

MICHAEL BARRY

President, Plan Advisory Services Group

MICHELLE RAPPA

Managing Director, Retirement Client Advisor

Live Long and Prosper

The IRS proposes updated life expectancy tables for required minimum distributions.

The Internal Revenue Service has proposed changes to the required minimum distribution (RMD) rules, updating the life expectancy tables used in calculating required distributions. The new tables significantly increase the applicable life expectancy assumptions and, consequently, would reduce required distribution amounts.

In this article, we briefly review the IRS's proposal, issued on November 7, 2019.

Background

Internal Revenue Code section 401(a)(9) generally requires that distributions under a qualified plan must begin as of the required beginning date and continue over a period not exceeding the life (or life expectancy) of the participant or joint life (or joint life expectancy) of the participant and a designated beneficiary.

For these purposes, life expectancy is determined under tables published by the IRS. The tables used under current regulations are based on the Annuity 2000 Basic Table with mortality improvement (developed with respect to that table) through 2003.

On August 31, 2018, President Trump signed an Executive Order on Strengthening Retirement Security in America that, among other things, instructed the secretary of the Treasury to examine the life expectancy and distribution period tables currently used to determine RMDs and determine whether they should be updated.

Proposed New Tables

The new tables under the IRS's proposal were developed based on mortality rates for 2021. The base rates use the 2012 Individual Annuity Mortality tables, and mortality improvement through 2021 is applied using Mortality Improvement Scale MP-2018.

To make a relevant but somewhat nerdy point: Individual annuity mortality tables generally assume a longer life expectancy than the general population, to take into account the (generally recognized) fact that individuals who buy annuities are a self-selected group who generally expect to live longer than the general population. The current RMD life expectancy tables, as noted, use obsolete individual annuity mortality tables plus individual annuity mortality improvement assumptions. The new proposal takes a different approach, using an individual annuity mortality base scale but a general population mortality improvement scale. Using an individual annuity mortality improvement scale (reflecting current assumptions) generally would produce even longer life expectancies for RMD purposes than does the approach taken by the proposal.

Practical Impact: Longer Life Expectancies, Longer RMD Distribution Periods

The IRS provides the following examples to illustrate the effect of the proposal:

70-year-old IRA owner who uses the Uniform Lifetime Table to calculate required minimum distributions must use a life expectancy of 27.4 years under the existing regulations. Using the Uniform Lifetime Table set forth in the proposed regulations, this IRA owner would use a life expectancy of 29.1 years to calculate required minimum distributions. As another example, under the existing regulations, a 75-year-old surviving spouse who is the employee's sole beneficiary and uses the Single Life Table to compute required minimum distributions must use a life expectancy of 13.4 years. Under the proposed regulations, the spouse would use a life expectancy of 14.8 years.

Effective Date and Transition Rule

The new tables would generally apply to distributions beginning on or after January 1, 2021. Under a transition rule, where an employee dies before 2021, distributions could be recalculated in certain circumstances.

Comments on the proposal are due in 60 days.

In our view, the IRS's proposal is a welcome improvement in current rules and will allow affected participants to take distributions over a more realistic life expectancy period. We will continue to follow this issue.

FOR INVESTMENT PROFESSIONAL, BROKER-DEALER AND INSTITUTIONAL USE ONLY. NOT FOR USE BY OR DISTRIBUTION TO THE GENERAL PUBLIC.

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Any views or opinions expressed may not reflect those of the firm as a whole. Information presented may include estimates, outlooks, projections and other "forward-looking statements." Due to a variety of factors, actual events may differ significantly from those presented. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. This material is informational and educational in nature, is not individualized and is not intended to service as the primary or sole basis for any investment or tax-planning decision. Diversification does not guarantee profit or protect against loss in declining markets. Investing entails risks, including possible loss of principal. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Neuberger Berman is not providing this material in a fiduciary capacity and has a financial interest in the sale of its products and services. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. This material may not be used for any investment decision in respect of any U.S. private sector retirement account unless the recipient is a fiduciary that is a U.S. registered investment adviser, a U.S. registered broker-dealer, a bank regulated by the United States or any state, an insurance company licensed by more than one state to manage the assets of employee benefit plans subject to ERISA, or, if subject to Title I of ERISA, a fiduciary with at least \$50 million of client assets under management and control, and in all cases financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. This means that "retail" retirement investors are expected to engage the services of an advisor in evaluating this material for any investment decision. If your understanding is different, we ask that you inform us immediately. Neuberger Berman Investment Advisers LLC is a registered investment adviser. The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

NEUBERGER	BERMAN
-----------	--------

Neuberger Berman
1290 Avenue of the Americas
New York, NY 10104-0001

www.nb.com