

Publications

IRS Ends Lump Sum Windows for Individuals in Pay Status

ATTORNEYS & PROFESSIONALS

Elizabeth Thomas Dold

edold@groom.com

202-861-5406

David Levine

dlevine@groom.com

202-861-5436

PUBLISHED

09/08/2015

SOURCE

Taxes - The Tax Magazine

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On July 9, 2015, the IRS issued Notice 2015-49, which prohibits the use of lump sum payments to replace lifetime income being received by retirees under defined benefit pension plans, effective in large part as of such date. This lump sum window approach—which has been increasing in popularity over the last several years following a line of private letter rulings that expressly sanctioned this approach (often referred to as the Ford/GM rulings)—has been a method favored by plan sponsors to manage the ever-increasing costs of maintaining a defined benefit plan. Under this so called de-risking strategy, the plan sponsor would amend its plan to allow a participant to elect a lump sum payment that was not otherwise available under the plan terms for a specific period of time. Now this window approach will be limited to individuals not already in pay status (*e.g.*, deferred vested participants), which still has value but will no longer provide a solution for addressing pension liability for retirees in pay status. A brief summary of the de-risking strategies is set forth in the attached article, followed by a summary of the IRS guidance, and action steps for plan sponsors.

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