

A PENSION SPONSOR'S READINESS GUIDE TO PLAN TERMINATION

Part 5 of 5

As we conclude our series of articles, our handy readiness checklist (found in the right column) will allow readers to easily review what was covered in previous articles.

Prepare to Communicate

Communication with employees is critical, especially with the change a plan termination brings. Significant benefit election decisions must be made during legally constrained periods of time, and proactive communication from the outset is wise. Early education regarding changes to the retirement program, the process, and upcoming benefit elections helps set expectations, elevates participants' understanding of their upcoming decisions, enables participants to seek financial advice, and helps reduce peak periods of questions during the limited benefit election period. As a fiduciary, the plan sponsor should be sure that participants are well-informed about these significant financial decisions.

When developing a communication plan, it is essential to include timing, targets (participants, employees, etc.), messages, who will deliver communications, and how communications will be delivered. It's important that the project team develops, agrees to, and precisely executes this communication plan for maximum efficiency and success.

Readiness Checklist

Part 1

- ✓ **START PLANNING NOW**
- ✓ **DESIGNATE THE PROJECT TEAM**

Part 2

- ✓ **CONSIDER FINAL CHANGES AND DESIGN THE PROSPECTIVE RETIREMENT PROGRAM**

Part 3

- ✓ **BE INFORMED ABOUT THE FINANCIAL IMPACT**
- ✓ **DETERMINE THE INVESTMENT STRATEGY**

Part 4

- ✓ **REVIEW THE DATA**

Part 5

- ✓ **PREPARE TO COMMUNICATE**

In all parts of this series, our focus is on standard terminations, and does not cover the rationale and steps for freezing a plan, distress or involuntary terminations.

Best Practices

- **Inform employees of the termination of their defined benefit plan.** Of course, there are legal requirements—formal notice of plan termination must be provided between 60 and 90 days before the proposed termination date. Plan what information to provide and how to provide it.
- **Provide a platform for employees to ask questions and receive answers.** Employees must be able to make informed decisions in a short period of time. With a multigenerational workforce and a wide range of communication preferences, consider using multiple platforms to provide answers in a timely manner throughout the plan termination process.
- **Provide notice at least 45 days before the freeze date.** If a plan is not already frozen, we recommend freezing a plan when it terminates so that if the termination is later voided, whether voluntarily or involuntarily, benefit accruals will not be reactivated.
- **Communicate any new or enhanced replacement program, such as a 401(k) plan or 403(b) plan, when the formal termination notice is provided.** This affects the organization's total compensation strategy, and offers an opportunity to educate employees about other benefits the company provides. (Legally, sponsors are required to inform participants about their distribution options and rights between 30 and 180 days before distribution begins.)
- **Consider communication needs related to other plan sponsor issues.** For example, a union plan will need the union's agreement in order to terminate. Considerations may include union issues, workforce reduction, community issues, or public relations.

A True Story: Communication and timing are essential

A manufacturing company that provided a pension plan to its employees was anticipating being acquired by a larger, financially stronger company that provided retirement benefits through a defined contribution plan. Early in the merger discussions, the manufacturing company decided to terminate its defined benefit plan to simplify the transition to the acquirer's retirement plans. Employees were provided formal notice of the pension termination but, because the merger discussions were confidential, no explanation for the change or description of the replacement retirement program was provided.

Employees immediately expressed disappointment and anger that the pension was being taken away with no explanation and no replacement plan. Employee morale suffered. When the merger was called off, the employer had to scramble to put together a successor program, leaving many employees disenchanted with the employer.

Insight: An employer should carefully consider the timing of communication and what replacement program will be established early in the planning process. When the plan termination is formally communicated, a full description of the replacement plan should be made, communicating as many details as possible about the new program. Communicating termination when the details are still unknown is not advisable.

Putting It All Together

A pension plan sponsor seeking to terminate its plan should first review and understand the implications of the plan termination and then develop a detailed readiness plan and project plan to prepare for the termination process. Establishing timelines with target dates, required deliverables, the responsible team members, and managing the project plan are the keys to success. Our team has assisted hundreds of organizations through the plan termination process, and we offer these key insights to ensure pension sponsors are ready to execute a process that is wise, efficient, and ultimately successful.

- Financial data, communications, and business objectives, as well as market conditions affect any decision about readiness for plan termination.
- Having complete data is advisable before starting the formal termination process.
- Once the decision is made that the plan is ready to start the formal plan termination process, it typically takes 12 to 18 months (or longer).
- The plan sponsor is subject to funding risk until the distribution of all trust assets is complete. Certain investment strategies can help minimize the volatility of your funded status.
- Proactive communication with participants helps to ensure that all compliance and fiduciary requirements are met and to minimize peak periods of questions from participants.
- Plan termination is a process involving federal regulators, insurance companies, benefit calculations, and communication with every participant.
- Understanding staff resources is essential to successfully execute the termination.
- The devil is in the details.
- Having an experienced team of expert advisors is key.
- Proactive readiness planning can minimize and/or remove obstacles or hurdles along the way.

Learn More

You may find more information at www.findley.com and download our [white paper](#) (covering all parts of the readiness guide to plan termination).

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