

DB digest

Best Practices for Pension Administration

KEY DATES

3/31/17

If the 2017 AFTAP is not certified by 3/31/17, the 2016 AFTAP minus 10 percentage points is deemed to apply for purposes of triggering IRC section 436 benefit restrictions.

4/1/17

Benefit restrictions commence if the 3/31/17 certified AFTAP or deemed AFTAP is less than 80%. Benefit restrictions continue until a subsequent certification determines that the plan's funded ratio is sufficient to remove them.

4/1/17

Deadline to make the first Required Minimum Distribution to terminated vested participants who attained age 70-1/2 in 2016 and to participants older than 70-1/2 who retired in 2016.

4/15/17

Due date for first required quarterly contribution for 2017, either through cash contributions of a signed election to use available carryover and/or prefunding balances.

4/30/17

For plans with more than 100 participants, provide the 2016 annual funding notice to participants, beneficiaries, labor organizations representing participants and beneficiaries, and PBGC, if applicable. Include a supplement regarding the effect of MAP-21/HATFA segment rate stabilization.

4/30/17

Provide a notice of IRC 436 benefit restrictions to plan participants if the 2017 certified AFTAP or deemed AFTAP is less than 80% as of 4/1/17 and notice was not previously provided.

Lump-sum windows: Administrative tips to consider

Nicholas N. Pieper

Defined benefit (DB) plan lump-sum windows have grown in popularity during the last few years as a de-risking strategy and as a way to lower a plan's headcount for Pension Benefit Guaranty Corporation (PBGC) premiums. A lump-sum window is a temporary opportunity for pension plan participants to convert their vested accrued monthly benefit to a one-time lump-sum payment. This is not only useful from a plan sponsor perspective, but can also be favorable from the participant's perspective as well. A lump-sum window may appeal to participants who need cash for personal reasons (participants should use cash for non-retirement purposes under extenuating circumstances only). Plan participants may also want to invest their lump-sum payments by rolling them into separate retirement accounts, such as an IRA. The lump-sum window could be a "win-win" for both plan sponsors and plan participants.

Plan sponsors should consider some helpful administrative tips before launching a lump-sum window project:

- Identify the eligible population
- Clean up the data
- Seek legal counsel assistance
- Determine the duration of your window
- Set a manageable deadline
- Deliver an announcement mailing
- Anticipate participant inquiries
- Create the ultimate lump-sum window packet
- Prepare for special circumstances

Identify the eligible population

It is necessary to identify your population of eligible lump-sum window participants beforehand. Conceivably, the plan could be amended in regard to issues such as commencement provisions, which could affect the overall outlook of the eligible population. Some questions to keep in mind: Will your window be limited to terminated vested participants only? Will beneficiaries with a deferred benefit also be eligible for the window? Will you exclude participants who have a qualified domestic relations order (QDRO)? Are you worried that paying a large number of lump sums might trigger a "settlement" that would require special legal or accounting procedures? Answering these questions early will make it easier to deal with people who are upset that they weren't offered a lump sum.

Clean up the data

Once your population has been identified, it is important to ask, "How clean is the data?" Missing employment dates and other forms of bad data are roadblocks that may cause problems when calculating benefits. The plan's actuary should be involved throughout the planning process to assist with data issues. Bad address information and participants who are unreachable communicatively can also create delays. Running participant and address searches using two or more sources is a solid precautionary approach to keep your data up-to-date.

Seek legal counsel assistance

Keeping open communication with a legal counsel representative when finalizing project decisions is a wise strategy to promote a healthy window. Are there plan amendments in effect that would interfere with the lump-sum window? Will a new plan amendment need to be drafted prior to engaging in the window? Including a legal counsel throughout the process will add another layer of security.

Determine the duration of your window

Lump-sum windows typically range anywhere between 30 and 90 days. The length of your window depends on your overall budget and access to resources. Participants need time to respond, so keep in mind that a shorter window gives them less time to make elections. Similarly, on the administrative side, shorter windows require faster turnaround for processing of payments and follow-ups for missing information. Remember that allocating more time promotes a higher “take rate” and subsequently a more successful window.

Set a manageable deadline

Once the duration of your window is known, a deadline needs to be specified. Be sure that your election packet clearly states the date by which all documents and required forms are to be submitted, qualified, postmarked, and/or returned. If this information is not crystal clear, participants will be confused. Of the participants who submit their paperwork at the last minute, determining who will enter the window will be simple if a solid deadline is defined.

Deliver an announcement mailing

Giving your window participants a “heads up” will give them a chance to get their ducks in a row, especially if your window is short. An announcement mailing will ensure that the actual mailing is no surprise to anyone. Participants may question the authenticity of mailings that are unexpected. An announcement mailing can minimize participant doubts and prevent unnecessary “Is this legit?” phone calls. The announcement mailing should include: A summary of what to expect, deadlines, FAQs, contact information, and a phone number. Will your eligible window participants have access to printable versions of their paperwork online? It may be useful to have a reminder section reminding

participants to have readily available copies of important documentation (e.g., birth certificate) if they are considering participating. In general, a thoroughly planned communication strategy will have a positive impact on the overall project take rate.

Anticipate participant inquiries

After your announcement mailing has been delivered, participants will begin to have questions about the lump-sum window. Make sure you or your call center have adequate information to handle participant inquiries on the frontline before, during, and after the closing of the window. This includes: eligibility for the window, knowledge of required documents, and familiarity with deadlines. Also be sure the phone number has a prerecorded message in case of high call volumes.

Create the ultimate lump-sum window packet

The “bread and butter” of your project is the lump-sum window packet that you will distribute to eligible participants. Your packet is the biggest contributing factor to ensure the overall success of the program. For starters, the packet should be sent in an envelope that captures the participants’ attention, and includes a return address in case it does not reach the participant. Sending via “certified mail return receipt requested” enables you to be notified when participants have received their packets. The envelope is especially important if the plan has merged from several different companies. Having all the various company logos as well as a message like “IMPORTANT PENSION INFORMATION” clearly emblazoned on the envelope lowers the likelihood of the mailing being thrown out as junk mail.

On your election guide, the title and introduction should get right to the point. What is the opportunity about? What choices do they have? What are the pros and cons? Within the packet, it is crucial to use participant-friendly language that is easily understandable. Provide a checklist for necessary items, and a section of instructions and deadlines. The instructions should methodically walk participants through completing the election forms, while reminding them of the consequences of returning incomplete paperwork. The deadline should be repeated throughout the packet in headers, footers, and bodies of text where applicable.

Election forms should allow participants to include contact information (phone number, email address, etc.) so their information is up-to-date. Make sure the election forms are single-sided if they need to be scanned. You may also consider using a different color paper for the pages that need to be returned. Are the forms easily detachable? Do the forms state which pages should be returned versus retained? Using a larger font makes the forms easier to read. These are all ways of keeping the experience of the participant in mind.

Lastly, adding a separate booklet containing required legal notices is the cherry on top of the lump-sum sundae. It is required by law that participants are notified of items such as the following partial list:

- An explanation of payment options
- Disclosure of right to defer distribution
- Special tax notice regarding plan payments and rollovers

Prepare for special circumstances

When the window has closed, and the payments are ready to be transmitted to the trust, be sure not to rest too easy. There will likely be participants who were not accepted into the window, and they will plead their cases. A participant might have been staying at a vacation home for the duration of the window, and missed the mailings sent to a permanent residence. Others may claim that they provided complete forms, with the exception that they could not present a birth certificate because it was lost during an earthquake or something along those lines. Be prepared for anything; a claims procedure is something you will want in effect prior to engaging in this type of project.

Weird stuff is bound to happen. Take for example a participant who elects a lump sum and dies prior to receiving the payment. Will there be a provision or procedure set to handle this scenario? What if a participant contests the value of the lump sum shown in the individualized packet? Having a template for a detailed calculation worksheet will bring peace of mind when reassuring participants that the amounts are accurate.

How about recalculations? It's likely that someone will have the wrong date of birth on file, causing the lump sum amount to change. This would require a recalculation and a new lump sum window packet to be sent. Sending follow-up communications and keeping a tracking sheet will allow the plan administrator to manage these special cases and keep them on the radar.

In order to minimize administrative error, have a solid scanning protocol in place. When participants send in their returned forms, take into consideration things like notary seals—are they raised and will they be readable once scanned? Required documentation like birth or marriage certificates could come in as a half-sheet, and could get lost during the scanning process. Knowing what to expect will reduce administrative error, confusion, and prevent having to ask the participant to resend paperwork.

Summary

Lump-sum window projects can be quite a production. Preparation is more than half the battle, and a solid foundation will keep the train on the tracks. A Milliman consultant can help you anticipate problems and ensure that your lump-sum window project is an overall success. In addition, Milliman can perform all aspects of the project's administration, if needed.

CONTACT:

Nicholas N. Pieper
nicholas.pieper@milliman.com

IMPORTANT NOTE

The retirement plan administration industry has experienced increased activity recently, including mergers, acquisitions, divestitures, etc. Milliman continues to be committed to providing independent retirement plan administration services as a core competency.