

WORKPLACE INSIDER | INVESTOR PERSPECTIVE

DEFINED BENEFIT PLAN DE-RISKING EVENTS

Are you currently or have you in the past been a participant in a defined benefit pension plan?

Is the business that sponsors your defined benefit plan implementing a de-risking event (e.g., plan termination, lump-sum window, annuity buyout, etc.)?

Do you know when your pension benefits are payable and what distribution options (e.g., annuity payments or lump sum) are available?

When was the last time you studied the annual funding notice for your pension plan?

As a current or former defined benefit plan participant or beneficiary, you may soon be facing a crucial decision. Based on current industry trends, it seems it's not a question of "if" but "when" will your employer take measures to de-risk your defined benefit pension plan. De-risking is a strategy plan sponsors can use to help reduce volatility and limit their long-term liabilities they have with respect to their pension plans, while improving their corporate balance sheets. Sponsors can employ a range of tactics to de-risk their plans, which may require you to make irrevocable elections that affect your benefit. If pension plan de-risking is on your plan sponsor's radar, it should be on yours as well. Talk to your financial advisor now. Preparation is important, because if your pension plan gives you an election to make, the decision window is often short.

Your financial advisor: Helping you evaluate your options

As you look at your specific situation, you and your financial advisor should discuss several questions, including but not limited to the following:

How would I know if my pension plan is going through a de-risking event?

Your employer is required to give you notice of any de-risking steps. The type of notice depends on the type of de-risking activity.

If your plan is terminating, the plan sponsor must provide you with several notices prior to termination as mandated by the Pension Benefit Guaranty Corporation (PBGC).¹ The notices include:

- Notice of Intent to Terminate
- "204(h)" Notice of Significant Reduction in Future Benefit Accruals
- Notice of Plan Benefits
- Notice of Annuity Information (for benefits distributed in the form of an annuity)

If your plan is frozen, the plan sponsor must give you a Notice of Significant Reduction in Future Benefit Accruals as described above and either an updated summary plan description (SPD) or summary of material modifications (SMM) that explains the change to the plan.

If the plan is offering a one-time, lump-sum payment window, you will receive a communication packet that outlines the terms of the offer, describes the election process and deadlines, and contains the necessary forms to facilitate any elections you must make. Plan sponsors have a lot of discretion both when setting the duration of the lump-sum window and when they will provide notice of the lump-sum offer to affected participants. For example, DuPont gave a three-week advance notice of a lump-sum window for a group of selected pension participants that ran from September 12 through October 21, 2016 (six weeks). In contrast, notice of a lump-sum offer by Mead Johnson to certain pension participants came on the first day of the lump-sum window that closed seven weeks later.

If the plan has contracted for an annuity buyout (also called a pension risk transfer), you must receive a contract, policy or certificate describing the benefits you are entitled to² and an updated SPD or SMM that reflects the amendment to the plan.³ You may receive other communications from the plan sponsor that explain the reason for the pension risk transfer to an outside insurance carrier.

How can I learn more about my defined benefit plan?

There are three key informational documents your employer is required to give you: an easy-to-understand summary of your plan (an SPD), your benefit statement, which reflects the benefits you have

¹ PBGC, Standard Termination Filing Instructions

² DOL Reg. §2510.3-3(d)(3)(ii)

³ Lee v. Verizon Communs., Inc., 2015 U.S. App. LEXIS 14588 (5th Cir. Tex. Aug. 17, 2015)

accrued, and an annual funding notice, which contains a wealth of information on the overall health of the plan.

A checklist: Getting ready to meet your financial advisor

Your financial advisor can help you review your plan documents, notices and de-risking communications to help you better understand your situation. Before meeting with your financial advisor, you may want to gather some important information:

- Plan notices or de-risking information you may have received
- Your most recent statement from your defined benefit plan
- Your annual funding notice
- The website address for your plan (if applicable)
- Any plan documents you have in hard copy, such as the SPD (your human resource department can provide a copy if it is not available online)
- The telephone number of your company's benefits administrator so you and your financial advisor can confirm information and clarify any points that may be unclear
- Your tax advisor's contact information so that you may quickly resolve any tax-related questions that may arise

Next steps

- Review your available documentation, notices and other plan information with your financial advisor to better understand your defined benefit plan and any upcoming benefit changes or elections you may need to make.
- Study your benefit statement's description of the total benefits you have earned and whether you are vested. Also make sure your date of birth, date of hire and the other information included are correct as this information affects your benefit calculation.
- Talk to your tax advisor about potential tax and penalty implications associated with your distribution options (e.g., taking a lump-sum distribution versus taking a stream of annuity payments).
- If you are faced with a lump-sum window, work with your financial advisor to execute the appropriate forms and authorizations based on your decision.
- Save all documentation for your files.

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