

PLAN SPONSOR UPDATE

IRS updates mortality improvement rates and static mortality tables for 2019

The new mortality improvement rates and static mortality tables are generally used for funding, the determination of Pension Benefit Guaranty Corporation variable-rate premiums and lump sum valuations in 2019. The new rates/tables reflect the Society of Actuaries' October 20, 2017, MP-2017 mortality improvement scale (based on historical U.S. population mortality experience through 2015), showing an *increase* in mortality, the first such increase since 2005, and only the seventh since 1980.

The new IRS rates/tables show increases in mortality across all ages. To be clear, what that means is that (other things being equal) the value of DB plan liabilities will go down in 2019 for all purposes – funding, PBGC premiums and lump sum valuations.

In early October 2017, IRS adopted new mortality tables/mortality improvement rates based on, among other things, SOA mortality improvement scale MP-2016. The mortality improvement rates reflected in MP-2016 have been criticized by some as reflecting too great a decrease in mortality. That criticism was, arguably, borne out by the SOA's MP-2017 mortality improvement scale.

The tables/rates adopted by IRS in October 2017 were "generally" effective for 2018, but for all purposes other than lump sum valuations IRS provided one-year transition relief: for 2018, mortality tables determined in accordance with regulations previously in effect may be used for funding (and, apparently, PBGC variable-rate premium) purposes so long as the plan sponsor "(1) concludes that the use of mortality tables determined in accordance with the final regulations for the plan year would be administratively impracticable or would result in an adverse business impact that is greater than de minimis, and (2) informs the actuary of the intent to apply this option."

January 2018

SUMMARY

On December 15, 2017, IRS issued Notice 2018-02, updating mortality improvement rates and static mortality tables for 2019 and reflecting a year-over-year *increase* in mortality. We provide a brief note on IRS's Notice and its implications for plan finance in 2018 and 2019.

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Summarizing the current situation, DB plan sponsors:

- May (with proper notice) use “old” tables/rates (that do not reflect improved/decreased mortality under MP-2016) for funding and PBGC premium purposes for 2018.
- Must use “new” tables/rates (reflecting MP-2016 improved/decreased mortality) for lump sum purposes for 2018.
- Must use even newer tables/rates (reflecting MP-2017 worsened/increased mortality) for all purposes for 2019.

Sponsors considering, e.g., derisking transactions may want to consider these rules in determining the timing of, e.g., offers of lump sums to terminated participants.

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