



IRS Guidance on Minimum Lump Sums Under PPA

On November 6, the IRS issued Revenue Ruling 2007-67, which provides guidance on minimum lump sum payments after 2007 under the Pension Protection Act (PPA). This guidance includes the mandated mortality tables, and covers other implementation issues such as timing rules for interest rates.

Background

Pre-PPA law specified the mortality table and interest rate used to determine minimum lump sum amounts. A 1994 mortality table (projected to 2002) and the 30-year Treasury rate published by the IRS form the basis of the mandated Pre-PPA assumptions.

PPA revised the required interest rates and mortality tables for these calculations beginning with 2008 plan years. In October, the IRS issued guidance on the mandated interest rates – the three “segment rates” derived from corporate bond yield curves which Treasury develops ([October 11, 2007 For Your Information](#)). With Revenue Ruling 2007-67, the IRS provides additional guidance on minimum lump sum calculations, including the required mortality table.

Revenue Ruling 2007-67

Mortality Table

The 2008 minimum lump sum mortality table uses a 50/50 blend of the male and female mortality tables published for single employer plan funding purposes for 2008 (see our [June 6, 2007 For Your Information](#)). Absent future guidance to the contrary, the table for 2009 and later years will be determined on a similar basis.

The revenue ruling states that if a plan document specifies the mortality table for actuarial equivalence by reference to the applicable Section 417(e)(3) mortality table, it will not need annual amendments to reflect these changes.

Compared to the current mortality tables, life expectancies under the 2008 minimum lump sum tables increase by about 6 months for ages 55 through 65.

Buck Comment. *The mortality rates for minimum lump sums are based on the combined annuitant and non-annuitant tables rather than on separate tables that generally will be required for minimum funding. Also, unlike the requirements for minimum funding, there will be no option to use “generational” mortality tables for minimum lump sums, so a single table will apply to all lump sums in a given year regardless of the employee’s age.*

Minimum Lump Sum Calculations

Under PPA, the change in the interest rates to be used for calculating minimum lump sum payments from 30-year Treasury rates to the three-tier segmented corporate bond rates is phased in over a five-year period (at 20% per year). These interest rates for 2008 will equal 80% of the applicable 30-Year Treasury yield plus 20% of the applicable three-tier segmented corporate bond rates.

Buck Comment. *The net effect of the change in lump sum assumptions will depend on a number of factors including the participant's age, the stability and lookback periods, the relationship of the 30-year Treasury rates to corporate bond rates, and the slope of the PPA yield curve. For 2008, it is more likely that minimum lump sum amounts will decrease under the PPA assumptions but slight increases are also possible. However, after 2008 when the weight for the applicable three-tier segmented corporate bond rates changes to 40% or more, we expect that minimum lump sum amounts will decrease*

The following table illustrates lump sum values for an immediate life annuity benefit of \$1,000 a month on the old law (GATT) basis and the new PPA basis, including the 2008 mortality changes and 20% phase in of the interest rate change, based on October 2007 interest rates:

Age	GATT Basis	PPA Basis With 20% Phase-in	Percentage Increase / (Decrease)
55	\$ 179,280	\$ 176,808	(1.4%)
60	162,588	161,136	(0.9%)
65	144,324	143,508	(0.6%)

The following table shows a similar comparison, but with using 100% weight of the applicable three-tier segmented corporate bond rates for October 2007 (to illustrate the impact on lump sum amounts if the PPA basis were not subject to a phase in).

Age	GATT Basis	PPA Basis With Full Phase-in	Percentage Increase / (Decrease)
55	\$ 179,280	\$ 158,604	(13.0%)
60	162,588	146,520	(11.0%)
65	144,324	132,348	(9.0%)

Buck Comment. *There is a larger impact at younger ages due to the use of the yield curve as opposed to a constant interest rate.*

Other Guidance

Anti-Cutback Provision Exemptions - As noted above, the change to the new PPA basis may reduce lump sum amounts. The revenue ruling confirms the PPA provision that reductions to minimum lump sums that result from required PPA assumption changes will not violate the anti-cutback provisions of IRC Section 411(d)(6).

The revenue ruling is unclear on whether anti-cutback restrictions apply to plans that provide lump sums of the greater of the pre-PPA basis amount and the PPA basis amount after the PPA provisions take effect and then eliminate the pre-PPA amount at a later date.

BUCK COMMENT. *Until the IRS clarifies this issue, plan sponsors may prefer not to provide “better of” benefits except in very limited scenarios or where the sponsor does not intend to amend this provision out of the plan at a later date.*

Timing Rules for Interest Rates - Under current law, a plan may determine the interest rate for lump sums based on specific stability and lookback periods. The stability period determines the frequency of updating lump sum interest rates. The permitted stability periods are monthly, quarterly and yearly. The lookback period defines which rates are used for the minimum lump sum calculation – lookback periods may be up to five months before the start of a stability period (rates may be averaged over a number of months during the lookback period). Changes to the stability and/or lookback periods require a 12-month “better of” comparison.

Revenue Ruling 2007-67 clarifies that stability and lookback period rules under current law continue to apply for minimum lump sums under PPA.

Non-Calendar Year Plans - The revenue ruling provides guidance on how the new interest and mortality assumptions apply where the plan year is not the calendar year. The initial change in those assumptions applies to distributions with annuity starting dates on or after the first day of the 2008 plan year. However, subsequent changes to the PPA mortality tables are effective at the beginning of a calendar year but begin to apply to the first stability period after that January 1.

ERISA 204(h) Notices - A recently released IRS Newsletter indicates the IRS intends to publish proposed Section 4980F regulations to clarify that plans need not issue an ERISA 204(h) notice for lump sum reductions resulting from changes from GATT to PPA interest rates and mortality. The Newsletter also indicates that the notice to participants required under ERISA 101(j) when PPA benefit restrictions take effect will satisfy the timing and content requirements of an ERISA 204(h) notice in connection with the implementation of the restrictions.

Conclusion

Buck’s consultants are ready to discuss this guidance with you, analyze its effect on the level of lump sum payments under your plan, suggest appropriate steps, and help prepare required communications and notices.

This FYI is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.