

# DB digest

Best Practices for Pension Administration

## UPCOMING KEY DATES

### 1/14/14

Post 2012 Form 5500 basic plan information and 2012 Schedule SB (Actuarial Information) on the plan sponsor's existing Intranet site, if 2012 Form 5500 was filed on 10/15/13; if filed prior to 10/15/13, the deadline is 90 days from the date of the filing.

### 1/31/14

Deadline to submit IRS Form 5300 (Application for Determination for Employee Benefits Plan) for a determination letter for individually designed defined benefits plans of plan sponsors with EINs ending in 3 or 8 (Cycle C).

### 3/31/14

If the 2014 AFTAP is not certified by 3/31/14, the 2013 AFTAP minus 10 percentage points is deemed to apply for purposes of triggering IRC section 436 benefit restrictions beginning 4/1/14 and until a subsequent certification determines whether the plan's funded ratio is sufficient to remove the benefit restrictions.

## Lump-sum windows: It's in the details

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Thanks in part to recent offers by GM and Ford, more and more pension plan sponsors are looking seriously at offering a one-time lump-sum cash-out opportunity (or "window") to plan participants. Defined benefit (DB) pension plans continue to be expensive for plan sponsors, with actuarial and administrative costs. A one-time lump-sum cash-out opportunity offers many advantages to both participants and plan sponsors: Participants can take the present value of their pension and invest in their own retirement account, plan sponsors can reduce participant-driven fees associated with maintaining the plan, and future plan liabilities may be reduced.

It sounds great, but before declaring, "Sign me up!" and forging ahead, there are practical administrative issues to look at to ensure that the final results match your company's business goals:

- Condition of data
- "Missing" participants
- Choosing the optimal lump-sum window
- Milestones and other deadlines
- Participant communications
- Expectations and definition of success
- Activity after window is closed

This article briefly examines these issues, offering practical steps and considerations to keep things moving forward.

## How clean is your data?

Do you have gaps in service history for your plan participants? Do you have participants with birth dates showing as "01/01/1900" or "01/01/9999"? Do you have participants with the same (or no) Social Security number? Anomalies in the data can make a big difference. Without good data, you may run the risk of overpaying or underpaying a participant. When deciding whether to offer a lump-sum window, consider the cost and time that may be required to review and clean the data.

## Do you have "missing" participants?

Finding missing participants can sometimes be extraordinarily difficult. Prior to sending communication pieces, it is recommended that a full address search and death audit be conducted for all participants. For participants with new addresses, a step may be needed to verify the search results are correct. For participants reported as deceased, it may be necessary to search for the beneficiary and determine whether a preretirement death benefit is payable. Performing the audits and updating participant and beneficiary records prior to offering a lump-sum window will help to minimize delays.

**What type of window do you want to choose?**

When a plan sponsor chooses to offer a temporary lump-sum option to participants, the plan document must be amended to state what the window of time will be for the offer. The open period of a lump-sum window typically ranges from 30 to 90 days. Choosing the right timing for your window depends on the amount of time and resources you are able to dedicate. Shorter windows usually require significantly more resources to ensure efficient processing and quicker turnaround. Choosing a longer window doesn't mean the same issues won't be encountered, but the schedule itself will offer more time to complete all the processing required.

**What is your definition of deadline?**

When planning for a lump-sum window, it is important to be clear to participants and your administration provider regarding deadlines and other milestones. Not understanding the implications of how

deadlines are worded can cause confusion. For example, the table below shows what could happen when using different "complete by" language.

**How will you communicate your offer?**

Determining how to get the message to participants is important. Your goal is to reach all eligible participants as effectively as possible, providing them with the information needed to make an informed decision. Your communication can be as simple as sending the election kit with the required forms and notices, or you can do a full communication blitz with announcements, materials from possible rollover institution(s), and reminder notices. Once your strategy has been decided, make sure to allot enough time to prepare, fulfill, and distribute your communication materials. The more mailings that are to be completed, the more collaboration and lead time will be required for you and your vendors.

Be prepared for returned mail. No matter how many address audits you do, there will be returned mail. Having a strategy to deal with it before kits are mailed can be critically important. Returned mail can be approached in a few ways:

- Note that the packet was returned and take no further action.
- Perform address searches and send new packets to all results listed.
- Perform address searches with multiple search vendors and send new packets to all results listed.

Inevitably, no matter how many address searches are performed, some participants will have to be considered "missing." Mailing new packets to all potential addresses will likely lead to more returned mail, but can sometimes result in finding the missing participants.

DEADLINE	WHAT IT MEANS	WHAT IT DOES FOR YOUR PROJECT
Forms must be complete and returned by MM/DD/YYYY.	All forms must be completed accurately and received by the administrator along with all required documentation on or before the stated deadline.	<ul style="list-style-type: none"> <li>• Incomplete and inaccurate forms are not processed and participant does not get paid.</li> <li>• Enables setting a hard deadline.</li> </ul>
Forms must be complete and postmarked by MM/DD/YYYY.	Complete and accurate forms and documentation may be received after the deadline, but the postmark must be on or before the deadline.	<ul style="list-style-type: none"> <li>• May delay the close of your project.</li> <li>• Delay in post office delivery (holidays, weekends, lost in the shuffle) may extend the processing of elections.</li> <li>• Envelopes will need to be saved for review for all late incoming mail.</li> </ul>
Forms must be submitted and postmarked to the address by MM/DD/YYYY.	Forms must be submitted and postmarked on or before the deadline, but they don't have to be complete or accurate. Additional time will be allowed for corrections to be submitted.	<ul style="list-style-type: none"> <li>• Will delay the close of your project.</li> <li>• Potential delays in post office delivery.</li> <li>• Envelopes will need to be saved for review.</li> <li>• New deadline must be set for return of corrected forms.</li> </ul>

## What is your expectation of the project?

When deciding whether to extend a lump-sum offer to participants, it is important to set reasonable expectations and goals. How will you define the success of the project? What steps will you take to increase your “take-rate” percentage? Setting expectations prior to opening the window will help to determine how successful the project is. Keep in mind, however, that there is never a guarantee with voluntary lump-sum offers that participants will either want to take a distribution or will be proactive in completing paperwork on time.

## After the window has closed

There is another wrinkle to prepare for: When the window has closed and the payment file has been submitted to the payment trustee, the project is still not over. At that point, the denial process commences. Be prepared for participants who will want to receive the distribution after the deadline has passed, and the reasons they may have for missing it. Sometimes the packet didn't get to them in a timely fashion, or the forms were submitted via fax upside down, or the participant threw the packet away but then heard from someone else about the offer, etc. Things happen. Depending on your plan's claim procedures and how the denials and appeals process is done, you may be working through related issues for months.

## Conclusion

When contemplating a one-time lump-sum distribution opportunity for your participants, a lot of planning and prep work will need to be done as part of the final decision process. Costs and resources will need to be allocated prior to the project, during the window processing period, and after the window has closed. Knowing in advance the issues or concerns that may come up will help your company make a more informed choice on whether this option is a viable decision.

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