

IRS PROPOSES REGULATIONS REGARDING MINIMUM PRESENT VALUE CALCULATIONS

Hodgson Russ Newsletter
December 30, 2016

Practices & Industries

Employee Benefits

Internal Revenue Code Section 417(e) provides rules providing the calculation of the present value of an annuity benefit under a defined benefit plan. One requirement is that the present value shall not be less than the amount calculated using certain prescribed mortality tables and interest rates. These mortality tables and interest rates were amended by the Pension Protection Act of 2006. The IRS has recently proposed regulations that address certain issues that remained unclear under prior guidance. For example, there has been much discussion whether a Social Security level income option was or was not subject to requirements on calculation of present value under Section 417(e)(3). The IRS had indicated in the past that a Social Security level income option was subject to this requirement. In the proposed regulations the IRS makes it clear that if the regulations are adopted, the calculation of Social Security level income option must be done in compliance with use of applicable mortality tables and interest rates of Section 417(e). In addition, the proposed regulations would state that it is appropriate to use a pre-retirement mortality discount in determining minimum present value for benefits accrued from employer contributions but not for benefits resulting from employee contributions. The proposed regulations would also make other clarifying and clean-up changes to the existing regulations. (IRS Proposed Regs. Under Section 417(e))