IRS Limitations on Percentage of Pension Benefit That Can Be Left to a Non-Spouse Continuance Beneficiary

A member can leave a continuance benefit to a non-spouse beneficiary by selecting retirement benefit option 2, 3, or 4. However, the IRS limits the percentage of a pension benefit that can be given to a non-spouse continuance beneficiary. The maximum percentage of a benefit that can be left to a non-spouse beneficiary is determined by the "adjusted age difference" between the member and the beneficiary (see Treasury Regulation section 1.401 (a)(9)-6). Find the adjusted age difference on the chart below and you'll find the maximum percentage of that member's pension benefit that can be left to a non-spouse continuance beneficiary.

How do you determine the adjusted age difference?

First, determine the age difference between the member and their beneficiary in a calendar year (*i.e.*, the difference between the years of birth, so you get a whole number). Next, if the member is less than 70 years old when they retire or exit DROP, the difference between 70 and their age on their birthday in the year of retirement/designated DROP exit is subtracted from the age difference you found in the first step.

For example, a member born in 1960 wants to leave a continuance to their child who was born in 1985. Their age difference would be 1985 – 1960 = 25. If the member turns 57 on their birthday in the year they retire or exit DROP, then the adjusted age difference is calculated as follows:

(1985-1960) – (70-57) = 25 – 13 = **12**

(Difference between Member and Beneficiary's Years of Birth) – (Difference between 70 and Member's Age as of Retirement or Designated DROP Exit Date) = **Adjusted Age Difference**

The adjusted age difference corresponds to a maximum percentage, according to the following table:

Age Applicable Differential	Percentage	Age Applicable Differential	Percentage
10 years or less	100%	28	62%
11	96%	29	61%
12	93%	30	60%
13	90%	31	59%
14	87%	32	59%
15	84%	33	58%
16	82%	34	57%
17	79%	35	56%
18	77%	36	55%
19	75%	37	55%
20	73%	38	54%
21	72%	39	54%
22	70%	40	54%
23	68%	41	53%
24	67%	42	53%
25	66%	43	53%
26	64%	44 & greater	52%
27	63%		

In the example above, the maximum continuance benefit the member can leave to their child is 93%. As you can see from the chart above, the outer limits are:

10 year adjusted age difference = maximum is 100%

44+ year adjusted age difference = maximum is 52%