Milliman

DB digest

Best Practices for Pension Administration

UPCOMING KEY DATES

4/1/13

If the 2013 AFTAP is not certified by 3/31/13, the 2012 AFTAP minus 10 percentage points is deemed to apply for purposes of triggering IRC section 436 benefit restrictions beginning 4/1/13 and until a subsequent certification is sufficient to remove the benefit restrictions.

4/1/13

Deadline to make the first required minimum distribution to terminated vested participants who attained age 70½ in 2012 and to participants older than 70½ who retired in 2012.

4/30/13

Provide the 2012 annual funding notice to participants, beneficiaries, labor organizations, and PBGC, if the plan has more than 100 participants.

4/30/13

For plans that paid an estimated variable-rate premium to PBGC for 2012 by 10/15/12 and had more than 100 participants, file the final 2012 PBGC Comprehensive Premium Filing and pay reconciled amounts. For plans with fewer than 100 participants, pay the 2012 flat-rate and variable-rate premiums to PBGC.

To download a PDF of the DB calendar, please go to:
http://tiny.cc/j8hmuw

Lost participants: Better late than never?

David Benbow, CPC, QPA, QKA

Our March 2012 issue discussed the advantages of locating term-vested participants and starting their pensions before normal retirement age. Sometimes that's easier said than done. As Baby Boomers retire, plan sponsors are seeing more and more people come forward with old letters describing pension benefits. Because no electronic records existed when the Boomers were in their prime, today's plan administrators have to play detective to determine if pensions are owed, lump sums were paid, or whether annuity contracts were purchased.

Most plans have participants who simply cannot be located no matter how hard you try. Especially when a plan existed before the electronic age, you may only have partial information:

SSN	Missing
Name	RJ Smith
Birth Date	08/26/1928
Accrued Benefit	$127.42
Normal Retirement Date	09/01/1993

You've tried for decades to locate R.J. Smith, but with limited data, the best you can do is to wait for him or her to come forward and ask about their pension.

But what will you do if such lost participants come out of the woodwork after age 65 (or even after age 70½)? You may find yourself in unfamiliar territory with potential tax complications for the participant and compliance problems for the plan. Knowing how to handle these situations can keep your pension plan on solid ground and reduce the need for aspirin-free pain reliever down the road.

Your decisions in these situations should be driven by the age of your lost participant and the specific provisions of your plan document. You should review your plan document, and if it is vague or silent, you may wish to add clarifying wording addressing these late payment situations. Furthermore, while the correction methods that follow are generally acceptable, plan sponsors in these situations may wish to consider submitting a VCP filing to receive the IRS's blessing.

Scenario 1: Beyond normal retirement age, but under age 70½

"Hello, my name is Ronald Smith. I worked for you back in the 1960s and I think I may have a pension from your company."

At long last, the mysterious R.J. Smith comes forward. It'll be nice to finally cross this one off the list. The question is, should he get retro payments back to normal retirement date (NRD) or should he start his pension at a current date? It depends on your plan wording. If the plan allows for a retroactive annuity start date (RASD), the participant should have a choice to receive retro payments (with interest) or to start at a current date with an actuarial increase. If your plan requires participants to start their pensions at NRD, you should follow that rule and provide retro payments with interest at a reasonable rate.

Note that if Mr. Smith starts his pension at a current date, an actuarial increase should be applied even if the plan sends out suspension of benefits notices. The suspension notice is only valid while the participant is still working. If there is a gap between NRD and benefit commencement when the participant is no longer working, the benefit must be actuarially increased for late payment.

Scenario 2: Beyond age 70½

"Hi, I'm Rosie Smith. My friend said she's been receiving retirement benefits from you and I wonder if I have a pension as well."

This situation is a little more complicated than the previous example because starting her pension at a current date is out of the question. Ms. Smith is beyond her required beginning date (RBD, or April 1 of the year following age 70½), and by law her pension can start no later than her RBD. This means that she'll definitely have to receive retro payments with interest. How much will depend upon your plan's wording.

If your plan requires participants to start their pensions at NRD, then you'll be paying a lot of retro payments. Otherwise, her pension should be actuarially increased to her RBD and she would get retro payments with interest from her RBD to a current commencement date. If your plan allows RASDs, Ms. Smith would get a choice between these two approaches.

Unfortunately, being over age 70½ also means the participant will have to pay a 50% penalty on late payments at tax time. You should make sure that Ms. Smith knows about the tax penalty so that she can plan accordingly. It's difficult news to deliver, but it would encourage her to set part of her retro payment aside for taxes. If the correction is submitted under VCP, you can request that the tax be waived.

Scenario 3: Beyond the grave

"Hello, I'm calling because my husband, Richard Smith, passed away and I was wondering if there was a death benefit."

Here's where things could get trickier still. If Mr. Smith died after the date he was required to begin his pension (NRD or RBD, depending upon your plan language), then those payments should be calculated as though he had been alive to receive them.

For example, if Mr. Smith died at age 72 and the plan did not require him to start his pension until his RBD, his pension should be actuarially increased from NRD to RBD, then he should get retro payments from RBD to date of death as if he had actually gotten the payments when he was alive (you may have to make an assumption about which option he would have elected). Any retro payments after date of death would be equal to the amount of the ongoing survivor benefit.

Which option should we assume the participant elected?

Depending on the available options in your plan, you may assume the participant would have chosen the normal form of payment. Alternatively, you could assume the most generous option (such as 100% joint and survivor for a married participant or a certain and life annuity for an unmarried participant).

What kind of interest should you provide?

The guidance provided in Rev. Proc. 2013-12 has made it clear that the plan's actuarial equivalence rate should be used for crediting interest to missed payments.

Beware of Section 436

Keep in mind that if your plan is in benefit restrictions under Section 436, you may have to make a corrective contribution to the plan in order to pay corrective distributions. This is also outlined in Rev. Proc. 2013-12 and is intended to keep the plan's funded status from getting worse as a result of making corrections.

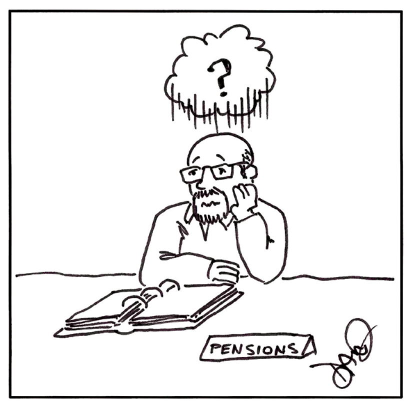
In summary

When "lost" participants become "found" participants after age 70½, you might find yourself wishing that they had remained lost. Determining what should be paid, whether there should be retro payments, interest adjustments, or actuarial increases can be extremely complicated. A Milliman consultant can help you wade through the details and process their payments. There are also considerations such as warning the participant of tax penalties associated with starting after age 70½. Thankfully, these situations don't come up every day, but having a consistent (and compliant) approach to rare occurrences will help your pension plan stand up to auditors' scrutiny.

David Benbow, CPC, QPA, QKA, is a client service manager with the Minneapolis office of Milliman. Contact him at david.benbow@milliman.com.

CAPTION CONTEST

Last issue's winner.



HOW IN THE WORLD ARE WE GOING TO PAY FOR ALL THIS?

—RICH PAVLEY

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