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BLOG

PBGC to Seek Information on De-Risking Activities in 2015

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If your company has legacy defined benefit pension plan liabilities, chances are good that it engaged in a de-risking activity in 2014, or at least considered doing so. As you may know, “de-risking” is a term used to describe activities taken to lower the financial liabilities associated with defined benefit pension plans. These activities can range from freezing the plan or changing its investment strategy so that its assets align more closely over time with its liabilities, to terminating the plan.

The Pension Benefit Guaranty Corporation (the PBGC) has stated that, beginning in 2015, it will require employers to report certain de-risking activities. Specifically, employers will have to report: (1) offers made to deferred vested participants and retirees to convert their benefits to lump sums, followed by distributions during a “lump sum window”; and (2) the transfer of benefit obligations to an insurance company. These reporting requirements will be part of the PBGC’s premium filing documentation. Unlike plan freezes and investment strategy changes, lump sum windows and annuity buy-outs reduce the number of plan participants, thereby reducing premiums paid to the PBGC. The result is fewer incoming premiums to the PBGC, and a greater concentration of PBGC-covered plans that may be on shaky financial footing, as the healthiest plans are the most likely to de-risk in this way.

The PBGC claims that it is seeking this information to assess its future financial exposure, and that there is no other reliable way to obtain this information. The agency is clearly worried about the adverse selection inherent in these activities, and has put termination audits high on its priority list for 2015.

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Author

Erin Haldorson Weber

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