Milliman

DB digest

Best Practices for Pension Administration

KEY DATES

7/15/17

Due date for the second required quarterly contribution for 2017, either through cash contributions or a signed election to use available carryover and/or prefunding balances.

7/29/17

Provide a Summary of Material Modifications to participants if the plan adopted amendments for the plan year ending 12/31/16, unless the information was included in an updated and timely distributed Summary Plan Description.

7/31/17

Deadline to obtain a qualified accountant's audit report or limited scope audit to include in Schedule H as an attachment to 2016 Form 5500, if there are more than 100 eligible participants, unless an extension is filed.

7/31/17

Deadline to file 2016 IRS Form 8955-SSA (Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits), unless an extension is filed.

7/31/17

Provide a notice describing the amount of the vested accrued benefit at normal retirement age to terminated vested employees who were reported on 2016 Form 8955-SSA, unless an extension is filed.

9/15/17

Due date to make a final contribution to satisfy the 2016 minimum funding requirement or to make any contribution to be included on 2016 Form 5500 Schedule SB.

Fiduciary responsibilities: Wanted dead or alive

Verna Brenner, QKA, QPA

An increasingly important part of a plan sponsor's fiduciary responsibility is the requirement to monitor where plan participants and beneficiaries reside, as well as their life status.

- Retirees and beneficiaries who have died can continue to receive pension payments, which can result in an overpayment predicament for the plan sponsor. Implementing a process which includes continuous death monitoring can help to eliminate or minimize overpayments. Plan sponsors must hold the assets of the plan in the trust for the benefit of all participants, and they are not only authorized but legally obligated to recover any amounts that were paid improperly to deceased participants in order to ensure that this money is available for benefits that are due other participants under the terms of the pension plan.
- Plan sponsors are also required to keep track of terminated vested participants and to pay benefits at the plan's specified normal retirement age or the IRS required minimum distribution (RMD) age of 70½. Knowing where to contact them can make the process seamless. With an address search process in place, plan sponsors can effectively fulfill their fiduciary responsibility to provide participant communications. Such a process would also reduce the Pension Benefit Guaranty Corporation (PBGC) premium costs for terminated participants by making it easier to pay out small benefits. Additionally, having current contact information would allow plan sponsors to communicate with participants in a timely manner regarding their benefits.

Keeping track of retirees

Keeping track of retirees may seem like a simple process because they are receiving pension payments. However, if a family member neglects to report the death of a retiree or beneficiary to the plan administrator, payments could continue for years after the death. Even though electronic fund transfer is promoted as the most convenient way to receive payments in this modern era, it can complicate the issue if the death of a retiree is not reported and payments continue to be deposited to the retiree's account. To help minimize this possibility, careful tracking of the life status of retirees through a continuous death audit is recommended. (See the September 2014 *DB Digest* article "Advantages of a Continuous Death Audit" for more information.) Additionally, returned checks, returned advice/earnings statements, outstanding checks, etc. indicate that the communication chain has been broken, which should result in immediate action on the part of the plan sponsor.

Here are a few strategies for verifying a retiree's life status:

- Social Security Death Master File (SSDMF) audit
- Death searches by third-party search firms specializing in death audits
- Periodic "alive and well" affidavit solicitations

Although the SSDMF is a reliable and easily accessible database of deceased recipients of Social Security benefits, it is not recommended that it be a plan sponsor's only source of information. If the SSDMF is being used as the only source for death information, plan sponsors will miss information for deceased retirees residing in states that are not obligated to report deaths to the Social Security Administration (SSA) due to protected death records. These states no longer disclose state death records unless the deaths were independently reported to the SSA through a "first-party source" like a family, friend, or funeral home.

Third-party search firms (TPSFs) specializing in death audits are another good source. These TPSFs tap the databases of many public entities to search for deceased participants. These entities include the IRS; the Department of Motor Vehicles; local, state, and federal court records; and the SSA. Pension Benefit Information Search Services (PBI) is one of the more commonly used TPSFs. In a recent conversation, Sue McDonald, president of PBI, reiterated how important it is for TPSFs to determine the best approach to locate participants. McDonald went on to say that there is no one-size-fits-all approach when it comes to lost participants. PBI looks for different ways to meet the needs of plan sponsors.

Finally, some plan sponsors chose to perform a periodic "alive and well" affidavit solicitation to verify that their pensioners are alive and well or have passed away. With this type of audit, an affidavit is mailed to a select group of pensioners, typically those over an age threshold, such as age 85. Pensioners receiving the affidavit must complete the affidavit attesting to their living status, and return the signed, notarized affidavit within a certain timeframe to avoid having their pension suspended.

In addition to applying these three audit strategies, plan sponsors should pay close attention when they receive any of the following:

- **Returned pension checks** – Receiving a returned pension check could indicate that the retiree has died or moved to a family member's home or a nursing home. In this situation, steps can be taken, such as suspending payments to the retiree until the location/life status of the retiree can be confirmed through an address/death search.
- **Returned advice/earnings statement and Form 1099-R** – Oftentimes retirees relocate without informing the plan administrator, which results in advice statements being returned. This can be even more difficult to manage because although the returned advice or Form 1099-R was not delivered, payments continue to be deposited into the retiree's account. Plan sponsors should be aware that some banks are no longer providing a routine payment advice statement, while others give the retiree the option to opt out of receiving these statements. For that reason, it is critical to keep in frequent communication with retirees and have a documented process for handling returned mail.
- **Outstanding checks** – Regardless of the payment method (i.e. paper checks vs. direct deposit), plan sponsors are faced with different challenges. Outstanding checks may indicate that a retiree has passed away. A routine audit of outstanding checks issued in consecutive months is a best practice.
- **Electronic funds transfers (EFT) rejects** – EFT rejects can also be an indication that a retiree has passed away. Often, a family member closes the account without informing the plan administrator that the retiree has passed away. This activity should be addressed timely.

The Department of Labor (DOL) has increased its scrutiny of benefit payment practices, including the methods plan sponsors use to search for missing participants. Accordingly, it is crucial that plan sponsors establish and maintain procedures to limit exposure of benefits being incorrectly paid from the plan, thereby providing evidence of due diligence in fulfilling their fiduciary responsibility.

Keeping track of terminated vested participants

Because some plans do not permit participants to defer commencement beyond normal retirement age (NRA), such plans should implement procedures to identify terminated vested participants nearing NRA. Failure to begin a participant's payment as of the RMD has greater consequences. This is a violation of the required minimum distribution rules of IRC §401(a)(9), and as a result puts the qualified status of the plan at risk. Staying in touch with these participants can help when it comes time to start their pension payments.

Proactive guidelines/methods of maintaining contact with participants:

- **Data scrubbing** – Good data can be the solution to many issues faced by the plan sponsor. The DB Digest article "Why good data matters" (July 2016) addresses the importance of good data and various approaches to cleaning up invalid or questionable data.
- **Annual/regulatory mailings** – Addresses of terminated vested participants can also be confirmed through regulatory mailings (i.e., annual funding notices, statements, etc.) once all undeliverable mailings are researched and updated.
- **Upon termination** – The optimal time to remind participants and beneficiaries to update their contact information is during a plan sponsor's daily interactions with them. Another good opportunity is to include clear instructions in the participants' vested notice packages. These instructions should include change of address forms for future use or directions to the plan sponsor's website where addresses can be updated.

Not being able to locate participants and beneficiaries at the opportune time can result in potential administrative burdens.

Milliman's approach and recommendations

Milliman has developed a proven, documented process that has reduced the number of overpayments to retirees, increased the commencement of benefits, and sped up the process of locating missing participants. This process includes continuous death monitoring of all terminated vested participants and retirees as well as routine address searches through consistent administrative practices. However, even after a diligent search is conducted, it is still possible that some participants may not be located. Since the IRS and DOL require the plan sponsor to make a concerted effort to locate participants, it is important for the plan sponsor to be able to document that it has put forth such an effort.

Accordingly, plan sponsors should 1) develop a monthly process to identify participants as they are approaching different plan milestones, such as NRA or age 70½, 2) implement a policy for locating missing participants and make sure the policy is followed diligently, 3) flag records with bad addresses and perform routine address searches until a verified address is obtained, 4) monitor outstanding checks to make sure participants are still alive, and 5) take action to prevent the increase of missing participants by scrubbing data and providing clear/consistent instructions to participants in standard benefit materials advising them of ways to update their address.

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