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## GAR-94: Tracking The 50 States

by Zenaida Samaniego

Section 415(b) of the Internal Revenue Code specifies limitations on benefits under a qualified defined benefit plan, including any form of benefit subject to section 417(e)(3). When a benefit is payable (a) in a form other than as an annual straight-life annuity, or (b) beginning at an age other than the participant's Social Security retirement age (SSRA), such benefit or dollar limitation is actuarially adjusted on a prescribed mortality table and interest rate so as to produce an equivalent annual straight-life annuity or dollar limitation at the participant's SSRA. Under Section 417, single sum distributions are determined as the actuarial present value of an equivalent straight life annuity based on the greater of plan factors and the prescribed mortality and interest.

In particular, Section 415(b)(2)(E)(v) requires that for purposes of adjusting any benefit or limitation, the mortality table used shall be the table prescribed by the Secretary. Pursuant to Section 807(d)(5), the mortality table shall be based on the prevailing commissioners' standard table used to determine reserves for group annuity contracts issued on the date the adjustment is being made. Such commissioners' table currently in effect is the 1983 Group Annuity Mortality Table (GAM-83), a static table.

Subject to the adoption by at least 26 states of the Union, a new commissioners' valuation standard will become effective, which is the 1994 Group Annuity Reserve Table (GAR-94). Unlike its predecessor table, GAR-94 is a generational standard, which incorporates a base table, the GAM-94 Static Table, and a full range of

annual mortality improvement factors, Projection Scale AA, such that the mortality rate for each life will depend not only on sex and age, but on calendar year of valuation as well.

Based on recent mortality improvements that have occurred since the development of the 1983 GAM, combined with the use of projected mortality improvement factors, as reflected in the new standard, following are ratios of 1994 GAR to 1983 GAM Life Annuity net single premiums, assuming 7% level interest rate:

*Zenaida Samaniego, FSA, is vice president at the Equitable Life Assurance Society in New York, NY. She can be reached at Zenaida.Samaniego@equitable.com.*

Sex	Age	1994	1999	2004	2009
Male	55	1.047	1.056	1.064	1.073
	65	1.062	1.077	1.091	1.104
	75	1.086	1.105	1.123	1.142
Female	55	1.007	1.010	1.013	1.016
	65	1.008	1.013	1.018	1.023
	75	1.025	1.034	1.042	1.051

Source: TSA Volume XLVII, "1994 Group Annuity Mortality Table and 1994 Group Annuity Reserving Table," Table 23, pp.910-911.

As of August 11, 1999, 24 states have adopted, or are in the process of adopting the GAR-94 as a group valuation standard. It is uncertain when and if GAR-94 also becomes the prescribed table for Section 415(b) purposes, but beware its implications.