

Client Action Bulletin

NOVEMBER 20, 2019 | CAB 19-6

Required Minimum Distributions: IRS Proposes Updated Tables

SUMMARY

The IRS has issued a [proposed rule](#) that would amend the life expectancy and distribution period tables used to calculate required minimum distributions (RMDs) from qualified retirement plans, profit-sharing and stock bonus plans, individual retirement accounts (IRAs) and annuities, and 403(b) and 457 plans and certain other tax-favored employer-provided retirement arrangements. The IRS proposes to apply the updated tables after it issues the rule in final form and no sooner than for distributions beginning on or after Jan. 1, 2021. Therefore, RMDs for 2020 are generally not affected and cannot be calculated using the new proposed tables.

The proposed updated tables reflect longer life expectancies for males and females than under current tables, thereby resulting in smaller RMDs and longer payout periods.

DISCUSSION

Background

RMDs are minimum amounts that a retirement plan account owner must annually withdraw beginning in the year that he or she reaches 70-1/2 years old or, if later, the year of retirement. RMDs must begin at age 70-1/2 for 5% (or more) owners of the employer sponsoring the retirement plan, regardless of whether or not they have retired. In general, the required beginning date for RMDs is Apr. 1 of the calendar year following the year the plan participant attains age 70-1/2 (or retires, if later).

The current [final rule](#) for calculating RMDs were last published in 2002. In August of 2018, the White House released [Executive Order 13847](#), requesting that the Treasury Secretary examine the life expectancy and distribution period tables to determine whether they should be updated to reflect current life expectancy data and whether such updates should be made annually or on another periodic basis.

The Proposed Rule

As a result of that review, Treasury and the IRS determined that the 2002 tables should be updated to reflect current life expectancy. The proposed new tables were calculated by referencing the Society of Actuaries' 2012 Individual Annuity Mortality Table and the Payout Mortality Experience Report, both of which can be accessed on www.actuary.org. Mortality rates were blended (50% female and 50% male) to calculate the proposed factors.

The tables are:

- the Single Life Table, covering a nonspouse designated beneficiary of a retirement account;
- the Uniform Lifetime Table, for a participant and a beneficiary who is younger by 10 years or less; and
- the Joint and Last Survivor Table, for a participant whose beneficiary is a spouse who is more than 10 years younger.

The proposed rule contains several examples; the table below illustrates the effects the proposed change to the factors in the Uniform Lifetime Table would have on RMDs for a limited, 71-75 age set (i.e., where an employee's surviving spouse is not the sole designated beneficiary or if the employee's surviving spouse is the sole designated beneficiary but is not more than 10 years younger than the employee):

Distribution Period Using the Uniform Lifetime Table						
Age	Years of Life Expectancy		Life Expectancy Difference (Years)	Approximate RMD for an Account Balance of \$100,000		RMD Reduction
	Current Rule	Proposed Rule		Current Rule	Proposed Rule	
71	26.5	28.2	1.70	\$3,770	\$3,550	-5.8%
72	25.6	27.3	1.70	\$3,910	\$3,660	-6.4%
73	24.7	26.4	1.70	\$4,050	\$3,790	-6.4%
74	23.8	25.4	1.70	\$4,200	\$3,920	-6.7%
75	22.9	24.6	1.70	\$4,370	\$4,070	-6.9%

Note that for participants attaining age 70-1/2 in 2020, a plan is permitted to pay out the first RMD as late as Apr. 1, 2021. The proposed rule would not apply the new RMD tables to these participants for their 2020 RMDs. Plan sponsors should be cautious and ensure that the correct tables are used for any RMD paid in 2021 and take care to use the correct distribution calendar year tables. Doing so will help to avoid having to make a plan correction and causing participant tax consequences if the amount distributed is too low.

The proposed rule includes a transition rule if an employee dies before Jan. 1, 2021, that would reset the initial "single life" expectancy table that is used to determine the distribution period in three situations:

- The employee has a nonspousal designated beneficiary and dies before the required beginning date for RMDs;
- The employee dies after the required beginning date for RMDs without a designated beneficiary; and
- The employee is younger than the designated beneficiary and dies after the required beginning date for RMDs.

A similar transition rule would apply if an employee's sole beneficiary is a surviving spouse who dies before Jan. 1, 2021.

ACTION

Retirement plan sponsors should review the IRS's proposed rule to gauge its effects on RMDs. If the proposed rule becomes final, RMDs are likely to be smaller and be paid out for longer periods than under the current rule. While the proposed rule is for tax-qualified plans, some other retirement plan sponsors – such as those offering nonqualified plans – also use the RMD tables, and should assess the proposed rule as well. Communications to plan participants may have to be revised and administrative systems may have to be adjusted to accommodate the changes. Plan sponsors wishing to submit comments to the IRS must do so by Jan. 7, 2020. A public hearing is scheduled for Jan. 23, 2020.

For additional information about the IRS's proposed rule updating the life expectancy and distribution period tables or for an assessment on the rule's possible effects on RMDs, please contact your Milliman consultant.

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