



## De-Risking Qualified Defined Benefit Plans – Lump Sum Windows for In Pay Retirees and Beneficiaries

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*In 2015, the Treasury Department and the IRS released Notice 2015-49 establishing their intent to amend regulations to disallow Qualified Defined Benefit Pension Plans from replacing annuities with a lump sum payment or other accelerated forms of distribution. In early 2019, the Treasury Department and the IRS released Notice 2019-18 which states that they no longer intend to amend the regulations.*

### Why should I care?

With this new guidance Qualified Defined Benefit Pension Plans now have the option to eliminate the mortality risks involved with retirees and beneficiaries who are currently receiving annuity payments (in pay status participants) via lump sum windows. This can lower costs when compared to purchasing annuities for in pay status participants. Plans currently covered by the PBGC can also reduce the flat-rate PBGC premium they pay, currently \$80 per participant in 2019.

### What can I do?

You may amend the Plan to include a one-time window during which in pay status participants have the option to convert their annuity benefit into a one-time lump sum payment and forfeit their annuity. If there are concerns over large amounts of lump sum money being paid out at the same time, the amendment to the Plan can include caps on the amount of money individual lump sums can be paid out (i.e., lump sums only allowed at or below \$25,000).

### What other considerations are there?

- This will require the consent of the retiree's spouse if they are currently receiving a joint and survivor annuity.
- When offering a lump sum the normal forms of benefit must be offered as well. This could result in some participants switching from joint and survivor annuities to larger single life annuities.
- Insurance companies can lower prices on possible future annuity purchases based on the assumption that healthier retirees will elect to keep their annuity as opposed to electing the lump sum benefit.