

Publications

Lump Sum Windows for Retirees Back in Play

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For years, plan sponsors of defined benefit plans have been undertaking various strategies to align the plan benefits due with the plan assets, so-called de-risking opportunities. One popular strategy is to temporarily offer a lump sum distribution to participants, which removes the ongoing liability from the plan (and eliminates costly Pension Benefit Guaranty Corporation premiums). This is commonly referred to as a “lump sum window.”

Initially, following the two key private letter rulings in this area issued in 2012, these lump sum windows extended to retirees in pay status. In 2014, the Internal Revenue Service (IRS) again issued a line of similar rulings in 2014 in relation to plan amendments that permitted a retiree in pay status to convert his or her annuity to a lump sum benefit. But all that changed in 2015, when the IRS issued Notice 2015-49, which effectively eliminated this effective de-risking strategy going forward by stating that it violates the minimum requirement distribution requirements under Section 401(a)(9) of the Internal Revenue Code of 1986, as amended (Code). Now, nearly four years later, the IRS has issued Notice 2019-18 (Notice), which supersedes the 2015 notice and provides, until further guidance, that the IRS will not assert a Code Section 401(a)(9) violation as a result of a plan amendment to offer lump sums to retirees. So, for now, retiree lump sum windows are back in play!

A summary of the Notice is set forth in the article linked below, followed by a review of lump sum windows and what to consider if one is implemented.

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