

IRS No Longer Prohibits Lump Sum Payouts To Retirees In Pay Status

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The IRS previously issued several Private Letter Rulings permitting defined benefit plans to offer lump sum windows during which retirees receiving annuity payments could elect to receive the actuarial equivalent of their future stream of payments in a lump sum.

This practice, known as “de-risking,” can reduce the liabilities of pension plans by reducing the number of installment payments of the plan. In 2015, the IRS issued guidance explaining its intention to adopt regulations prohibiting the practice of offering lump sum windows to retirees in pay status. However, in recently issued Notice 2019-18, the IRS changed its position, providing that it no longer intends to issue regulations prohibiting this practice.

As a result, defined benefit plan sponsors may once again utilize this de-risking option if doing so is found to be prudent. Contact your employee benefits attorney if you are interested in learning more about what needs to be done to offer lump sums to current retirees.

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