

Winding down your defined benefit plan

Three steps for terminating
your pension plan

Assemble your team

“On the path to termination, a **well-executed strategy** helps manage costs and the plan’s funded status.”

Once you’ve formed a **termination strategy** for your defined benefit (DB) plan, it’s time to execute it. The plan termination process (including government filings, etc.) can take 12 to 18 months between notice of intent and final distribution of assets. Delays in acting on your strategy could cost you — literally — in the amount required to terminate your plan.

Because your plan’s funded status is at risk until the termination is executed, your DB portfolio should be invested in a way that protects its funded status. That means keeping a handle on your liabilities and corresponding investments to help prevent any new unfunded liabilities from popping up during the time it takes to administer the termination.

Remember: When terminating your defined benefit plan, your first priority is protecting the benefits promised to plan participants and retirees. Second is reducing your financial risk. Use these three steps to help keep your termination plan on track.

Don’t go it alone. Lean on your team to help you execute a DB plan termination strategy that’s accurate, organized and efficient.



Financial advisors

provide independent oversight, coordination and investment guidance throughout process.



An **actuary**

oversees assets and liabilities to help ensure the plan reaches funding goals.



Your **recordkeeper/ third party plan administrator**

maintains plan and participant data, which can often save significant time with partially completed forms and templates.



Tax and legal consultants

help keep timing on track.

18-24
months

12-18
months

3
months

Termination
of plan

Step 1

Set the termination date

Communicate to plan stakeholders and employees

The first step in terminating the plan involves setting the proposed date and sending communications.



Determine the termination date



Deliver board of directors resolution, if needed



Distribute intent to terminate notice



Update plan document

Review and update documents

Does your DB plan include requirements for handling assets once all obligations are met?

Now is a good time to review your plan documents to check.

Throughout the plan termination process, ongoing administration of the retirement plan continues. Update your documents regularly to reflect any changes.



Setting the proposed termination date

To set a date, first evaluate your business and financial goals. How soon will you be able to reach your targeted funded status? If your plan is still active or soft-frozen, when does it make sense to freeze the plan? A financial advisor, in collaboration with other experts, can help you answer these and other questions. An actuary can help you model funded status timing based on market volatility and interest rate change variables. Keep in mind the Internal Revenue Service (IRS) review can take 12 to 18 months, so you'll want to factor this into your planning as well.



Notifications

With a proposed date, you're ready to communicate to employees and other key stakeholders. Some plans require you to submit a resolution to the board of directors indicating your intent to terminate the plan. If your plan requires this, it's a good idea to take this step early in the process, in case there are any board objections.

Next, all affected parties — including plan members, beneficiaries of a deceased members and retirees who are still receiving pension benefits — must be sent written notification of the proposed plan termination date and the impact on benefit accruals. These letters also alert participants that they'll receive an additional written notice of plan benefits in the future.



Tracking down participants

While it can be difficult to locate missing participants, it's an essential part of the process. The Pension Benefit Guaranty Corporation (PBGC) requires a diligent search and specific certification. You'll need to demonstrate your use of a commercial locator within the past six months.

Filing notice

After you've set a date to terminate your DB plan, you're ready to file notice. Two steps must be followed to file with the PBGC:

Step 1

Provide a Notice of Intent to Terminate to affected parties at least 60 days, but no earlier than 90 days, before a proposed termination date.

Step 2

Submit verification of benefits to show the plan has sufficient funds to cover the benefit liabilities. An enrolled actuary must certify this for you.

18-24
months

12-18
months

3
months

Termination
of plan

Step 2

Prove that you can meet your benefit obligations

Submit filing notices

With a proposed termination date set, you're ready to update and value benefits.



Verify participant benefits



Value retirement plan assets and compare to plan liabilities



Provide a Notice of Plan Benefits



File a PBGC notice and required information



File a new IRS determination letter

Verifying benefits

The second phase of termination involves demonstrating asset sufficiency. In other words, you must prove the plan can cover its funding obligations in order for the termination to move forward.

To demonstrate sufficient funding ...



IRS filing

Although it's not required, we recommend filing a new determination letter with the IRS, especially if the plan has been amended since your last letter. The determination letter confirms the qualified status of your plan. Check with your legal and tax advisors to determine the best approach.

Waiting period

Keep in mind, there's a waiting period once these forms have been submitted. The PBGC isn't required to respond, but has up to 60 days to raise any issues, including noncompliance with their procedures. The IRS review of the plan determination letter may last as long as 12 to 18 months.

Once you've proven sufficiency, send a **Notice of Plan Benefits** to participants.

Include information such as:

- ✓ Service and compensation used to determine the benefit amount
- ✓ Benefit amount
- ✓ Estimated present value

18-24
months

12-18
months

3
months

Termination
of plan

Step 3

Distribute plan assets

Finalize date and benefits



Finalize
distribution
date



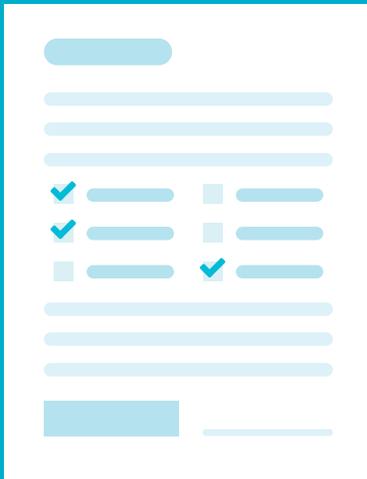
Update participant
benefit values
and projected
retirement funds



Allow
participants
to make
distribution
elections



Select annuity
provider
(if applicable)



The final step in the termination process is the distribution of plan assets.

Early in the distribution phase, participants must elect the form of distribution they wish to receive. In addition, you must send a 45-day advance Notice of Insurer to inform participants of the annuity provider.



Plan liabilities may be settled using two methods, as defined in your plan document:

1 **Lump sum payment, if available**

Participants accept a one-time payment instead of lifetime benefits available under the plan. These lump sums can be paid in cash or rolled over to qualified retirement plans or an individual retirement account (IRA). While this is the cheapest route for employers, it's higher risk for participants because there's a chance they may mismanage their funds. Because of this, it's especially beneficial to work with your financial advisor on educating plan participants about retirement planning, investment strategies and tax implications.

Selecting an annuity provider

2

Annuity purchases

Liabilities and associated assets are shifted out of the plan to an insurance company. The insurer then handles participant payments, which mirror the benefit payments provided through the plan as of the effective termination date — including the option of guaranteed lifetime income.

As long as you haven't received a notice from the PBGC about your defined benefit plan being out of compliance, distribution of retirement assets can begin when:



The termination filing has been with the PBGC for 60 days



The IRS has issued a favorable determination letter

Important final details

If there are any excess funds after lump sums have been paid or an annuity is purchased, you're required to inform the IRS about how those funds will be handled. The rules for how to handle excess funds are typically defined in your plan document.

The final Form 5500 annual report filing must be completed within seven months of distribution, and tax reporting for plan participant distributions must be completed the following January. Work with your service provider to make sure these steps are taken.

Teaming with your financial advisor can help speed up the annuity provider selection process. This choice can be made at any phase of the termination, but you run the risk of needing to send additional notices to plan participants and the PBGC if you wait. Make sure to choose an insurer that has experience dealing with pension risk transfers and is financially strong. Also look for an insurance company with a strong history of customer service and dedicated support for both the employer and participants. Look for an insurer who provides a dedicated point of contact with defined benefit plan benefit expertise for participants to contact with questions or concerns.

Your DOL obligations

As the sponsor of the DB plan, you are the plan fiduciary. Fiduciaries must act prudently and for the exclusive benefit of plan participants when choosing an insurance company to provide the annuity.

As the fiduciary, you should be diligent in your selection process, taking into consideration the financial integrity of the insurer, past investment strategies and the annuity contract cost. All steps should be documented and kept for at least six years.

Ready to terminate?

Terminating a defined benefit plan requires more than just a well-planned investment and funding strategy. Complying with the multitude of government requirements is just as important as terminating the plan in the most cost effective and timely way.



Call us at
800.952.3343, ext. 22681,
or visit [principal.com/DB](https://www.principal.com/DB)
to get started today.



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