

## Life expectancy

*For a 65-year-old today, women in excellent health have a 52% chance and men have a 41% chance of living until age 90. Couples have a 72% chance that one of them lives until age 90 and 44% chance that one of them lives until age 95. \**

Earlier this year the IRS released new Life Expectancy Tables. This is the first time in two decades that the IRS has updated the Life Expectancy Tables. The new tables have a life expectancy at age 0 of 84.6 years as compared to the old tables where life expectancy at birth was 82.4 years. These tables are of interest to more than actuaries. Everyone with a retirement plan or IRA needs to be aware of these changes as these tables are used for calculating the required minimum distributions (RMDs) beginning January 1, 2022. These new tables extend the life expectancy used in determining RMDs, which slightly decreases RMDs for many retirees and their beneficiaries. There are three tables:

1. One is for singles.
2. The second, the Uniform Lifetime Table, is used when the account holder's beneficiary is not more than 10 years younger.
3. The third, the Joint and Last Survivor Life Expectancy Table, is used to look at the life expectancy of two individuals when the beneficiary is more than 10 years younger.

Required minimum distributions typically begin at the required beginning date, which per the Secure Act is now age 72 as of January 1, 2020. Individuals who have hit this age, use the Uniform Lifetime Table (unless your sole beneficiary is your spouse, and they are more than 10 years younger). The advantage of this table is that it is based on the life expectancy of the account holder and a hypothetical beneficiary who is 10 years younger, providing for a longer distribution period. It is also recalculated each year based on the prior year December 31 account balance.

- For example, an IRA owner turning age 77 in 2022 with a \$1 million IRA, would use the life expectancy factor from the Uniform Life Table, which is 22.9, and her RMD would be \$43,668.12. Under the old tables her RMD would have been \$47,169.81, a reduction of \$3500.
- If your spouse is your beneficiary and is more than 10 years younger, there is a separate life expectancy table to calculate the RMDs based on the age of account holder and the beneficiary. This again will extend the distribution period.
- If the account holder of an IRA passed away before January 1, 2020, the beneficiary of that IRA can continue taking distributions over their lifetime using the Single Life Table. If the beneficiary is a surviving spouse, they can re calculate the life expectancy each year based on their age.

At SFM we carefully review the calculation of all our clients required minimum distributions to ensure that they are correct, and we are using the appropriate life expectancy tables. The penalties for not taking a large enough distribution is 50% on the amount that should have been distributed.

It's been said that the only thing certain in life is death and taxes. As this applies to retirement plans, it seems less so. As noted in a previous SFM Insight, the Secure Act essentially eliminated the ability for non-spouse beneficiaries to take distributions over their lifetimes. If an account holder passed away after January 1, 2020, and leaves their IRA or retirement account to a non-spouse (with some exceptions), the guidelines were to distribute the account over 10 years.

Recent IRS regulations that have been released have changed the payout guidelines pertaining to these non-spouse beneficiaries. We thought a beneficiary could take distributions as needed, annually, or distribute all the account at the end of 10 years. It appears the IRS has changed their position on this and are now looking for annual distributions. More on this to come as we digest the new regulations.

*\*Source- Social Security Administration, Period Life Tables 2018 (Published int 2021 OASDI Trustees Report)*