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Authors
Michael Antoine, FSA, EA, MAAA
Jim Berberian, ASA EA MAAA
Alice Hicks, JD, EA, FCA, ASA

Long-awaited 2024 mortality table updates released

The IRS has released final regulations on applicable mortality tables to be used for 2024 by defined benefit plans subject to ERISA to determine minimum funding requirements, calculate minimum lump-sum values and impose benefit limitations. Additionally, proposed regulations on plan-specific mortality tables published concurrently introduce adjustments to account for experience years during the COVID-19 pandemic and are intended to be applicable for plan years beginning on or after January 1, 2025.

Background

Defined benefit plan funding rules established in the Pension Protection Act of 2006 (PPA) included the requirement to use mortality tables approved by the Internal Revenue Service (IRS) to determine minimum funding levels for single-employer plans. In addition to funding, the IRS tables are used in determining a plan's funded position (or AFTAP) under the benefit restriction rules of Internal Revenue Code (Code) Section 436, and PBGC variable-rate premiums. They are also the basis for unisex mortality tables used to determine minimum lump-sum payments under Code Section 417(e) and maximum benefits under Code Section 415. PPA also required the use of specified mortality tables in determining current liability for multiemployer plans. In lieu of the IRS tables, PPA provided that plan-specific tables could be used for some purposes, if certain conditions were met.

In 2008, the IRS issued final regulations defining the requisite mortality tables based on the RP-2000 Mortality Tables Report released by the Society of Actuaries (SOA) in 2000, and associated rules for plan-specific tables. PPA mandates that the IRS update the tables at least every 10 years to reflect actual participant mortality experience since the last update, and projected trends to that experience. In compliance with this mandate, the IRS issued another round of regulations in 2017 adopting the RP-2014 mortality tables and the MP-2016 improvement scales published by the SOA. Subsequent updates would adopt the next iteration of the MP scale each year.

For plan years beginning after December 31, 2015, the Bipartisan Budget Act of 2015 changed the rules on the use of substitute mortality tables to allow more plans to reflect adjustments to the generally applicable mortality table based on the partially credible actual experience of the pension plan maintained by the sponsor.

IRS issues final tables for 2024

The final IRS updates to the 2024 PPA mortality tables change the basis for those tables from the RP-2014 mortality tables and the improvement rates contained in the Mortality Improvement Scale MP-2021 Report to the Pri-2012 tables and an adjusted version of the MP-2021 mortality improvement scale. Recall that the 2022 version of the SOA mortality report declined to issue an updated MP scale and instead provided a tool and data that plan sponsors and actuaries could use to reflect an adjustment to mortality improvement based on their viewpoint on the future impact of COVID-19. The IRS has now made such an adjustment to the prescribed PPA mortality tables, which consists of adjusting positive rates of mortality improvement in MP-2021 to zero in 2020-2023. Additionally, SECURE 2.0 caps the mortality improvement rate for all years beyond 2024 at a statutory maximum of 0.78%.

Furthermore, the IRS has proposed an adjustment to the method for developing substitute mortality tables that would seek to avoid distorting future mortality expectations due to a temporary increase in mortality due to COVID-19. The general process of creating and adopting a substitute mortality table are unchanged and still require that they be submitted to the IRS for approval before use.

Generally applicable mortality tables

Like the 2017 mortality tables, the tables in these regulations provide mortality rates for males and females, and separately for annuitants (for the period after assumed benefit commencement) and non-annuitants (for the period before assumed benefit commencement).

Similarly, the new regulation still requires expected mortality improvements to be reflected in one of two ways: (1) a static projection (one table for all participants updated annually), or (2) a fully generational projection (projected to all future years from the base table for each participant). However, in contrast to the prior regulations, these regulations only allow static tables for use in 2024 valuations for small plans (500 lives or fewer as of the valuation date). These static tables are designed to approximate the result determined by the generational tables and are then combined into a single blended (annuitant and non-annuitant combined) static table for all participants. The final regulations use the same male and female weighting factors as the 2017 regulations to create these blended rates. An updated static table will be provided by the IRS annually taking into account the updates the SOA is expected to issue each year to reflect mortality improvement trends for the general population.

Furthermore, at the prompting of a commenter to the proposed regulations, individuals not identified as male or female are addressed in the final regulation. In the event that gender information is unavailable for a portion of the plan participants, the IRS permits a reasonable approach in applying mortality rates to that group. Two examples of reasonable approaches are presented. The first is to apply a weighted average liability reflecting the gender distribution of the population for which data is available. The second is to use that same distribution as a probability to randomly assign a gender to records for which the gender is unavailable. The IRS acknowledges that there may be other reasonable approaches.

Proposed update to plan-specific mortality tables

The use of plan-specific mortality tables (referred to as substitute tables) instead of the generally applicable mortality tables continues to be permitted, if certain conditions are met, both in fully credible and partially credible forms.

New rules adjust the experience from years affected by COVID-19. The proposed regulations articulate the IRS's concern that the number of deaths due to COIVD-19 during those years may be overstated and therefore may not be predictive of post-COVID experience. In order to account for this, the IRS has produced a table of adjustment factors to be applied to the expected number of deaths calculated based on standard mortality tables for experience years from 2020-2023. These factors serve to increase the number of expected deaths so that in calculating the mortality ratio of actual to expected deaths during those years the approximate impact of COVID-19, as reflected in the National Center for Health Statistics data on which those factors are based, is offset.

The proposed regulation is intended to be effective for plan years beginning on or after January 1, 2025.

Anticipated liability decreases

The updated IRS mortality tables will tend to lower liabilities slightly, but the specific impact will vary depending on the plan design, demographics, and the versions of the tables (static or generational) used before and after the update. Probably the most common scenario will be plans that used static mortality before the change but will use generational mortality with the adjusted MP table after the change. Based on sample present value factors, we anticipate liabilities will typically decrease one to two percent as a result of changing from the 2023 static mortality to the 2024 updated generational mortality.

Of this change, going from a static approach to a generational approach leads to approximately a 0.5% increase to a 0.5% decrease, the update to the base mortality table generates a 1.0% to 1.5% decrease, and use of the adjusted MP-2021 scale rather than the base MP-2021 scale introduces a 0.8% to 1.0% decrease.

Impact on plan benefits

Changing how we measure the value of plan benefits doesn't really change the cost of the plan if benefits are paid in annuity form. For a plan with a nonhybrid, traditional design, actual costs go up only as a result of increases in actual lifetime payouts over time. If a plan allows lump sums or other distribution options subject to Section 417(e), plan benefits will decrease slightly due to the new Section 417 applicable mortality table. Similarly, slightly smaller amounts will be permitted to be paid when the limits of Section 415 are an issue for a plan.

For hybrid plans such as cash balance plans, much will depend on whether the plan's annuity options incorporate the Section 417(e) table to determine actuarially equivalent conversion factors. However, to the extent a plan offers lump sums based on the hypothetical account balance or accumulation and participants lean toward taking distributions in that form, the new tables will not change the cost of the plan over time.

The ability to pay benefits under certain payment options may be affected by the proposed changes. The benefit restrictions of Section 436 are based on the Section 430 funding target liabilities. For plans that might otherwise be under restrictions, a decrease triggered by the new mortality table could increase the plan's AFTAP above one of the thresholds that trigger a benefit payment restriction.

Multiemployer current liability, PBGC variable rate premiums and reporting requirements

The proposed changes to the Section 430 mortality tables will directly affect certain current liability calculations for multiemployer plans. In addition, PPA liabilities are referenced by various PBGC reporting requirements and are used in determining a plan's variable-rate premium. Lower liabilities due to the reduced longevity reflected in the updated tables will impact these other determinations accordingly. For example, plan sponsors may encounter lower variable-rate premiums or may be exempt from reporting "reportable events" if they qualify for waivers based on the absence of a variable-rate premium requirement.

Accounting

Audit firms generally expect that new information be taken into account in the selection of a "best estimate" mortality table. They may expect plan sponsors to take another look at their chosen mortality improvement scale in light of the IRS's choice to incorporate an explicit adjustment for COVID-19 into their prescribed tables (setting assumed improvement to 0.00 for the period January 1, 2020 through December 31, 2023). However, the recently released SOA 2023 Mortality Improvement Update should also be considered when setting best estimate mortality improvement rates (for purposes other than IRS funding or 417(e)). Whether plan sponsors choose to follow along with the IRS change or not, they should be prepared to articulate the reasoning behind their decision.

Effective date

The regulations setting for the 2024 PPA mortality are effective for plan years beginning in 2024 as is IRS Notice 2023-73 which applies these regulations to the applicable mortality for Sections 417(e) and 415.

A plan sponsor wishing to use substitute mortality tables is generally required to submit a request to the IRS at least seven months before the beginning of the plan year in which the substitute tables would be used.

In closing

Plan sponsors should review their budgets and funding forecasts to determine if they should be updated to reflect the final regulations. Sponsors should also revisit their approach to reflecting the impact of COVID-19 to future mortality improvement for accounting purposes in light of the IRS's approach and the latest SOA report.

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