

Ready to terminate your pension plan? Probably not as ready as you think...



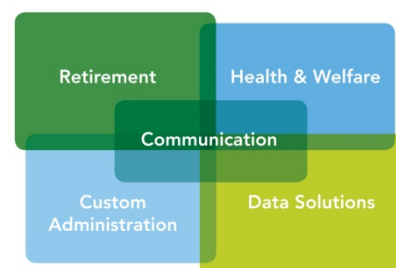
There are many articles detailing investment strategies to be financially ready to terminate your pension plan, but many fall short of providing guidance on how a small investment in data remediation upfront can yield tremendous results throughout the process.

Key Takeaways:

- For Defined Benefit (DB) plan sponsors considering plan termination, the time and effort required for data readiness is often unknown or underestimated.
- Data quality for day-to-day administration is very different than data quality for terminating a plan.
- A plan termination includes many distinct phases, some of which are highly dependent on participant data for a smooth and efficient execution.
- Even for plan sponsors not considering termination, being data ready may produce other significant returns on investment.

This article examines some of the key data requirements at various stages of the plan termination process, mentions a few common problems encountered, and describes some of the benefits of cleaner data that are unrelated to a scheduled termination. For many plan sponsors with closed or frozen DB plans, plan termination and risk transfer is the desirable “endgame,” fulfilling the obligations of the plan while moving the liability off the books permanently. Sponsors of DB plans generally spend significant time and resources understanding future plan contribution requirements and analyzing when a plan may have sufficient assets to fully terminate. However, plan sponsors typically spend much less time—if any at all—understanding the data readiness required for plan termination. Ignoring underlying data needs can be a costly and time-consuming mistake when termination deadlines are looming.

Cleaning plan data may not seem like an urgent issue, particularly if the plan is functioning well. However, the data quality required for termination is very different from the quality needed for ongoing administration. Therefore, plan sponsors would be well served by investing in cleaning their data well before exploring a termination.



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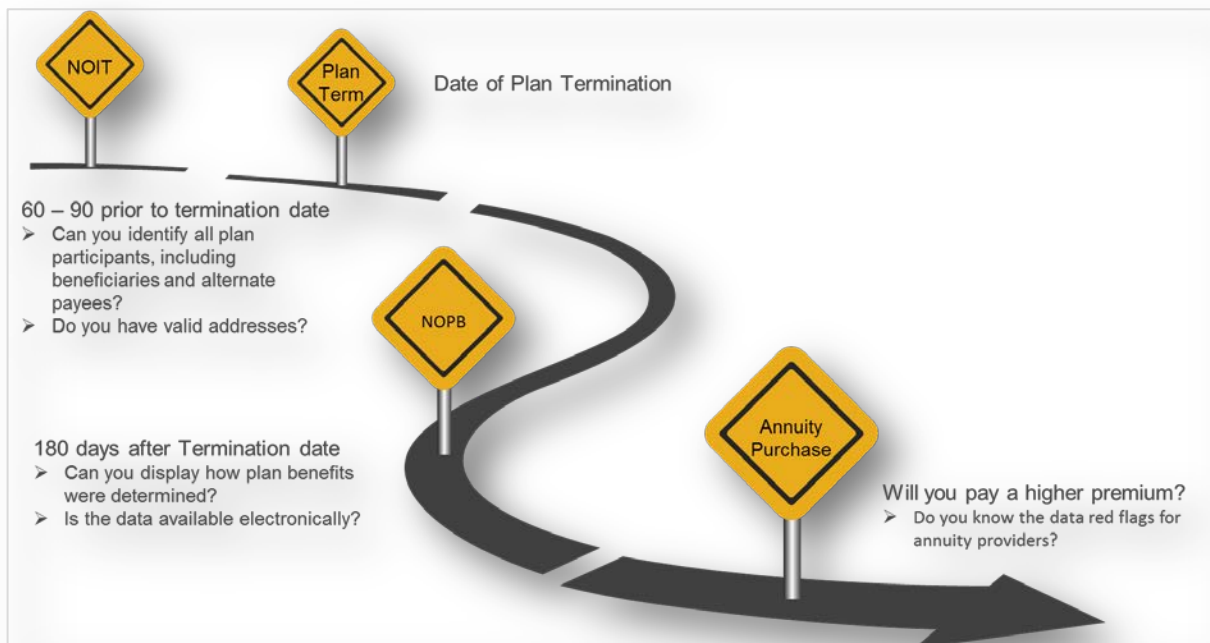
Specializing in a holistic approach to derisking or full plan termination, our focus begins with a proactive approach to remove barriers to a successful event. Contact us today for consultation on how we can support all of your HR benefit needs.

Ongoing administration allows time for manually cleaning records as participants slowly enter the retirement process, whereas a plan termination forces every plan participant into the process at once. As a result, administration teams may not be able to handle the increased manual demand that is caused by a plan termination, pushing regulatory timelines and putting the termination at risk. Plan sponsors can better prepare for a termination, potentially lowering the costs and reducing the timeframe, by proactively cleaning the plan data. In addition, clean data is essential for accurately estimating the costs of terminating the plan, allowing a plan sponsor to make a more informed decision.

Data quality and the plan termination timeline

One key consideration is the amount of time that is required to get participant data to a very high quality level, which requires closing gaps in missing data, locating data not currently in an electronic form, and securing data required for termination that may not be required for successful day-to-day administration of the plan. At various stages of a termination, all participants must be accounted for and contacted, benefit calculations must be performed, and information required by an annuity provider (such as joint annuitant data) must be complete.

The timing for plan termination may be unique to each company’s financial situation, but there are certain macroeconomic factors (such as rising interest rates and capital-market appreciation) that may accelerate the timetable for many plans. Corporate DB plans currently hold more than \$3 trillion in assets, and only a small fraction of that could be absorbed by the insurance market in any given year. *If economic conditions result in a rush of terminations, those who are at the front of the line with clean data to support a timely execution will find themselves in a favorable position.*



A plan's termination timeline will be filled with preparation periods and notice deadlines, but a handful of them are highly dependent on data quality. There are three crucial phases that each require different types of accurate and complete participant data.

- The **Notice of Intent to Terminate (NOIT)** is the initial communication that must be sent to all individuals eligible for plan benefits, 60 to 90 days prior to the plan termination date. To prepare for this notice, plan sponsors must account for all individuals due a benefit from the plan. Common challenges for DB plans include definitive determination of individuals who are due a benefit. For example, former employees who have passed away prior to collecting their plan benefit may have a beneficiary who is now due a benefit from the plan, and should receive a NOIT communication. Contact information for plan participants, beneficiaries of deceased participants, and alternate payees under a qualified domestic relations order (QDRO) should be accurate and up to date. The consequences of poor data at this early stage include delaying the scheduled termination and even the possibility that the Pension Benefit Guarantee Company (PBGC) could question or even cancel the plan termination if too many participants and beneficiaries have not received the notice.
- The **Notice of Plan Benefits (NOPB)** must be sent by 180 days following the plan termination date, again to all individuals due a benefit and all who received a NOIT. The NOPB must provide specific information about the participant's benefit and payment options under the plan, and gives participants an opportunity to review and question the information used to determine their benefit. A practical concern for many plan sponsors is that this specific information is often not available in a usable electronic format. Many plan participants may have terminated employment decades ago, so while the final benefit amount due may have been stored in the current system, the details of the calculation may be stored in paper files or in scanned images. Depending on the size of the population, it can take a lot of effort and time to review those paper files and images in order to pull out the required information for the NOPB notice. As with the NOIT, the PBGC can delay the termination if it finds that the plan sponsor failed to properly issue a NOPB to all affected parties.
- **Assembling information for the annuity carrier** occurs as part of the process of requesting bids from annuity providers (e.g., insurance companies) for the risk transfer of remaining benefit obligations. This stage typically starts during preparation of the NOPB and concludes after verification, because it relies on having accurate and complete benefit calculations available. However, annuity providers will need more information than just the benefit calculations to make informed bids, including the age and gender of those receiving benefits and joint annuitants, and the record of the population's previous eligibility for any lump-sum windows or partial annuitizations (all of which influence mortality calculations). If the information is incomplete, insurers will generally not be able to offer their most competitive bids, and will include a risk premium to compensate for gaps in the data. The winning bidder will also charge the plan sponsor for any data remediation that is required after accepting the risk transfer, and may impose a penalty if the transferred population differs markedly from the pre-bid assessment.

Economic environment changes fast, being data ready can give your company the competitive edge.

If cleaning the data is not performed proactively, problems at any of these stages could expand the 12 to 24 month timeline of a typical termination by 3 to 12 months, possibly more. Understanding your plan's data readiness for plan termination will allow more accurate estimation of the timeframe for executing a plan termination, and can reduce the potential for unwanted surprises in the process.

Benefits of clean data aside from termination

For plan sponsors who may not be actively considering termination, there are ways that cleaner data can lead to ongoing cost savings and generate a return on investment for the effort. Assessing the data and cleaning up existing participant records may reduce manual benefit determinations, which could lead to substantial savings over time. Converting paper documents or digital images to an electronic record-keeping database, proactively and at scale, may also yield benefits beyond the typical staff time spent researching historic records. For example, a death audit of beneficiary and joint annuitant information that has been newly converted to an electronic record-keeping database may result in an improved assessment of a plan's benefit liability. Electronic data audits may help reduce or prevent benefit overpayments as well. Additionally, we all know that business environments and goals can change rapidly. Being data ready is a good investment.

Protection if audited now and in termination

Implications for plan sponsors

DB plans can operate quite effectively with incomplete and inaccurate data, kicking the can down the road for future efforts. But in many cases, remediating data can yield immediate efficiencies with short payback periods for the cleanup effort by decreasing participant escalations and alleviating the burden of time required by a plan sponsor to review participant inquiries. Data cleanup may also reduce the actuarial pension liability. In the case of a potential termination, cleaning the data can make the estimated economics of risk transfer more accurate. For a planned termination, data cleanup is unavoidable—handling it proactively may be more efficient and create less risk to the termination schedule. Although it may seem like a pure maintenance expense, plan sponsors may be surprised to discover the potential return on investment offered by addressing data quality, sooner rather than later.

For more details on plan termination readiness, speak with your Fidelity relationship manager or email Fidelity Benefits Consulting at fidelitybenefitsconsulting@fmr.com.