IRS Proposes Update to Minimum Required Distribution Rules

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On November 8, the Internal Revenue Service ("IRS") issued proposed regulations under section 401(a)(9) of the Internal Revenue Code ("IRC"). 84 Fed. Reg. 60812. The proposed regulations would reduce the required distribution amounts from qualified defined contribution plans and individual retirement account balances that generally apply annually after a participant reaches his or her required beginning date.

The amount that is required to be distributed each year is based on an estimate of the expected remaining lifetime of the participant and his or her beneficiary. Compared to the current regulations, which were adopted in 2002, the proposed regulations would generally increase the expected remaining lifetimes of participants and beneficiaries for minimum distribution purposes. This change would reduce the amounts that need to be distributed each year.

The proposed regulations are a result of Executive Order 13847, which was issued on August 31, 2018 and directed the IRS reevaluate the life expectancies that underlie the required minimum distribution regulations.

Background

Qualified defined contribution retirement programs provide tax incentives for participants to save for retirement, and for employers to contribute to retirement plans. These programs include 401(k) plans, 403(b) plan, and individual retirement accounts, as well as certain other similar vehicles.

When a plan participant dies without withdrawing the entire account balance from a qualified retirement plan, the remaining balance transfers to the participant's beneficiary. The tax advantages of these plans are intended to encourage retirement income, as opposed to encouraging the transfer of wealth from one generation to the next. Section 401(a)(9)(C) of the IRC provides for a required beginning date, which is intended to limit the extent to which the balances in these plans are passed on to beneficiaries, as opposed to being distributed during participants' retirements.

Section 401(a)(9)(C) defines a participant's required beginning date as the April 1 of the calendar year following the later of (a) the calendar year in which the participant attains age 70½, or (b) the calendar year in which the participant retires from employment. After a participant attains his or her required beginning date, qualified defined contribution plans are generally required to pay a distribution each year in an amount equal to the participant's account balance divided by an estimate of the participant and beneficiary's joint expected remaining lifetime.

Proposed Change

Under the proposed regulations, the tables of expected remaining lifetimes for participants and beneficiaries at various ages would be revised with new figures. While there are some outliers at extreme ages, substantially all of the new figures show longer expected remaining lifetimes than the prior figures. Some excerpts are as follows:

Single Life Table (generally used for beneficiaries of deceased participants)

Life Expectancy			
Age	Current Regulations	Proposed Regulations	Change
70	17.0	18.7	10.0%
75	13.4	14.8	10.4%
80	10.2	11.2	9.8%
85	7.6	8.1	6.6%
90	5.5	5.7	3.6%
95	4.1	3.9	-4.9%

Joint and Last Survivor Table (generally used for participants with a spouse who is 10 or more years younger than the participant)

Joint and Last Survivor Expectancy				
Participant Age	Spouse Age	Current Regulations	Proposed Regulations	Change
70	60	27.4	29.1	6.2%
70	55	31.1	32.9	5.8%
70	50	35.1	37.0	5.4%
75	65	22.9	24.6	7.4%
75	60	26.5	28.2	6.4%
75	55	30.4	32.3	6.3%
85	75	14.8	16.0	8.1%
85	70	17.9	19.4	8.4%
85	65	21.6	23.3	7.9%
95	85	8.6	8.9	3.5%
95	80	10.9	11.6	6.4%
95	75	13.8	15.1	9.4%

Uniform Life Table (generally used for other participants)

Distribution Period			
Age	Current Regulations	Proposed Regulations	Change
70	27.4	29.1	6.2%
75	22.9	24.6	7.4%
80	18.7	20.2	8.0%
85	14.8	16.0	8.1%
90	11.4	12.1	6.1%
95	8.6	8.9	3.5%

Impact of Proposed Regulations

The impact of the proposed regulations will be to generally reduce the amounts that are required to be distributed annually from qualified defined contribution plans and individual retirement accounts after participants reach their required beginning dates. This change will allow participants to keep a larger portion of their accounts in the plans for a longer period of time. We expect that the annual required distribution amounts will typically decline by an average of 3% to 10%, depending on the age of the individual, and if applicable, the age of the beneficiary.

We note that the Setting Every Community Up for Retirement Enhancement Act of 2019 ("Secure Act") is a proposed law that would affect the required distributions from qualified defined contribution plans. Specifically, the Secure Act would increase the age that determines the required beginning date from age 70½ to age 72. Depending on the month in which a participant was born, this legislation would delay the initial year in which a required distribution from a qualified defined contribution plan must be paid by one or two years. It does not appear that the Secure Act would change the calculations that are performed once a participant reaches the required beginning date. The Secure Act has passed the House of Representatives, but it is unclear when or if it will receive a vote in the Senate.

Next Steps

The proposed effective date of the regulations is January 1, 2021. Sponsors and third-party administrators of qualified defined contribution plans may want to review their systems and procedures in light of the proposed regulations, and begin developing a plan for implementing the change.

The IRS is accepting comments on this proposed regulation through January 7, 2020. In addition, a public hearing is scheduled for January 23, 2020. Those wishing to present oral comments at the hearing must submit written comments and an outline of their remarks by January 7, 2020.