

PENSION RIGHTS CENTER

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July 21, 2006

Mr. James Holland
Manager of Employee Plans Technical Branch
Internal Revenue Service
P.O. Box 27063
McPherson Station
Washington, DC 20038

Re: Request for General Information Letter

Mr. Holland:

I am writing to request a general information letter regarding the applicable interest rates and mortality tables used in the calculation of a lump sum distribution from a defined benefit plan. Specifically, the question is as follows:

May a qualified defined benefit plan calculate a participant's lump sum distribution using an interest rate and mortality table other than that prescribed by Internal Revenue Code Section 417(e), where that calculation results in a lower lump sum than that which would have resulted from a calculation using the interest rate and mortality table prescribed by Internal Revenue Code Section 417(e)?

A hypothetical example will provide a basis for discussion of the question above, as well as raise additional questions presented below...

A defined benefit plan, per the plan document, states that it uses an interest rate of 7.5% and the 1983 GAM Blended 50% Male & 50% Female mortality table. Two participants request distributions from the plan after terminating employment with the sponsoring employer. One participant was fully vested and had accrued an age 65 monthly benefit of \$1,255.71, and the other participant was 60% vested in a monthly benefit of \$1,255.71 and had thus accrued an age 65 monthly benefit of \$753.43. Lump sum distributions are calculated for the two participants, each aged 53, in February of 2003. To calculate the lump sum amounts, the plan used its stated interest rate of 7.5% with a mortality table different than that stated in the plan - UP84. The lump sums are paid to the participants in February, 2003. In February 2003, the Section 417(e) rate was 4.81%. The prescribed mortality table was 1994 GAR.

To demonstrate how the results can vary in such a situation, the following table illustrates the resulting calculations of lump sums for a distribution in February, 2003:

Mortality Table & Interest Rate	100 % Vested in a \$1255.71 monthly benefit	60 % Vested in a \$1255.71 (\$753.43) monthly benefit
GAM 83 & 7.5%	\$55,885	\$33,531
UP 84 & 7.5%	\$45,718	\$27,431
IRC 417(e) (1994 GAR & 4.81%)	\$96,164	\$57,698

In addition to the primary question stated above, the following questions are raised by these hypothetical facts.

- Where, as in the example above, a plan uses an “alternate interest rate” and “alternate mortality table” combination that neither references IRC §417(e) nor provides a greater benefit than IRC §417(e), what is the “applicable interest rate” and “applicable mortality table” to accurately calculate benefits for participants.
- When a plan uses an “alternate interest rate” that does not specify a periodic rate lockdown, is the “applicable interest rate” under IRC §417(e) the interest rate in the month of the distribution?

Thank you for your assistance and I look forward to your views on this matter.

Best Regards,

Rebecca Carr

Staff Attorney



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

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Ms. Rebecca Carr
Pension Rights Center
1350 Connecticut Avenue, NW, Suite 206
Washington, DC 20036-1722

Re: Request for General Information Letter

Dear Ms. Carr

This letter is in response to your request for general information regarding whether a defined benefit plan may use a mortality table and interest rate, which produces a lower lump sum value, than the mortality table and interest rate prescribed in Internal Revenue Code ("Code") section 417(e). Additionally you ask what is the "applicable interest rate" and "applicable mortality table" to accurately calculate benefits for participants. Also, you ask when a plan does not specify a periodic rate lockdown, is the "applicable interest rate" under Code section 417(e) the interest rate in the month of distribution.

Code section 417(e)(3)(B) states that the present value shall not be less than the present value calculated by using the applicable mortality table and applicable interest rate. Therefore, a Plan may not use a mortality table and interest rate that produces a lump sum value less than the value calculated using the mortality table and interest rate prescribed in section 417(e) of the Code.

According to Code section 417(e)(3)(A)(I) and (II), the applicable mortality table means the prevailing commissioners' standard table (described in section 807(d)(5)), and the applicable interest rate is the annual rate of interest on 30-year Treasury securities for the month before the date of distribution or such time as the Secretary may by regulations prescribe.

Income Tax Regulations section 1.417(e)-1(d) describes the "lookback period" and "stability period" that a defined benefit plan may use to determine the applicable interest rate. If a defined benefit plan does not specify a "lookback period" and "stability period", the applicable interest rate is the annual rate of interest on 30-year Treasury securities for the month before the date of distribution.

Please note that a response (written or by telephone) to a request for general information cannot be relied upon as a ruling nor does it have the effect of a ruling.

If you have any questions regarding this matter, please contact Mr. Stern (ID# 50-06976) at (202) 283-9703.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'D. M. Prestia', with a stylized flourish at the end.

Donna M. Prestia, Manager
Employee Plans Actuarial Group 2