

# SECTION 417(e)

## **§417(e)**

### **RESTRICTIONS ON CASH-OUTS**

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**Mandatory cash-out allowed if value is less than \$5,000 (411(a)(11) threshold)**

**For cash-out of higher value, must obtain consent of participant and spouse**

## §417(e)(3)

### MINIMUM PRESENT VALUE – 2007

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Present value calculated under plan can't be less than PV using “applicable interest” and “applicable mortality”

1. Applicable mortality is IRS “special” unisex (see page 417-4)
2. Applicable interest is 30 year Treasury yield
3. Definitions of applicable interest and applicable mortality will be different in 2008

## HISTORY

RPA '94 assumption changes eliminated old conflict in lump sum definitions. Now had same definition for §417 and §415

# **ASSUMPTION CHANGES - EGTRRA REVENUE RULING 2001-62**

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- 1. New 1994 GAR mortality table**
- 2. Change can decrease lump sum value, but does not violate 411(d)(6)**
3. Remedial amendment period ends on last day of 2005 plan year - but must have "good faith" amendment for 2002 plan year
4. Must be effective for annuity starting dates after 12/31/2002 (94 GAR effective date)
5. Optional earlier effective date via plan amendment
6. Amendment must allow for distributions between effective date and adoption date

## **§417(e)(3)**

### **MINIMUM PRESENT VALUE – 2008**

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**Present value calculated under plan can't be less than PV using “applicable interest” and “applicable mortality”**

- 1. Applicable mortality is based on funding mortality table under 430(h)(3)**
- 2. Mortality definition ignores both  
430(h)(3)(C) plan-specific substitute table  
430(h)(3)(D) different mortality for disabled**
- 3. Applicable interest is yield curve – see next page**

## **§417(e)(3)(D)(i)**

### **MODIFIED YIELD CURVE**

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#### **Interest rates for 417 minimum PV calculation**

##### **For benefits payable**

- **First 5 years**
- **Next 15 years**
- **After 20 years**

##### **Use segment rate**

**First 5 years**  
**Next 15 years**  
**After 20 years**

##### **Modified corporate bond yield curve**

- **Average for the 417 look back month  
(no averaging over prior 24 months)**
- **Segment rates do not reflect MAP-21 segment  
rate stabilization**

# §417(e)(3)(D)(iii)

## TRANSITION TO YIELD CURVE

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Denote 417(e)(3)(A)(ii)(II) rate\* as  $i^{LS}$

Denote three segment rates as  $k_1^{SEG}$ ,  $k_2^{SEG}$ ,  $k_3^{SEG}$

### Rates for Lump Sums:

Benefits payable	<u>2008</u>	<u>2009</u>
Years 1-5	$.2(k_1^{SEG}) + .8(i^{LS})$	$.4(k_1^{SEG}) + .6(i^{LS})$
Years 6-20	$.2(k_2^{SEG}) + .8(i^{LS})$	$.4(k_2^{SEG}) + .6(i^{LS})$
After 20 yr	$.2(k_3^{SEG}) + .8(i^{LS})$	$.4(k_3^{SEG}) + .6(i^{LS})$

### Rates for Lump Sums:

Benefits payable	<u>2010</u>	<u>2011</u>
Years 1-5	$.6(k_1^{SEG}) + .4(i^{LS})$	$.8(k_1^{SEG}) + .2(i^{LS})$
Years 6-20	$.6(k_2^{SEG}) + .4(i^{LS})$	$.8(k_2^{SEG}) + .2(i^{LS})$
After 20 yr	$.6(k_3^{SEG}) + .4(i^{LS})$	$.8(k_3^{SEG}) + .2(i^{LS})$

\* Applicable interest rate: annual rate of interest on 30-Year Treasury securities for the 417 look back month

## **§1.417(e)-1**

### **APPLICABLE INTEREST CHANGES - RPA '94**

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**OLD:** PBGC graded rates

**NEW:** 30 year Treasury rates

#### **DEFINITIONS:**

**Stability period:** 1, 3, or 12 months

**Plan year or Calendar year**

**Lookback period:** 1 to 5 months



# REVENUE RULING 2007-67

## GRANDFATHERING RULES

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Transition rules to avoid violating §411(d)(6) vary depending on lump sum basis in plan:

	Old / New	Interest basis	Mortality basis
Case 1	Old	30 Year treasury	Applicable mortality
	New	Applicable interest	Applicable mortality
No grandfathering required			

Case 2	Old	30 Year treasury	Applicable mortality
	New	Applicable interest, chg lookback / stability period	Applicable mortality
12 months of grandfathering required			

Case 3	Old	Z% interest	Unspecified
	New	Z% interest	Applicable mortality
Always compare L.S. using App interest + App mortality			

Case 4	Old	Z% interest	Unspecified
	New	Applicable interest	Applicable mortality
Permanent grandfathering of old basis lump sum using frozen accrued benefit (when basis changed)			

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