

Publications

De-Risking Pitfalls – Annuity Contracts, Plan Terminations and the Excise Tax on Surplus Assets

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The costs of sponsoring a defined benefit pension plan are often associated with financial risk, and the transfer or management of such risk, known as “derisking,” has become more common. Financial risk via the continued sponsorship of a defined benefit pension plan comes in many forms: the increased life expectancy of plan participants; the uncertainty associated with investment rates of return; prospective changes in interest rates; and changes in a plan’s funded status.

De-risking can address these financial risks through either “in-plan” (e.g., investment management) or “out-of-plan” (e.g., lump-sum window) strategies. A common out-of-plan strategy is to de-risk by purchasing an annuity contract from an insurance company, which shifts financial risk from the plan sponsor to the annuity provider. In the article linked below we provide additional information on these matters.

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