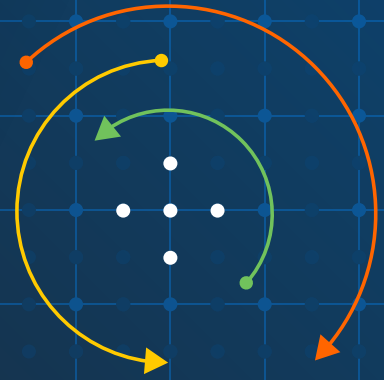


Completing a data readiness audit



The situation

A company with a well-funded defined benefit (DB) pension plan was considering a plan termination within the next five years. Its Milliman consultant conducted a preliminary data readiness audit that identified a number of areas where the plan's data was deficient and would prevent an orderly plan termination:

- **Missing mailing addresses.** As part of the plan termination process, a number of required notices must be sent to each plan participant, along with information about their benefits and election forms to complete and return.
- **Incomplete benefit information.** The plan had several dozen terminated vested participants whose benefits had not been precisely determined when they terminated employment.
- **No current pay information.** The plan's benefits were frozen many years ago, but current pay information is required for the government filings that are part of the plan termination process.
- **No death audit.** Over the years, the plan sponsor had occasionally checked to make sure that all of the retirees were actually alive, but had never taken this step for terminated vested participants or for the beneficiaries of retirees who had elected Joint & Survivor annuities.

The solution

Milliman crafted a multiyear timetable to address each of the deficient data areas in turn. By spreading the process out over a longer time period, the company was able to devote staff to the project without interfering with other important human resources (HR) initiatives.

- **Mailing addresses.** A commercial locator service was able to quickly find valid mailing addresses for the majority of the missing participants. The locator service then undertook a more thorough (and expensive) search, which turned up a few more individuals, and the company reached out through its own employees to find most of the remainder. From an initial missing population of about 60, these efforts cut the number down to just four. For the remaining years until the plan terminates, the company has adopted a proactive policy to follow up promptly on any Annual Funding Notices that are returned as undeliverable to ensure that its address list remains up to date.
- **Benefit calculations.** The company hired a summer intern to dig through old paper records and compile salary histories for each of the terminated vested participants with incomplete benefit amounts. The company also located older versions of the plan document to verify the plan provisions that had been in effect when each participant terminated. Using this information, the company's Milliman consultant was able to calculate and certify all of the missing benefit amounts.
- **Current pay information.** A simple change to the regular payroll feed enabled Milliman to receive current pay information for all of the active participants.
- **Death audit.** The death audit itself was an easy and inexpensive process, but it required the company to have the name and Social Security number of each individual. The company rehired the summer intern to search through each retired member's paper benefit election files and compile this information. Out of about 625 retirees with Joint & Survivor annuities, it turned out that more than 100 beneficiaries were no longer alive. The Milliman consultant estimates that by purchasing Single Life annuities rather than Joint & Survivor annuities for these retirees, the company is likely to see savings in excess of \$1 million!

The outcome

Having tackled these time-consuming and labor-intensive projects well in advance of the actual plan termination, the plan sponsor gained comfort that data issues would not hold up the plan termination process. Complete and accurate data also results in avoiding any possible overpricing or overpayment of the plan termination. As a final check, the company's Milliman consultant conducted a "dry run" exercise of compiling the plan termination materials and government filings, to ensure that when the time comes to terminate everything will go smoothly.