NEW IRS PENSION PLAN MORTALITY TABLE

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SUMMARY OF IRS NOTICE 2017-60

The IRS just released Notice 2017-60 that updates the mortality table that will be effective for plan years starting Jan. 1, 2018, if officially approved by the Office of Management and Budget (OMB). The updated mortality table is based on the RP-2014 Mortality Table with mortality projections. (This is the table with projections that has been used for accounting purposes by most companies for the last few years). The mortality table will be used to determine:

- Plan liability for minimum funding
- Lump sum pension payments
- PBGC variable premiums for underfunded plans

Plan sponsors can apply for a one-year delay in using the new table if the business impact could be significant. Plan sponsors also have the option to apply to use a “substitute mortality table” if the plan has credible experience different from the new IRS table.

PLAN LIABILITY FOR MINIMUM FUNDING

The plan liability for traditional pension plans (non-cash balance plans) could increase by about 3.5% to 5% when the new mortality table is used. The mortality table will have less effect on cash balance plans which normally pay the cash balance account.

Minimum required contributions will increase to recognize this lower funding level. Some projections show minimum required contribution increases of 10% or more. However, many employers are already contributing more than the minimum required contribution so there may be little effect those company’s contribution practices.

LUMP SUM PENSION PROVISIONS

Participants in plans with lump sum provisions will get larger payments due to the new mortality table. The increase in lump sum payments will likely slow the use of one-time lump sum payment programs which have been used to de-risk pension plans

PBGC VARIABLE PREMIUMS

Variable premiums paid to the Pension Benefit Guarantee Corporation (PBGC) are based on the plan's vested underfunded level and will increase due to the new table. The new mortality table could result in an increase of 15% to 20% in PBGC variable premiums for some underfunded plans.

Consider a frozen plan with vested PBGC liability of $100M (using the current mortality table) and assets of $75M. The current PBGC deficit of $25M is used to determine the PBGC variable premium. If the mortality table produces a 4% increase in liability, i.e. $4M, the plan deficit will increase to $29M (16% increase). This increased deficit could translate into a 16% increase in the PBGC variable premium, unless the cap on the variable PBGC premium limits the increase.

The variable premium rate on the underfunded amount will increase from 3.4% in 2017 to 3.8% in 2018. This is a potential increase of about 12% in the variable premium due to the greater premium rate. Combined with the new mortality table, the PBGC variable premium could increase by nearly 30% from 2017 to 2018. However, the PBGC variable premium cap which affects certain plans could reduce or eliminate both the effect of the higher rates and the new mortality table.

A history of the rapidly increasing PBGC corporate plan premium rates and the variable premium caps is shown below:

Exhibit 1: PBGC corporate plan premium rates and the variable premium caps

Year	Flat Rate per participant($)	Funded Percent Variable Rate (% vested underfunded)*	Variable Cap / Participant ($)
2014	49	1.40%	412
2015	57	2.40%	418
2016	64	3.00%	500
2017	69	3.40%	517
2018	74	3.80%	517
2019	80	4.20%	517
2020	80	4.40%*	517

*Estimated rate to reflect inflation indexing

Source: Pension Benefit Guarantee Corporation

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