
Conversions of pensions to lump sum payments are banned

By Editorial Staff Thu, Jul 16, 2015

"If a participant has the ability to accelerate distributions at any time, then the actuarial cost associated with that acceleration right would result in smaller initial benefits," the IRS and Treasury wrote in Notice 2015-49.

In an unexpected move last week, the IRS and Treasury Department acted to ban the commutation of pension annuities into lump sums, asserting that a liquidity option would inevitably result in a reduction of the guaranteed monthly payout.

"If a participant has the ability to accelerate distributions at any time, then the actuarial cost associated with that acceleration right would result in smaller initial benefits, which contravenes the purpose of § 401(a)(9)," the agencies said in [Notice 2015-49](#).

The new amendments to existing regulations "provide that qualified defined benefit plans generally are not permitted to replace any joint and survivor, single life, or other annuity currently being paid with a lump sum payment or other accelerated form of distribution."

As background, the agencies wrote: "A number of sponsors of defined benefit plans have amended their plans to provide a limited period during which certain retirees who are currently receiving joint and survivor, single life, or other life annuity payments from those plans may elect to convert that annuity into a lump sum that is payable immediately. These arrangements are sometimes referred to as lump sum risk-transferring programs because longevity risk and investment risk are transferred from the plan to the retirees."

"Under the regulations, a defined benefit pension plan cannot permit a current annuitant to commute annuity payments to a lump sum or otherwise accelerate those payments, except in a narrow set of circumstances specified in the regulations, such as in the case of retirement, death, or plan termination."

Risk-transfers that were arranged before July 9, 2015 would not be affected by the ruling.

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