

Part IV. Items of General Interest

Notice of Proposed Rulemaking and Notice of Public Hearing

Group Term Insurance; Uniform Premiums

REG-209103-89

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations that revise the uniform premium table used to calculate the cost of group-term life insurance coverage provided to an employee by an employer. These proposed regulations provide guidance to employers who must use the uniform premium table to calculate the cost of group-term insurance includible in the gross income of their employees. This document also provides notice of a public hearing on these proposed regulations.

DATES: Comments must be received by April 13, 1999. Requests to speak and outlines of topics to be discussed at the public hearing scheduled for May 6, 1999, must be received by April 15, 1999. The IRS requests comments on the clarity of the proposed rule and how it may be made easier to read.

ADDRESSES: Send submissions to: CC:DOM:CORP:R (REG-209103-89), room 5228, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to CC:DOM:CORP:R (REG-209103-89), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC. Alternatively, taxpayers may submit comments electronically via the Internet by selecting the "Tax Regs" option on the IRS Home Page, or by submitting comments directly to the IRS Internet site at http://www.irs.ustreas.gov/prod/tax_regs/comments.html. The public hearing will be held in Room 2615, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Betty J. Clary, (202) 622-6070; concerning submissions and the hearing, Michael Slaughter, (202) 622-7190 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

This document contains proposed amendments to the Income Tax Regulations under section 79 of the Internal Revenue Code. These proposed regulations revise the uniform premium rates used to calculate the cost of group-term life insurance provided to employees. Section 79 generally permits an employee to exclude from gross income the cost of \$50,000 of group-term life insurance coverage. The remaining cost of the group-term life insurance is included in the employee's gross income to the extent it exceeds the amount, if any, paid by the employee for the coverage. The cost of the group-term insurance is determined on the basis of five-year age brackets prescribed by regulations.

The uniform premiums are set forth in the regulations in Table I entitled "Uniform Premiums for \$1,000 of Group-term Life Insurance Protection." Section 1.79-3(d)(2). A table was initially published on July 6, 1966 (31 FR. 9199), and the table was revised on December 6, 1983 (48 FR. 54595). The December 6, 1983 revision was made to reflect changes in mortality since 1966, using 1975-1979 mortality experience reported by the Society of Actuaries. The December 6, 1983 revision extrapolated the reported mortality experience to 1982, and reflected a revised gender mix and load factor. For years after 1988, new factors were added to the table for ages above 64, pursuant to section 5013 of the Technical and Miscellaneous Revenue Act of 1988. See 57 FR. 33635 (July 30, 1992).

The IRS and Treasury have concluded that the section 79 table should be revised because there has been a significant improvement in mortality since the 1975-1979 period (even after taking into account the projection to 1982). This conclusion is based on information on the

group-term life mortality experience of 13 issuers covering the 1985-1989 period, as compiled by the Society of Actuaries, as well as other data on mortality trends. The IRS and Treasury contemplate continuing to monitor future changes in mortality experience and would expect to update the section 79 table when a significant change in the cost of group-term life insurance is evidenced.

Summary of Regulations

These proposed regulations revise the uniform premium table used to calculate the cost of group-term life insurance coverage provided to an employee by an employer. The proposed new table has been developed based on mortality experience for individuals covered by group-term life insurance during the 1985-1989 period, as reflected in a Society of Actuaries report. The mortality rates were adjusted for improvements in mortality from 1988 (the weighted midpoint for the data used in the 1985-89 study) through 2000, based on the same rates of mortality improvement that were adopted by the Society of Actuaries Group Annuity Valuation Table Task Force for the period 1988-1994. Separate mortality rates were derived for males and females, and the section 79 table reflects a 50/50 blend of the male and female mortality rates. The resulting mortality projections have been adjusted to reflect a 10 percent load factor. The uniform premium rates under the proposed revision would be lower in all age groups than the rates under the current section 79 regulations.

Comments are requested regarding the proposed premium rates.

Proposed Effective Date

These regulations are proposed to be effective July 1, 1999. A special effective date rule applies to any policy of life insurance issued under a plan in existence before the proposed general July 1, 1999 effective date if the policy would not be treated as carried directly or indirectly by an employer under section 1.79-0 of the Income Tax Regulations using the current section 79 table. In this case, if the special rule applies, the policy would continue to be treated as not carried directly

or indirectly by an employer until the first plan year that begins after July 1, 1999.

Because income imputed under section 79 is generally subject to FIC Atax which is withheld from the employee's pay, and because the withholding often is applied periodically from payrolls during the year, many employers will need to modify their payroll-based withholding systems and related information collection procedures before the effective date. The proposed July 1, 1999 effective date is intended to provide the benefits of having the lower income inclusions take effect as early as possible while avoiding the additional costs that would arise if employers did not have adequate time to implement the changes before the effective date (which would necessitate special adjustments to correct overwithholding that would have occurred after the effective date and before implementation of the new table).

Comments are requested regarding the proposed effective date.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations and, because these regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comment and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to electronic and written comments (a signed original and eight (8) copies) that are timely submitted to the IRS. The IRS and Treasury specifically request comments on the clarity of the proposed regulations and how it may be made easier to understand. All comments will be available for public inspection and copying.

A public hearing has been scheduled for Thursday, May 6, 1999, at 10:00 a.m. in Room 2615, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Due to building security procedures, visitors must enter the 10th Street entrance, located between Constitution and Pennsylvania Avenues, NW. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 15 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the "FOR FURTHER INFORMATION CONTACT" section of this preamble.

The rules of 26 CFR 601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time devoted to each topic (a signed original and eight (8) copies) by April 15, 1999.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these regulations is Betty J. Clary, Office of the Associate Chief Counsel (Employee Benefits and Exempt Organizations). However, other personnel from the IRS and the Treasury Department participated in their development.

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Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:
Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.79-3 is amended as follows:

1. Paragraph (d)(2) is revised.
2. Paragraph (e) and (f) are redesignated as paragraph (f) and (g) respectively.

3. New paragraph (e) is added.

The revision and addition read as follows:

§1.79-3 Determination of amount equal to cost of group-term life insurance.

* * * * *

(d) * * *

(2) For the cost of group-term life insurance provided after June 30, 1999, the following table sets forth the cost of \$1,000 of group-term life insurance provided for one month, computed on the basis of 5-year age brackets. See 26 CFR 1.79-3(d)(2) in effect prior to [DATE FINAL REGULATIONS ARE EFFECTIVE] and contained in the 26 CFR, part 1, edition revised as of April 1, 1998, for a table setting forth the cost of group-term life insurance provided before July 1, 1999. For purposes of Table I, the age of the employee is the employee's attained age on the last day of the employee's taxable year.

TABLE I. – UNIFORM PREMIUMS FOR \$1,000 OF GROUP-TERM LIFE INSURANCE PROTECTION

5-year age bracket	Cost per \$1,000 of protection for one month
Under 25	\$0.05
25 to 29	.06
30 to 34	.08
35 to 39	.09
40 to 44	.10
45 to 49	.15
50 to 54	.23
55 to 59	.43
60 to 64	.66
65 to 69	1.27
70 and above	2.06

* * * * *

(e) *Effective date*—(1) *General effective date for table.* Except as provided in paragraph (e)(2) of this section, the table in paragraph (d)(2) of this section is effective July 1, 1999.

(2) *Effective date for table for purposes of section 1.79-0.* A policy of life insurance issued under a plan in existence on June 30, 1999, which would not be treated as carried directly or indirectly by an employer under §1.79-0, taking into

account the Table I in effect on that date, shall continue to be treated as a policy that is not carried directly or indirectly by the employer until the first plan year beginning after the general effective date in paragraph (e)(1) of this section.

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Robert E. Wenzel,
*Deputy Commissioner of
Internal Revenue.*

(Filed by the Office of the Federal Register on January 12, 1999, 8:45 a.m., and published in the issue of the Federal Register for January 13, 1999, 64 F.R. 2164)