



IRS closing some lump sum windows

ANTOINETTE PILZNER | TAX AND BENEFITS CHALLENGES | JUL 09, 2015

Today, the IRS released Notice 2015-49, stating its intention to amend Treasury Regulations to prohibit defined benefit pension plans from offering lump sum window programs to retirees in pay status. These programs offer retirees currently receiving annuity payments to elect to receive a lump sum distribution representing the actuarial present value of their remaining pension benefits. Noting that lump sum window programs shift both investment risk and longevity risk from the pension plan to the retiree, the Notice essentially states that, under the amended Treasury Regulations, any pension plan offering a lump sum window to a retiree or beneficiary receiving annuity payments would lose its qualified status.

Only lump sum window programs for retirees in pay status that were formally adopted, communicated to participants, covered by a private letter ruling or determination letter, or collectively bargained **before** today (July 9, 2015) would be protected.

The Notice does not address lump sum window programs offered to former employees not yet in pay status; presumably those lump sum window programs will still be permissible. However, until the IRS releases the proposed regulations, we won't know for certain.

These changes are presumed to be in response to a trend that began in 2012, in which pension plan sponsors attempt to reduce their risk and ongoing expenses by offering lump sum payouts to retirees and former employees not in pay status. Once a retiree or former employee takes the lump sum payout, the pension plan has no future liability to that individual, is no longer required to pay PBGC premiums for that individual, and is no longer required to incur administrative costs for keeping track of that individual. The retiree or former employee assumes the risk of investing the lump sum payout so that it can provide ongoing income for the individual's lifetime. The transfer of this risk to the retiree has been the subject of extensive commentary, including consideration by the Department of Labor's ERISA Advisory Council during this year's term.



ANTOINETTE PILZNER

I've been on the accountant's side, the employer's side, and the attorney's side of employee benefits over a span of more than 30 years. So I understand, and can help you identify and evaluate, the financial, human resources, administrative, and business aspects of the employee benefit plan decisions you face.

[Read More](#)