## IRS issues final regulations on mortality tables for funding

The Pension Protection Act of 2006 (PPA) made extensive changes to the minimum funding rules for defined benefit pension plans. As a result of the new funding rules, PPA directed the IRS to publish new mortality tables to be used in making funding calculations. PPA also allows a plan sponsor to use substitute mortality tables that reflect the plan's actual experience, provided IRS approval is requested and received.

To comply with PPA, the IRS has published new mortality tables. The IRS has also provided rules for the use of substitute mortality tables by certain plans.

These rules do not apply to actual benefit payment calculations. For example, for lump sum payments with annuity starting dates occurring during plan years beginning on or after January 1, 2008, the [2008 Applicable Mortality Table](#) and the applicable mortality table for each subsequent year must be used.

### Generally applicable mortality tables

The new mortality tables ("generally applicable mortality tables") are based on tables contained in the RP-2000 Mortality Tables Report because they form the best available basis for predicting mortality of pension plan participants and beneficiaries. The mortality tables are gender distinct because of the significant differences between expected male and female mortality. There are also separate mortality rates for annuitants and nonannuitants because these two groups have significantly different mortality experience.

Plan sponsors may project mortality improvement by using either static or generational tables. The IRS intends to provide updated static mortality tables either annually or periodically. Generational tables are projected to all future years from the base table for each participant.

Single-employer, multiple employer and multiemployer plans must use the new mortality tables to determine present value for funding purposes. Multiemployer plans must also use these tables to determine the plan's current liability.

The IRS allows "small plans" to use a single blended static table for all participants, instead of separate tables for annuitants and nonannuitants. Small plans are plans with 500 or fewer active and inactive participants determined as of the plan's valuation date.

### Substitute mortality tables

A plan sponsor may use a substitute mortality table that reflects the plan's actual mortality experience as long as the mortality experience is "credible." Mortality experience is credible only if it is based on at least 1,000 deaths within a gender over the period covered by the experience study. The 1,000-death threshold is designed to provide a high degree of confidence that the plan's past mortality experience will be predictive of its future mortality. The experience study can be conducted over a two to five consecutive year period.

Separate male and female mortality tables are required and a substitute mortality table may be established for a gender only if the plan has credible mortality experience for that gender. If credible experience is available only for one gender, substitute mortality tables may be used for that gender. However, generally applicable mortality tables must be used for the other gender. In addition separate populations within a gender, such as hourly and salaried, may be developed. However, each separate population must have credible mortality experience.

If a plan uses a substitute mortality table, all plans maintained by members of the plan sponsor's controlled group with credible mortality experience must use a substitute mortality table for that plan year. Where plans maintained within a controlled group have different plan years, this requirement is satisfied if all plans within the controlled group use substitute mortality tables for at least some portion of the plan year.

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To use substitute mortality tables, a plan sponsor must submit a written request to the IRS. This request must state the first plan year and the number of years (not more than 10) that the tables will be used. In general, substitute mortality tables cannot be used for a plan year unless the plan sponsor submits the request at least seven months before the first day of the first plan year for which the substitute mortality tables are to apply. However, to use substitute mortality tables for plan years beginning in 2009, plan sponsors may submit a request until October 1, 2008.

The IRS has a 180-day period to review a request for the use of substitute mortality tables. If the IRS does not issue a denial within this period, the request is deemed to have been approved unless the IRS and the plan sponsor have agreed to extend the review period. The IRS published [Revenue Procedure 2007-37](#), which describes the procedures that must be followed when submitting a request to the IRS for the use of substitute tables. The IRS intends to update these procedures periodically.

A plan must discontinue the use of substitute mortality tables if there is a significant change in the plan's population or if the plan's enrolled actuary determines that the tables no longer comply with the requirements for substitute tables. Generally, a significant change is a change of at least 20% from the average number of individuals included in the experience study.

## Effective date

The rules regarding the applicable mortality tables generally apply to plan years beginning on or after January 1, 2008. The rules regarding the approval and use of substitute mortality tables apply to plan years beginning on or after January 1, 2009, but may be applied for the 2008 plan year.



### Compliance Advisory by Prudential Retirement

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