



DB digest

Best Practices for Pension Administration

UPCOMING KEY DATES

7/25/12

File PBGC Form 200, if the plan sponsor failed to timely make a 7/15/12 required contribution that resulted in more than \$1 million in cumulative unpaid contributions (The filing is made by the plan sponsor or a contributing plan sponsor's parent corporation.)

7/28/12

Provide a Summary of Material Modifications (SMM) to participants if the plan adopted amendments for the plan year ending 12/31/11, unless the information was included in an updated and timely distributed Summary Plan Description (SPD)

7/31/12

File Form 5500 for the prior plan year using DOL EFAST2 or file IRS Form 5558 to extend Form 5500 filing due date by 2-1/2 months (to 10/15/12) (A posting of the Form 5500 basic plan information and Schedule SB on the plan sponsor's existing Intranet site is required within 90 days of filing Form 5500.)

7/31/12

Deadline to file IRS Form 8955-SSA or file IRS Form 5558 to extend the filing deadline for IRS Form 8955-SSA

9/30/12

Deadline for completion of the 2012 actuarial valuation and certification of the final AFTAP (requiring sponsor election of the 2012 plan year's interest rate and asset method), unless the AFTAP was "range" certified (If the AFTAP is not certified by this date, the AFTAP is deemed to be less than 60% for the remainder of the plan year.)

Defined benefit plan statements: Getting by or adding value?

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Background

Section 105 of the Employee Retirement Income Security Act (ERISA) sets forth the requirements for providing benefit statements to participants and beneficiaries. Section 508(a) of the Pension Protection Act of 2006 (PPA) amended Section 105. In this article, we will summarize the PPA benefit statement requirements related to defined benefit (DB) plans and explore some considerations to help you determine the best alternative for both plan sponsors and plan participants.

Section 508(a) of the Pension Protection Act of 2006

DB statements must be furnished to each active participant with a vested benefit at least once every three years. Because the PPA statement requirements are effective for plan years beginning after December 31, 2006, the first PPA statement should have been provided during the period of the 2007-2009 plan years. Additionally, a statement must be provided to a participant or beneficiary upon written request, and this can be limited to one statement in any 12-month period.

The amounts provided on the statements should be based on the latest available information. The PPA requires that statements contain the following items: 1) accrued benefit, 2) vested benefit or the earliest date when benefits become vested, and 3) if

used to determine benefits, an explanation of permitted disparity or the floor offset arrangement.

Statements must be written to be understood by the average participant. To help plans comply with this requirement, model statements were to be developed by the Secretary of Labor a year after the enactment of Section 508. However, to date, we are still waiting on those model statements.

Last, the PPA also provides for an alternative notice. In lieu of delivering a statement every three years, a participant notice can be provided at least once a year. The notice would explain the availability of the statement and how it could be obtained. This notice can be delivered in either a written, electronic, or other form that is reasonably accessible by the participant.

Considerations

The statement requirements set forth by ERISA and the PPA are the minimum conditions that need to be met for compliance. Nevertheless, you should assess whether just following these minimum requirements is appropriate for your plan participants. Do you sponsor a cash balance, hybrid, or employee contributory plan? Does your plan offer a lump-sum option or utilize permitted disparity or a floor offset arrangement? What about the composition of your

workforce—is it skewed toward those nearing retirement age? Finally, what about your total compensation/benefit communication strategy and objectives? These are just some considerations when determining whether to provide statements more frequently than every three years as required.

As mentioned previously, the PPA's "must haves" on a statement include only a few elements. Again, you should ask yourself whether the requirements are sufficient to effectively communicate benefit information. The PPA requires statements to include the accrued benefit and the vested accrued benefit or the earliest date when benefits become nonforfeitable, but in some cases you may want to give more detail. For example, if your plan has graded vesting, you may wish to include a vesting percentage, years of vesting service, and/or a full vesting date in the statement. Likewise, in providing the accrued benefit in a cash balance plan, you may want to consider including pay and interest credits to show the value of the employer contributions made. Furthermore, including projected benefit amounts at the earliest retirement date or normal retirement date could assist participants in retirement planning and may help to retain talent in your overall HR strategy.

The purpose of explaining permitted disparity or a floor offset in the statement is to notify the participant that the benefit amounts displayed will fluctuate over time, affecting final payment amounts. Of course, without model statements, a good faith effort should be made in drafting these explanations. You might also want to consider additional disclaimers for lump-sum values, the display of estimated amounts, or any assumptions made with projections. A caveat stating that the information on the statement should not be relied upon for distribution purposes

could be beneficial, especially when the data used to calculate statement data is questionable. Another option is to provide only the minimum statement requirements and direct participants online to model benefits and obtain more benefit detail. These are just a few examples to consider when determining statement content that go beyond the requirements of the PPA and ERISA.

One gray area is whether frozen plans are exempt from statement requirements. Recent indications from the Department of Labor (DOL) signal that statements are required for frozen plans. As of yet, no formal guidance has been released on this issue; however, it remains on the DOL's long list of items to address.

Field Assistance Bulletin 2006-03 addresses how PPA statement requirements can be met by providing a website instead of furnishing an actual statement. To use this option, the alternative notice described earlier must be provided to participants and beneficiaries at least annually. This notice should: 1) explain that statement information can be obtained at any time from a secure website, 2) detail how to access content on the site, and 3) mention that a paper version of the benefit statement information can be requested and obtained free of charge. Like an actual statement, the notice should be written to be understood by the average plan participant. Use of the alternative notice is yet another option to consider when reviewing your statement process.

After deciding whether to deliver actual statements or alternative notices, you will have to determine how to furnish the material. If by mail, consider whether the material will be sent as a standalone communication piece or as part of a combined mailing such as with the annual funding notice, a defined contribution statement, or a total compensation/benefit statement.

If by electronic media like email, an assessment must be made as to whether this form is reasonably accessible by participants and if measures exist to reasonably ensure actual receipt.

Summary

As a plan sponsor, you should evaluate your statement procedures to ensure they not only satisfy legal requirements but also provide the appropriate level of benefit information to your plan participants. In many cases, this could mean providing more than what is required. Also, statement time is an opportunity to communicate the value of the plan to the participant and to reinforce that the contributions made by the company are a valuable part of the overall compensation package.

A Milliman consultant is available to help you understand the statement requirements and discuss your options.

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