

MEMO# 32909

November 11, 2020

Treasury Finalizes Updated Life Expectancy and Distribution Tables for RMD Calculations

[32909]

November 11, 2020 TO: ICI Members
Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension RE: Treasury Finalizes Updated Life Expectancy and Distribution Tables for RMD Calculations

The Treasury Department has issued final regulations updating the life expectancy and distribution period tables used for purposes of calculating required minimum distributions (RMDs) from retirement plans and IRAs.^[1] An August 31, 2018 Executive Order directed Treasury to examine the life expectancy and distribution period tables in the RMD regulations^[2] and determine whether they should be updated to reflect current mortality data and whether such updates should be made annually or on another periodic basis.^[3] Treasury issued proposed regulations in November 2019.^[4] The final regulations are substantially similar to the proposal, with a welcome change made to the applicability date.

After examining the life expectancy and distribution period tables and reviewing currently available mortality data, Treasury determined that those tables should be updated to reflect current life expectancies. Like the proposal, the final rule explains that the life expectancy tables and applicable distribution period tables in the final regulations reflect longer life expectancies than the tables in the prior regulations (generally between one and two years longer). The effect of this will be to reduce RMDs and thus enable plan participants and IRA owners to retain larger balances in their retirement accounts.

The final regulations will be effective upon publication in the Federal Register (currently scheduled for November 12, 2020), but will not apply to distributions until calendar years beginning on or after January 1, 2022. As proposed, the updated tables would have applied for distribution calendar years beginning on or after January 1, 2021. Treasury delayed the applicability date in response to concerns expressed by commenters.

The preamble to the final rule provides an example for an individual who attains age 72 in 2021 (*i.e.*, for whom the RMD for the distribution calendar year 2021 is due April 1, 2022).^[5] In this example, the final regulations would not apply to the RMD for the individual's 2021 distribution calendar year (which is due April 1, 2022), but would apply to the RMD for the individual's 2022 distribution calendar year (which is due December 31,

2022).

The final rule includes special transition rules applicable with respect to participants and IRA owners who die before January 1, 2022. These transition rules provide for a one-time reset for the relevant life expectancy (based on the age for which life expectancy was originally determined, rather than the relevant individual's current age).

The preamble notes that the updated tables are also relevant for taxpayers receiving substantially equal periodic payments pursuant to Revenue Ruling 2002-62, which provides an exemption from the early distribution penalty tax under Code section 72(t) for payments calculated using the life expectancy tables set forth in these regulations. The preamble indicates that Treasury anticipates updating Revenue Ruling 2002-62 to apply the new life expectancy, distribution period, and mortality tables for purposes of determining substantially equal periodic payments, once the final regulations become effective.

The final regulations do not provide for automatic updates to the life expectancy and distribution period tables, but Treasury anticipates that it will review the tables at the earlier of: (1) 10 years or (2) whenever a new study of individual annuity mortality experience is published.

Shannon Salinas
Associate General Counsel - Retirement Policy

endnotes

[1] The final regulations are *available at* <https://public-inspection.federalregister.gov/2020-24723.pdf>.

[2] Treasury Regulation §1.401(a)(9)-9.

[3] Executive Order 13847, 83 Fed. Reg. 45321, directs the Departments of Labor and Treasury to take various actions to strengthen retirement security through expanding access to workplace retirement plans. The Order touches on three main areas for change: multiple employer plans (MEPs), notice and disclosure requirements, and required minimum distribution (RMD) rules. The Order is *available at* <https://www.whitehouse.gov/presidential-actions/executive-order-strengthening-retirement-security-america/>.

[4] See ICI Memorandum No. 32046, dated November 8, 2019, *available at* https://www.ici.org/my_ici/memorandum/memo32046.

[5] The SECURE Act generally increased the beginning age from age 70-1/2 to age 72. The final regulation generally does not include amendments to incorporate changes to from the SECURE Act. However, in the preamble, Treasury indicates that it will issue a separate proposal to take into account the amendments to section 401(a)(9) made by the SECURE Act (including the provision that modifies the RMD rules for beneficiary payments).

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