March 24, 2015

CAB 15-3

Milliman

CLIENT ACTION Bulletin
Employee Benefits

PBGC Requires Plan Sponsors to Report Risk Transfer Activities

SUMMARY

Single-employer and multiemployer defined benefit plan sponsors that undertake "de-risking" activities must now disclose information about annuity purchases or lump-sum window offerings when they pay their premiums to the Pension Benefit Guaranty Corporation, beginning with the filings for the 2015 plan year. For sponsors of plans with calendar year plans, the first filing with the de-risking disclosures is due Oct. 15, 2015. The PBGC's rationale for this new requirement is that there currently is no available comprehensive, detailed, and reliable source for information on risk transfer activities, which can result in substantially reduced premium payments to the agency.

DISCUSSION

Reporting of Lump-Sum Windows

The premium payment instructions for 2015 clarify the definition of a lump-sum window to mean a "temporary opportunity to elect a lump sum in lieu of future annuity payments that is offered to individuals meeting specified criteria who would not otherwise be eligible to receive a lump sum."

If the plan provided one or more lump-sum windows during the current or prior premium payment year, the premium payment filing must disclose the number of participants who were eligible to elect the lump sum and the number who elected the lump sum. The information requested applies separately to participants in pay status and to participants not in pay status (such as terminated vested participants).

Participants who were eligible for a lump-sum window but whose lump-sum window offer letter was undeliverable may be excluded from the count of those eligible to elect a lump sum. In addition, if exact counts are not readily available, plan sponsors may report reasonable estimates based on readily available plan records.

Plan sponsors should disregard:

- any lump-sum window that requires participants to make an election less than 60 days before submitting the premium filing;
- lump sums offered in the course of routine plan operations, in conjunction with a plan termination, upon a participant's separation from service, or as part of an early retirement incentive program; and
- lump sums paid under mandatory cash-out provisions.

Reporting of Annuity Purchases

Where plan sponsors purchased a group annuity for a specified group of individuals during the current or prior premium payment year, the disclosure entails reporting on the number of participants in and not in pay status when the annuity was purchased.

Plan sponsors should disregard:

- annuities purchased less than 60 days before the premium filing is made; and
- annuity contracts purchased in the course of routine plan operations or in conjunction with a plan termination, or contracts that remain an asset of the plan (commonly called a "buy-in").

Reasonable estimates based on readily available plan data may be reported if exact counts are not readily available.

ACTION Defined benefit plan sponsors should review the PBGC's 2015 premium payment instructions and, if pension de-risking activities occurred for the 2014 and/or 2015 plan years, they should be prepared to respond to the disclosure requirements. For calendar-year plans, the premium filing deadline for 2015 is Oct. 15, 2015, and will cover de-risking activities from Jan. 1, 2014, through Aug. 16, 2015.

For additional information about the PBGC's new de-risking activity disclosure requirements, please contact your Milliman consultant.