

# Path to Defined Benefit Plan Termination

When contemplating plan termination, plan sponsors need to understand the complexity of the termination process.

Our experts make the process as predictable and smooth as possible.

## Financial Prep

- Additional cash needed?
- Financial statement impact, including settlement charge
- Investment strategy
- Engage annuity consultant

## Plan Design Prep

- Allow lump sums?
- Consider recent legislation
- Design replacement benefits

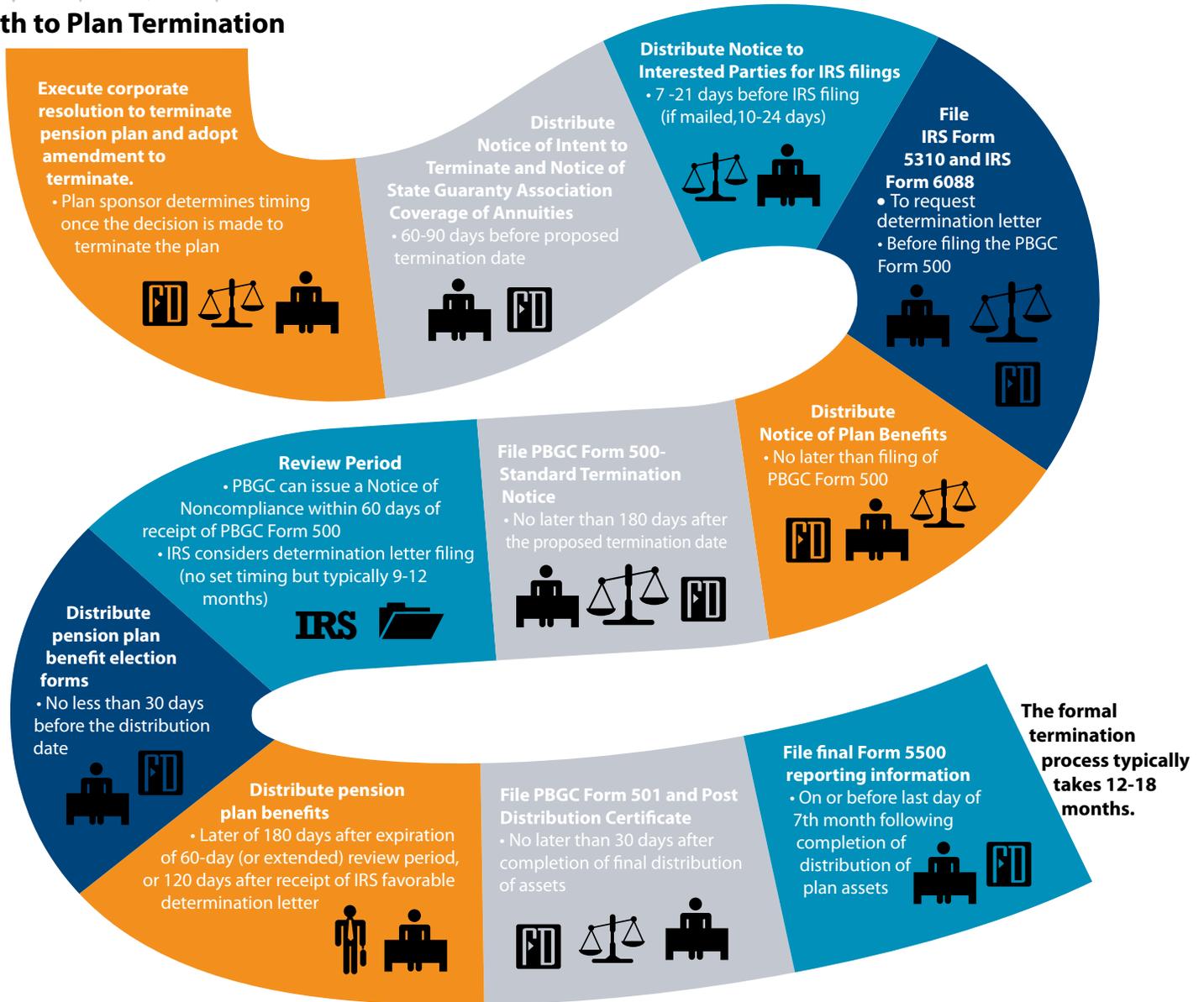
## Data Prep

- Quality of data
- Obtain current addresses
- Search for missing participants
- Qualified Domestic Relations Orders

## Employee Communication Prep

- Technical communication of termination
- Include any benefits enhancements and other communications/PR considerations

## Path to Plan Termination



## Who is Responsible / Involved?



Assumptions – 1) Assumes request made for IRS Determination Letter (strongly encouraged but optional) 2) Does not apply to Distress Termination or Involuntary Termination. 3) Plan is frozen. Steps to freeze plan not included.

The overview of the defined benefit plan termination process is merely a summary and should not be relied on exclusively to determine your actions. You should discuss your situation with your actuarial consultant, accountant, attorney, and others to plan your strategic approach.

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## How Findley Davies Can Help With Your Plan Termination Decision

The pension plan termination process is complicated, detailed, and intense. However, our team has completed **hundreds** of plan terminations and works to make the process as predictable and smooth as possible. We assist clients with the following:

- Consult on decision-making process of whether and when to terminate
- Educate plan sponsor/administrator and others about the process
- Assemble the team including Findley Davies' professionals, as appropriate. Team members typically include:
  - Plan Sponsor/Plan Administrator
  - Communications Professional
  - Actuary
  - Benefits Administrator
  - Attorney
    - ERISA
    - Employee Relations
  - Investment Advisor
  - Trustee
  - Annuity Consultant
  - Potential Annuity Providers
- Determine team member roles
- Coordinate process including timeline
- Assist in finding lost participants
- Perform benefits administration including calculations, mailings, collection of election forms, and coordination with trustee
- Plan for contingencies and help sponsor address specific issues
- Document process in case of audit

## How to Prepare for Defined Benefit Plan Termination

As the nation inches out of the recession, organizations continue to make major changes to the way they deliver benefits to their employees – particularly, retirement benefits. It's difficult to pick up any major newspaper or business journal without reading about a large organization freezing their defined benefit pension plan. Pension plans are undertaking either a 'soft' freeze (meaning the plan is not eligible to future participants) or a 'hard' freeze (meaning current participants' benefits will no longer grow). While some organizations' long-term strategies may be to maintain the freeze, many plan sponsors consider the freeze one step on the pathway to eventually terminating the plan.

Are you considering terminating your frozen defined benefit pension plan? This document outlines some issues you (the plan sponsor) may want to consider before formally initiating the termination process.

Only a few plan sponsors have actually terminated their plan in the last several years due to the significant level of underfunding caused by: 1) Extremely low long term interest rates driving up plan liabilities, and 2) A decline in plan asset values. In the next few years, if the yield on long term bonds increases (thus lowering plan liabilities) and asset values rise (or at least don't decline), it is likely that more plan sponsors will fully terminate their defined benefit plans.

## Preliminary Considerations

Plan sponsor should consider all financial aspects of terminating the plan, including:

- Extra contributions needed to fund up to the plan termination liability, and
- The impact of the termination on the company's financial statement, including any settlement costs.

It is critical that plan sponsors determine how to invest plan assets during the termination process. In addition to taking formal action to terminate the plan, the plan's investment policy may need to be changed from a long-term investment horizon to a shorter term horizon (12-18 months). The plan sponsor should consult with both the plan's investment manager and actuary to assess the financial risks associated with both the liabilities and assets during this process in order to minimize unfavorable surprises at the time of distribution.

In most cases, participant benefit liabilities are distributed through the purchase of a group annuity contract. Therefore, engaging an annuity consultant/broker to obtain annuity bids and assist in selecting the insurance carrier offering the group annuity contract should be done early in the process.

Consider these questions as you prepare:

- **Are plan provision changes desirable?** For example, it may be less costly to offer non-retired participants the choice of a lump sum distribution rather than provide a benefit over their lifetimes under a group annuity. Typically, most participants will elect a lump sum distribution if they are given a choice. Spousal consent is, however, required for a lump sum election, except for small payments. Also, plan sponsors may need to amend plans to comply with recent legislation. These amendments should be made prior to the formal action taken to terminate the plan.
- **What is the objective of the termination?** Perhaps your organization believes in providing retirement benefits, however you cannot sustain the unpredictability associated with the defined benefit pension plan. Is a defined contribution plan being created, or enhanced, to deliver the level of retirement benefits appropriate for your company?
- **What do you want your employees to think, feel, or do about this benefit change?** Direct, succinct communication is a must to ensure your employees understand why you are making this change, and in some cases, what happens if you don't make this benefit change. Personalize your communications so your employees can answer the age-old question: "What's in it for me?"

## Data Preparation

Ensuring you have updated, correct participant data is key in preparing for a plan termination so final accrued benefits can be calculated early in the plan termination process. Analyze the data to determine:

- What, if any, additional data needs to be supplied to the actuary or other administrator to calculate all necessary benefits.
- Whether all Qualified Domestic Relations Orders ("QDRO") have been provided.
- If the plan's participant census information, including addresses, are up-to-date.
- Whether retiree deaths are being monitored.

## Standard Termination Process

The Pension Benefit Guaranty Corporation (PBGC) has established strict procedures which a plan sponsor must follow in order to terminate a pension plan. Under a Standard Termination, the plan sponsor commits to funding all accrued benefits under the plan. For pension plan sponsors in or near bankruptcy, a Distress Termination may allow the plan sponsor to fund less than all accrued benefits. [The process for a Standard Termination takes about a year; however, assuming a sponsor wishes to obtain a determination letter from the IRS, the actual time to complete the termination of the plan may take longer \(12-18 months\).](#)

The termination of a pension plan falls under the jurisdiction of the Pension Benefit Guaranty Corporation (PBGC), a government agency created in 1974 by the Employee Retirement Income Security Act.

If a determination letter is not being sought, a termination timeline would resemble the following:

### Amendments/Directors Resolution

Event	Deadline
Distribute Notice of Intent to Terminate to all plan participants.	60-90 days prior to proposed termination date
<ul style="list-style-type: none"><li>• Provide Notice of Plan Benefits to all plan participants.</li><li>• Submit Form 500 to PBGC with certain information on the plan termination.</li></ul>	180 days following proposed termination date
PBGC review period. PBGC can issue a Notice of Noncompliance if there are procedural errors.	60 days following filing of Form 500
<ul style="list-style-type: none"><li>• PBGC is deemed to have approved the plan termination process.</li><li>• Plan administrator must proceed with distributing benefits. If a request for a determination letter has been filed before the Form 500, the plan administrator can wait to distribute benefit until 90 days following receipt of the IRS determination letter.</li></ul>	180 days following the PBGC review period
Plan administrator must file Form 501 certifying the distribution has been completed.	30 days following distribution
Form 5500 and PBGC premium filings and payments continue	Throughout the termination process

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