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## Part I

Section 72.--Annuities; Certain Proceeds of Endowment and Life Insurance Contracts

Rev. Rul. 2002-62 and Li

### SECTION 1. PURPOSE AND BACKGROUND

.01 The purpose of this revenue ruling is to modify the provisions of Q&A-12 of Notice 89-25, 1989-1 C.B. 662, which provides guidance on what constitutes a series of substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) of the Internal Revenue Code from an individual account under a qualified retirement plan. Section 72(t) provides for an additional income tax on early withdrawals from qualified retirement plans (as defined in § 4974(c)). Section 4974(c) provides, in part, that the term “qualified retirement plan” means (1) a plan described in § 401 (including a trust exempt from tax under § 501(a)), (2) an annuity plan described in § 403(a), (3) a tax-sheltered annuity arrangement described in § 403(b), (4) an individual retirement account described in § 408(a), or (5) an individual retirement annuity described in § 408(b).

.02 (a) Section 72(t)(1) provides that if an employee or IRA owner receives any amount from a qualified retirement plan before attaining age 59½, the employee’s or IRA owner’s income tax is increased by an amount equal to 10-percent of the amount that is includible in the gross income unless one of the exceptions in § 72(t)(2) applies.

(b) Section 72(t)(2)(A)(iv) provides, in part, that if distributions are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancy) of the employee and beneficiary, the tax described in § 72(t)(1) will not be applicable.

Pursuant to § 72(t)(5), in the case of distributions from an IRA, the IRA owner is substituted for the employee for purposes of applying this exception.

(c) Section 72(t)(4) provides that if the series of substantially equal periodic payments that is otherwise excepted from the 10-percent tax is subsequently modified (other than by reason of death or disability) within a 5-year period beginning on the date of the first payment, or, if later, age 59½, the exception to the 10-percent tax does not apply, and the taxpayer's tax for the year of modification shall be increased by an amount which, but for the exception, would have been imposed, plus interest for the deferral period.

(d) Q&A-12 of Notice 89-25 sets forth three methods for determining whether payments to individuals from their IRAs or, if they have separated from service, from their qualified retirement plans constitute a series of substantially equal periodic payments for purposes of § 72(t)(2)(A)(iv).

(e) Final Income Tax Regulations that were published in the April 17, 2002, issue of the **Federal Register** under § 401(a)(9) provide new life expectancy tables for determining required minimum distributions.

## SECTION 2. METHODS

.01 *General rule.* Payments are considered to be substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) if they are made in accordance with one of the three calculations described in paragraphs (a) – (c) of this subsection (which is comprised of the three methods described in Q&A-12 of Notice 89-25).

(a) *The required minimum distribution method.* The annual payment for each year is determined by dividing the account balance for that year by the number from the chosen life expectancy table for that year. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payments are

redetermined for each year. If this method is chosen, there will not be deemed to be a modification in the series of substantially equal periodic payments, even if the amount of payments changes from year to year, provided there is not a change to another method of determining the payments.

(b) *The fixed amortization method.* The annual payment for each year is determined by amortizing in level amounts the account balance over a specified number of years determined using the chosen life expectancy table and the chosen interest rate. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

(c) *The fixed annuitization method.* The annual payment for each year is determined by dividing the account balance by an annuity factor that is the present value of an annuity of \$1 per year beginning at the taxpayer's age and continuing for the life of the taxpayer (or the joint lives of the individual and beneficiary). The annuity factor is derived using the mortality table in Appendix B and using the chosen interest rate. Under this method, the account balance, the annuity factor, the chosen interest rate and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

.02 *Other rules.* The following rules apply for purposes of this section.

(a) *Life expectancy tables.* The life expectancy tables that can be used to determine distribution periods are: (1) the uniform lifetime table in Appendix A, or (2) the single life expectancy table in § 1.401(a)(9)-9, Q&A-1 of the Income Tax Regulations or (3) the joint and last survivor table in § 1.401(a)(9)-9, Q&A-3. The number that is used for a distribution year is the number shown from the table for the employee's (or IRA owner's) age on his or her birthday in that year. If the joint and survivor table is being used, the age of the beneficiary on the beneficiary's birthday in the year is also used. In

the case of the required minimum distribution method, the same life expectancy table that is used for the first distribution year must be used in each following year. Thus, if the taxpayer uses the single life expectancy table for the required minimum distribution method in the first distribution year, the same table must be used in subsequent distribution years.

(b) *Beneficiary under joint tables.* If the joint life and last survivor table in §1.401(a)(9)-9, Q&A-3, is used, the survivor must be the actual beneficiary of the employee with respect to the account for the year of the distribution. If there is more than one beneficiary, the identity and age of the beneficiary used for purposes of each of the methods described in section 2.01 are determined under the rules for determining the designated beneficiary for purposes of § 401(a)(9). The beneficiary is determined for a year as of January 1 of the year, without regard to changes in the beneficiary in that year or beneficiary determinations in prior years. For example, if a taxpayer starts distributions from an IRA in 2003 at age 50 and a 25-year-old and 55-year-old are beneficiaries on January 1, the 55-year-old is the designated beneficiary and the number for the taxpayer from the joint and last survivor tables (age 50 and age 55) would be 38.3, even though later in 2003 the 55-year-old is eliminated as a beneficiary. However, if that beneficiary is eliminated or dies in 2003, under the required minimum distribution method, that individual would not be taken into account in future years. If, in any year there is no beneficiary, the single life expectancy table is used for that year.

(c) *Interest rates.* The interest rate that may be used is any interest rate that is not more than 120 percent of the federal mid-term rate (determined in accordance with § 1274(d) for either of the two months immediately preceding the month in which the distribution begins). The revenue rulings that contain the § 1274(d) federal mid-term rates may be found at [www.irs.gov/tax\\_regs/fedrates.html](http://www.irs.gov/tax_regs/fedrates.html).

(d) *Account balance.* The account balance that is used to determine payments must be determined in a reasonable manner based on the facts and circumstances. For example, for an IRA with daily valuations that made its first distribution on July 15, 2003, it would be reasonable to determine the yearly account balance when using the required minimum distribution method based on the value of the IRA from December 31, 2002 to July 15, 2003. For subsequent years, under the required minimum distribution method, it would be reasonable to use the value either on the December 31 of the prior year or on a date within a reasonable period before that year's distribution.

(e) *Changes to account balance.* Under all three methods, substantially equal periodic payments are calculated with respect to an account balance as of the first valuation date selected in paragraph (d) above. Thus, a modification to the series of payments will occur if, after such date, there is (i) any addition to the account balance other than gains or losses, (ii) any nontaxable transfer of a portion of the account balance to another retirement plan, or (iii) a rollover by the taxpayer of the amount received resulting in such amount not being taxable.

.03 *Special rules.* The special rules described below may be applicable.

(a) *Complete depletion of assets.* If, as a result of following an acceptable method of determining substantially equal periodic payments, an individual's assets in an individual account plan or an IRA are exhausted, the individual will not be subject to additional income tax under § 72(t)(1) as a result of not receiving substantially equal periodic payments and the resulting cessation of payments will not be treated as a modification of the series of payments.

(b) *One-time change to required minimum distribution method.* An individual who begins distributions in a year using either the fixed amortization method or the fixed annuitization method may in any subsequent year switch to the required minimum distribution method to determine the payment for the year of the switch and all

subsequent years and the change in method will not be treated as a modification within the meaning of § 72(t)(4). Once a change is made under this paragraph, the required minimum distribution method must be followed in all subsequent years. Any subsequent change will be a modification for purposes of § 72(t)(4).

### SECTION 3. EFFECTIVE DATE AND TRANSITIONAL RULES

The guidance in this revenue ruling replaces the guidance in Q&A-12 of Notice 89-25 for any series of payments commencing on or after January 1, 2003, and may be used for distributions commencing in 2002. If a series of payments commenced in a year prior to 2003 that satisfied § 72(t)(2)(A)(iv), the method of calculating the payments in the series is permitted to be changed at any time to the required minimum distribution method described in section 2.01(a) of this guidance, including use of a different life expectancy table.

### SECTION 4. EFFECT ON OTHER DOCUMENTS

Q&A-12 of Notice 89-25 is modified.

### SECTION 5. REQUEST FOR COMMENTS

The Service and Treasury invite comments with respect to the guidance provided in this revenue ruling. Comments should reference Rev. Rul. 2002-62.

Comments may be submitted to CC:ITA:RU (Rev. Rul. 2002-62, room 5226, Internal Revenue Service, POB 7604 Ben Franklin Station, Washington, DC 20044. Comments may be hand delivered between the hours of 8:30 a.m. and 5 p.m. Monday to Friday to: CC:ITA:RU (Rev. Rul. 2002-62), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, D.C. Alternatively, comments may be submitted via the Internet at [Notice.Comments@irsounsel.treas.gov](mailto:Notice.Comments@irsounsel.treas.gov). All comments will be available for public inspection and copying.

## Drafting Information

The principal author of this revenue ruling is Michael Rubin of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding this revenue ruling, please contact Mr. Rubin at 1-202-283-9888 (not a toll-free number).

## Appendix A Uniform Lifetime Table

Taxpayer's Age	Life Expectancy	Taxpayer's Age	Life Expectancy
10	86.2	63	33.9
11	85.2	64	33.0
12	84.2	65	32.0
13	83.2	66	31.1
14	82.2	67	30.2
15	81.2	68	29.2
16	80.2	69	28.3
17	79.2	70	27.4
18	78.2	71	26.5
19	77.3	72	25.6
20	76.3	73	24.7
21	75.3	74	23.8
22	74.3	75	22.9
23	73.3	76	22.0
24	72.3	77	21.2
25	71.3	78	20.3
26	70.3	79	19.5
27	69.3	80	18.7
28	68.3	81	17.9
29	67.3	82	17.1
30	66.3	83	16.3
31	65.3	84	15.5
32	64.3	85	14.8
33	63.3	86	14.1
34	62.3	87	13.4
35	61.4	88	12.7
36	60.4	89	12.0
37	59.4	90	11.4
38	58.4	91	10.8
39	57.4	92	10.2
40	56.4	93	9.6
41	55.4	94	9.1
42	54.4	95	8.6
43	53.4	96	8.1
44	52.4	97	7.6
45	51.5	98	7.1
46	50.5	99	6.7
47	49.5	100	6.3
48	48.5	101	5.9
49	47.5	102	5.5
50	46.5	103	5.2
51	45.5	104	4.9
52	44.6	105	4.5
53	43.6	106	4.2
54	42.6	107	3.9
55	41.6	108	3.7
56	40.7	109	3.4



57	39.7	110	3.1
58	38.7	111	2.9
59	37.8	112	2.6
60	36.8	113	2.4
61	35.8	114	2.1
62	34.9	115	1.9

## Appendix B

### Mortality Table Used to Formulate the Single Life Table in § 1.401(a)(9)-9, Q&A-1

age	$q_x$	$l_x$	age	$q_x$	$l_x$
0	0.001982	1000000	58	0.004736	941078
1	0.000802	998018	59	0.005101	936621
2	0.000433	997218	60	0.005509	931843
3	0.000337	996786	61	0.005975	926709
4	0.000284	996450	62	0.006512	921172
5	0.000248	996167	63	0.007137	915173
6	0.000221	995920	64	0.007854	908641
7	0.000201	995700	65	0.008670	901505
8	0.000222	995500	66	0.009591	893689
9	0.000241	995279	67	0.010620	885118
10	0.000259	995039	68	0.011778	875718
11	0.000277	994781	69	0.013072	865404
12	0.000292	994505	70	0.014519	854091
13	0.000306	994215	71	0.016139	841690
14	0.000318	993911	72	0.017950	828106
15	0.000331	993595	73	0.019958	813241
16	0.000344	993266	74	0.022198	797010
17	0.000359	992924	75	0.024699	779318
18	0.000375	992568	76	0.027484	760070
19	0.000392	992196	77	0.030582	739180
20	0.000411	991807	78	0.034010	716574
21	0.000432	991399	79	0.037807	692203
22	0.000454	990971	80	0.042010	666033
23	0.000476	990521	81	0.046652	638053
24	0.000501	990050	82	0.051766	608287
25	0.000524	989554	83	0.057392	576798
26	0.000547	989035	84	0.063583	543694
27	0.000567	988494	85	0.070397	509124
28	0.000584	987934	86	0.077892	473283
29	0.000598	987357	87	0.086124	436418
30	0.000608	986767	88	0.095238	398832
31	0.000615	986167	89	0.105068	360848
32	0.000619	985561	90	0.115518	322934
33	0.000622	984951	91	0.126487	285629
34	0.000625	984338	92	0.137876	249501
35	0.000629	983723	93	0.149419	215101
36	0.000636	983104	94	0.161176	182961
37	0.000657	982479	95	0.173067	153472
38	0.000696	981834	96	0.185008	126911
39	0.000749	981151	97	0.196920	103431
40	0.000818	980416	98	0.210337	83063.4
41	0.000904	979614	99	0.224861	65592.1
42	0.001007	978728	100	0.241017	50843.0
43	0.00113	977742	101	0.259334	38589.0
44	0.00127	976637	102	0.280356	28581.6
45	0.001426	975397	103	0.303142	20568.6
46	0.001597	974006	104	0.329482	14333.4

47	0.001783	972451	105	0.359886	9610.80
48	0.001979	970717	106	0.394865	6152.01
49	0.002187	968796	107	0.434933	3722.80
50	0.002409	966677	108	0.480599	2103.63
51	0.002646	964348	109	0.532376	1092.63
52	0.002896	961796	110	0.590774	510.940
53	0.003167	959011	111	0.656307	209.090
54	0.003453	955974	112	0.729484	71.8628
55	0.003754	952673	113	0.810817	19.4400
56	0.004069	949097	114	0.900819	3.67772
57	0.004398	945235	115	1.000000	0.364760