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Steve Leimberg's Employee Benefits and Retirement Planning Email Newsletter - Archive Message #777

Date:	**24-Jan-22**
From:	**Steve Leimberg's Employee Benefits and Retirement Planning Newsletter**
Subject:	**Mike Jones on New Applicable Distribution Period Tables for Required Minimum Distributions from Qualified and Individual Retirement Accounts, Effective for 2022**

"Final regulations have updated the tables of divisors used for determining Required Minimum Distributions (not reproduced here), generally effective for distribution calendar years beginning on or after January 1, 2022 (the proposed regulations initially specified January 1, 2021). The applicable divisors are based on updated life expectancy tables, which extend to age 120 (up from age 115 – a sobering thought when it comes to financial planning)."

In Employee Benefits & Retirement Planning Newsletter #776, **Vanessa Kanaga** and **Natalie Choate** provided members with commentary that examined required minimum distributions under updated actuarial tables. Now, we give **Mike Jones** the final word on this important development. Mike gratefully acknowledges that portions of **Ed Slott**'s IRA newsletter appear here with Ed's kind permission.

Michael J. Jones, CPA is a partner in Monterey, California's **Thompson Jones LLP**. Their tax consulting practice focuses on tax-efficient wealth transfer strategy, maximizing the value of inherited retirement benefits, trust and probate tax matters (both administration and controversy resolution), and family business transitions. Mike is the author of four books and has written numerous articles published in Leimberg Information Services, Inc., Trusts & Estates, WealthManagement.com, Ed Slott's IRA Newsletter and elsewhere. He serves as chair of the CPE Forum of the Central Coast and formerly served as chair of Trusts & Estates magazine's Retirement Benefits Committee. He has lectured across the U.S. for Jerry A. Kasner Estate Planning Symposium, Southern California Tax & Estate Planning Forum, Hawaii Tax Institute, AICPA Advanced Estate Planning Conference, AICPA Conference on Tax Strategies for the High-Income Individual, UCLA-CEB Estate Planning Institute, New York University Institute on Federal Taxation and others. Mike's outside interests include classical guitar and prone paddleboarding.

Here is his commentary:

EXECUTIVE SUMMARY:

IRS-published tables used to compute annual required minimum distributions from defined contribution retirement accounts and Individual Retirement Accounts have gotten a makeover. The changes take into recently account updated mortality tables and apply to distribution calendar years beginning in 2022 regardless of whether the plan participant or IRA owner has passed the required beginning date, the date when required minimum distributions for plan participants or IRA owners. The new tables have been published in final Treasury Regulations and also appear in IRS Publication 590-B (even though that publication is for use in filing 2021 income tax returns – so, do not use the new tables to determine the amount of a 2021 required minimum distribution).

FACTS:

IRS tables must be used in each year when a required minimum distribution must be paid from an employer-sponsored tax-deferred defined contribution retirement account or an Individual Retirement Account. A year's required minimum distribution is the value of the account at the beginning of the distribution calendar year, divided by the Applicable Divisor. The tables contain the Applicable Divisors based on the life expectancy for a living participant, a death beneficiary, or a death beneficiary who is the participant's/IRA owner's surviving spouse. The tables are based on gender-neutral actuarial tables, which tables were updated for recently published actuarial tables.

Publication 590B (2021), Distributions from Individual Retirement Accounts (IRAs), contains those updated tables. However, the new tables apply for distribution calendar years beginning in 2022.

The new tables are to be used by:

- Plan participants and IRA owners who have reached the required beginning date (the date when required minimum distributions are to commence),

- Eligible Designated Beneficiaries of plan participants or IRA owners who die after 2021, and
- Surviving spouses entitled, as designated beneficiary, to all distributions for life of plan participants or IRA owners who die after 2021.

COMMENT:

The amount of each year's required minimum distribution from a defined contribution plan or Individual Retirement Account is equal the account's value as of the beginning of the year, divided by the "Applicable Divisor". The Applicable Divisor is the participant's or designated beneficiary's life expectancy, determined under tables published in Treasury Regulations Section 1.401(a)(9)-6, IRS Publication 590A (lifetime distributions) and Publication 590B (distributions after death). But, under the SECURE Act, accounts of decedents must be fully distributed by the end of the year containing the tenth anniversary of the participant, death, unless the beneficiary is an Eligible Designated Beneficiary (generally, a surviving spouse; a child who is a minor; a disabled individual; a qualifying chronically ill individual; or an individual who is not more than 10 years younger than the participant).

Final regulations have updated the tables of divisors used for determining Required Minimum Distributions (not reproduced here), generally effective for distribution calendar years beginning on or after January 1, 2022 (the proposed regulations initially specified January 1, 2021). The applicable divisors are based on updated life expectancy tables, which extend to age 120 (up from age 115 – a sobering thought when it comes to financial planning). The preamble observes:

> The life expectancy tables and applicable distribution period tables in these regulations generally reflect longer life expectancies than the tables in formerly applicable §1.401(a)(9)-9. For example, a 72-year-old IRA owner who applied the Uniform Lifetime Table under formerly applicable §1.401(a)(9)-9 to calculate required minimum distributions used a life expectancy of 25.6 years. Applying the Uniform Lifetime Table set forth in these regulations, a 72-year-old IRA owner will use a life expectancy of 27.4 years to calculate required minimum

distributions. As another example, a 75-year-old surviving spouse who is the employee's sole beneficiary and applied the Single Life Table under formerly applicable §1.401(a)(9)-9 to compute required minimum distributions used a life expectancy of 13.4 years. Under these regulations, a 75-year-old surviving spouse will use a life expectancy of 14.8 years. The effect of these changes is to reduce required minimum distributions generally, which will allow participants to retain larger amounts in their retirement plans to account for the possibility they may live longer.

For calendar years after the calendar year of the deceased participant's spouse's death, the applicable divisor (also referred to as the applicable distribution period) is what would have been the remaining life expectancy of the spouse under the Single Life table using the age of the spouse as of the spouse's birthday in the calendar year of the spouse's death. That number is then reduced by one (1) for each succeeding calendar year.

Thus, people who became entitled to receive all distributions for life from an IRA or qualified plan beneficiaries before 2022 and who must base required minimum distributions on the single life table's applicable distribution period for the participant or IRA owner's year of death, must now adjust their applicable divisors. For 2022, the new applicable divisor for such beneficiaries is the new applicable divisor corresponding to the beneficiary's age attained in the year after the IRA owner's death, reduced by the intervening number of years, through 2022. That adjustment will have the effect of reducing future required minimum distributions

For example, Alice died during 2018. She attained age 72 that year, and left her IRA to her son, Allen. Assume that, in 2019, the year following the year when Alice died, Allen attained age 42, so his Applicable Divisor under the old tables was 41.7 and would have been reduced each year after 2019 by one each succeeding year. Accordingly, his Applicable Divisor for 2022 would have been 38.7 (41.7, minus 3 years). Because Allen can now update his Applicable Divisor as of 2022, his 2022 Applicable Divisor will be 40.8 (43.8 minus 3 years) instead of 38.7.

Eligible Designated Beneficiaries other than surviving spouses who aren't subject to the SECURE Act's 10-year distribution period will also employ the new tables, and so will enjoy reduced stretch distributions. The Applicable Divisor for the year after the year of the plan participant's death will be reset and reduced by 1 for each year after the first distribution calendar year of the Eligible Designated Beneficiary.

Here's a summary of which tables to utilize.

- During lifetime, either (a) not married, or (b) married to a person who is not more than 10 years younger: Table III, Uniform Table based on age of participant attained in each distribution calendar year.

- During lifetime, married to a person more than 10 years younger: Table II, Joint and Last Survivor Table, based on ages of participant and spouse attained in each distribution calendar year.

- After death, surviving spouse is sole beneficiary and so is not subject to 10-year rule: Table III, Single Life Table, using the Applicable Divisor associated with the attained age of surviving spouse in each distribution calendar year.

    - In the year when the surviving spouse dies, based on the age the surviving spouse would have attained if the surviving spouse had survived until the end of that year. Each year thereafter, reduce the Applicable Divisor by one each year.

- After death, Eligible Designated Beneficiary other than a surviving spouse: Table 1, Single Life Table based on age decedent attained (or would have attained) in the year of death, reduced by 1 every year thereafter. After termination of Eligible Designated Beneficiary status, switch to the 10-year rule; for example, a minor, upon reaching majority age.

- After death, no Eligible Designated Beneficiary, death occurred before the Required Beginning Date: the 5-year rule applies, Distribute the entire balance in the account by December 31 of the year containing the 5th anniversary of death (one year later if 2020 is within the 5-year period).

The preamble to the regulation expressly recognizes that, for purposes of Code Section 72(t)'s 10 percent tax on early distributions, distributions based upon the updated tables for Required Minimum Distributions will qualify as an exception to the tax as a series of substantially equal periodic payments made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of the employee and the designated beneficiary. Similarly, in the case of any retirement annuity, such as a defined benefit plan or an Individual Retirement Annuity, the updated mortality table used to develop the life expectancy tables set forth in §1.401(a)(9)-9 may be used to derive annuity factors.

Certain examples of annuities included in Regulations §1.401(a)(9)-6, Q&A-14(f) have not yet been updated to reflect the new annuity tables.

Transition rules are included. Death beneficiaries who must use the single life table's applicable distribution period for the year of death and who must reduce that divisor by 1 each year will need to make an adjustment to their applicable divisors beginning in 2022. The beneficiary must use the applicable divisor corresponding to the beneficiary's attained age in the year after the year when the participant died, using the new single life table. For the 2022 distribution calendar year and for later years, future distributions employ the new table as if it had been in effect when the account owner died. Thus, a beneficiary will compute the 2022 Required Minimum Distribution computation based on a new initial divisor from the new table. The resulting new divisor is reduced by one, through 2022. The preamble provides an example (dates have been adjusted to those specified in the final regulation). Alice, an employee who participated in her employer's defined contribution plan, died during 2018. She was survived by her sister, Barbara, whom she named as designated beneficiary. Barbara was age 75 in the year after the year when Alice died.

- 2019 was Barbara's first distribution calendar year. For 2019, the distribution period that year was 13.4 years (the period applicable for a 75 - year-old under the Single Life Table in "old" tables under §1.401(a)(9)-9), and for 2022, under the old tables, it would have been 10.4 years (the original distribution period, reduced by 3 years).

- For 2022, taking into account the life expectancy tables under the new table of Applicable Divisors, and applying the transition rule, the applicable distribution period would be 11.8 years (14.8 - year life expectancy for a 75 year old under the Single Life Table in the proposed regulations, reduced by 3 years).

Where an account becomes payable to the beneficiary after the death of a surviving spouse who was sole beneficiary for life and the spouse died before Jan. 1, 2021, a similar transition rule applies. The Preamble goes on to state the rule that applies after the surviving spouse dies:

> Under the rules of §1.401(a)(9)-5, Q&A-5(c)(2), the distribution period that applies for the spouse's beneficiary is equal to the single life expectancy for the spouse calculated for the calendar year of the spouse's death, reduced by 1 for each subsequent year. Under the transition rule, the initial life expectancy used to determine the distribution period is reset by using the new Single Life Table for the age of the spouse in the calendar year of the spouse's death. For distribution calendar years beginning on or after January 1, [2022], the distribution period is determined by reducing that initial life expectancy by 1 for each year subsequent to the year for which it was initially set.

HOPE THIS HELPS YOU HELP OTHERS MAKE A *POSITIVE* DIFFERENCE!

Mike Jones

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CITATIONS:

Internal Revenue Code Sections 408(a)(6), 401(a)(9).