Lump-Sum Benefit Payments

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A. Introduction

Pension plans sometimes give participants and beneficiaries the option of receiving all or part of their pension benefit in a lump-sum payment instead of receiving annuity payments. In accordance with section 203(e)(1) of ERISA and section 411(a)(11) of the Internal Revenue Code (IRC), a pension plan may pay in a mandatory lump-sum distribution a benefit with a present value below a specified threshold. Section 304 of the SECURE 2.0 Act of 2022, Division T of the Consolidated Appropriations Act, 2023, increased the threshold for mandatory lump-sum distributions from pension plans from $5,000.00 to $7,000.00.

PBGC similarly allows participants and beneficiaries to elect payment of their PBGC benefit in the form of a lump sum if the lump-sum value of the PBGC benefit as of DOPT is de minimis (which PBGC, in its regulations, has made consistent with the mandatory lump-sum distribution threshold), so long as annuity benefits are not already in pay status. Spousal consent generally is not required to pay de minimis benefits in the form of a lump sum.

This internal guidance document describes the rules under which PBGC pays all or part of a benefit in a lump sum. With this edition, PBGC increases the de minimis lump-sum threshold to $7,000.00 for plan terminations on and after January 1, 2024, in accordance with PBGC’s Benefit Payments and Allocation of Assets regulation effective August 10, 2023. (For plan terminations on and before December 31, 2023, the de minimis threshold for lump-sum payments remains $5,000.00.)

B. Scope and Effective Date

For the purposes of this internal guidance document, a lump sum is the payment of all or part of the lump-sum value of a pension benefit in a single sum. The terms lump sum, lump-sum payment, and lump-sum benefit may be used interchangeably within this internal guidance document to describe the payment of a benefit in a lump sum. Other single-sum or non-periodic payments that PBGC may operationally refer to as a lump sum or lump-sum payment (for example, an underpayment or large single-sum back payment of annuity benefits) are not covered by this internal guidance document. In addition, this internal guidance document does not apply to payments made pursuant to settlement agreements under which PBGC agrees or has agreed to pay benefits in a lump sum.

This internal guidance document applies to all plans trusteed by PBGC including plans that are sufficiently funded, whether for guaranteed benefits or benefit liabilities. It also applies to a plan that PBGC has not trusteed but for which PBGC is paying benefits as provided under Internal Guidance Document Benefit Payments Prior to Trusteeship.

This internal guidance document is effective upon issuance.

C. General Guidance

1. **De Minimis Benefit.** If the lump-sum value of a benefit as of DOPT is (i) $5,000.00 or less for plans terminating on and before December 31, 2023, or (ii) $7,000.00 or less for plans terminating on and after January 1, 2024 (a "de minimis benefit") and if annuity benefits are not yet in pay status, PBGC generally will pay the benefit in a lump sum as provided in this internal guidance document if so elected by the payee. However, the benefit may be paid as an annuity as provided in section E.1 below.

   In addition, PBGC will treat a benefit as de minimis as of DOPT and thereby payable in a lump sum as otherwise provided in this internal guidance document if the sum of any annuity payments owed prior to DOPT and the lump-sum value of the remaining benefit as of DOPT is (i) $5,000.00 or less for plans terminating on and before December 31, 2023, or (ii) $7,000.00 or less for plan terminating on and after January 1, 2024, and if annuity benefits have not commenced (for example, a participant reached his or her required beginning date before DOPT and the plan had not begun making annuity payments).

   For an exception to paying a de minimis benefit in a lump sum, see section E.6 below.

   > **Note:** When PBGC increased the amount of a de minimis benefit from $3,500.00 to $5,000.00, certain participants who were issued benefit determinations for annuity benefits before July 16, 1998, were allowed to elect a lump-sum payment if specific conditions were met (P5K benefit rules). For guidance on eligibility for a lump-sum payment under the P5K benefit rules, see section I below.
   >
   > In contrast, the increased amount of a de minimis benefit from $5,000.00 to $7,000.00 for plan terminations initiated on or after January 1, 2024, is not retroactive; therefore, in plans that terminated before January 1, 2024, a lump-sum payment generally cannot be elected if the present value is above $5,000.00.

2. **Non-De Minimis Benefit.** If the lump-sum value of a benefit as of DOPT is (i) greater than $5,000.00 for plans terminating on and before December 31, 2023, or (ii) greater than $7,000.00 for plan terminating on and after January 1, 2024 (a "non-de minimis benefit"), PBGC generally will not pay the benefit in a lump sum, except as otherwise provided in section C.3. below.

   If a benefit is not payable in a lump sum, it will be administered in accordance with PBGC internal guidance on the calculation and payment of annuities (for example, Internal Guidance Documents Annuity Starting Dates, Annuity Benefit Forms, and Spousal Consent (Qualified Joint-and-Survivor Annuities)).

3. **Other Applicable PBGC Guidance.** Lump-sum benefits are paid in accordance with this internal guidance document except as otherwise specified in Internal Guidance Documents, including but not limited to:

   - Benefit Payments Prior to Trusteeship
   - Erroneous Commencement
   - Priority Category 2 Benefits Payment
   - Cash Balance Plans
   - Statutory Hybrid Plans
   - 4022(c) Amounts

- Underpayment Reimbursement and Interest Payments
- Assignment or Alienation of Benefits
- Plan Loans
- Missing Participants Program, Original
- Missing Participants Program, Expanded in 2018

4. **Residual Benefits**

   a. **Benefits disregarded.** When determining the lump-sum value of a benefit as of DOPT, PBGC disregards the value of any distributions made by the plan before DOPT.

   Further, in determining whether the lump-sum value of a benefit is de minimis (that is, $5,000.00 or less for plans terminating on and before December 31, 2023, or $7,000.00 or less for plans terminating on and after January 1, 2024) and therefore payable in a lump sum, PBGC disregards the value of (i) any benefits paid in a lump sum by the plan or PBGC on and after DOPT and (ii) any benefits PBGC has not yet determined under section 4022(c) of ERISA (see Internal Guidance Document 4022(c) Amounts).

   b. **Payment of residual benefits.** A residual benefit means the lump-sum value of a benefit that remains after PBGC disregards the value of any benefits described in section C.4.a above in determining whether a benefit is de minimis and therefore payable in a lump sum. If a residual benefit as of DOPT is:

   1) De minimis (that is, $5,000.00 or less for plans terminating on and before December 31, 2023, or $7,000.00 or less for plans terminating on and after January 1, 2024) and if annuity benefits are not in pay status, then the residual benefit may be paid in:

      - A lump sum as otherwise provided in this internal guidance document, even if the lump-sum value of the benefit as of DOPT exceeds the de minimis threshold of (i) $5,000.00 for plans terminating on and before December 31, 2023, or (ii) $7,000.00 for plans terminating on and after January 1, 2024, or

      - As an annuity as provided in section E.1 below.

      If an annuity is already in pay status, the residual benefit is payable only as an increase in the annuity.

   2) Non-de minimis (that is, greater than $5,000.00 for plans terminating on and before December 31, 2023, or $7,000.00 for plans terminating on and after January 1, 2024), the residual benefit is payable only as an annuity unless otherwise provided in section C.3 above.

   Example 1: A participant's estimated benefit had a lump-sum value of $4,500.00 as of DOPT. (In this example, DOPT is before January 1, 2024.) The participant was paid an estimated lump sum of $4,680.00 including interest. Upon completion of the valuation, the lump-sum value of the participant's benefit as of DOPT was determined to be $6,025.00. The value of the residual benefit as of DOPT is $1,525.00 ($6,025.00 - $4,500.00). Therefore, the residual benefit is payable in a lump sum or as an annuity if so elected by the participant.

Example 2: A participant's estimated benefit had a lump-sum value of $525.00 as of DOPT. (In this example, DOPT is after January 1, 2024.) The participant was paid an estimated lump sum of $578.00 including interest. Upon completion of the valuation, the value of the participant's benefit as of DOPT is determined to be $7,535.00. The value of the residual benefit as of DOPT is $7,010.00 ($7,535.00 - $525.00). Therefore, the residual benefit is payable only as an annuity.

c. **Conversion of residual benefit to annuity amount.** PBGC will convert a residual benefit as of DOPT to an annuity as described in the Appendix below.

5. **Unpaid Plan Application for a Lump-Sum Payment**.

PBGC generally will not honor a plan application for a lump-sum payment (whether de minimis or not) that was not paid by the plan administrator regardless of when the application was filed with the plan administrator or when the payment was originally due.

6. **Spousal Consent**

PBGC does not require spousal consent to pay a de minimis benefit in a lump sum, including a residual benefit that is de minimis, except as provided in section I below.

7. **Application of §436(d) Benefit Limitations**

PBGC follows its rules in Internal Guidance Document §436 Benefit Limitation Under PPA 2006 in paying a benefit in a lump sum and does not limit payment of a de minimis benefit in a lump sum due to a §436(d) limitation in effect as of DOPT.

D. Lump Sums Payable after Death

1. **Post-DOPT Death – De Minimis Benefit Owed.** If a participant or beneficiary who is entitled to a de minimis benefit dies on or after DOPT and before payment is made, the benefit is treated as a payment owed to a deceased payee, unless the decedent filed for annuity payments and died after the annuity starting date (for guidance on deaths after the annuity starting date, see section F.1 below).

   a. If a participant was married at the time of death, a qualified preretirement survivor annuity (QPSA) is not payable to the surviving spouse as the participant is treated as not having future annuity benefits payable as of DOPT.

   b. The benefit is payable only in a lump sum to the deceased payee's beneficiary determined under Internal Guidance Document Payments to Beneficiaries.

2. **Pre-DOPT Death – De Minimis Benefit Owed.** If a participant or beneficiary who was entitled to a de minimis benefit under plan provisions died before DOPT and before payment was made, PBGC follows plan provisions regarding payment of the benefit as a QPSA or other death benefit, if any, provided by the plan (for example, as a lump-sum death benefit).

3. **QPSA Payable.** PBGC will pay a surviving spouse a lump sum in lieu of annuity payments due under a QPSA if so elected by the spouse and the lump-sum value of the QPSA as of DOPT is (i) $5,000.00 or less for plans terminating on and before December 31, 2023, or (ii) $7,000.00 or

less for plans terminating on and after January 1, 2024, even if the lump-sum value of the participant's benefit as of DOPT was not de minimis.

> For additional guidance on QPSAs, see Internal Guidance Document Qualified Preretirement Survivor Annuities - Plans Terminating on and after August 23, 1984).

4. **Lump Sum Payable to an Estate**. Continuing annuity payments owed to an estate are payable in a lump sum, regardless of the lump-sum value of the benefit as of DOPT, as provided in Internal Guidance Document Beneficiaries.

E. Payment Options and Methodology

1. **Annuity Option.** PBGC gives a participant or beneficiary entitled to a de minimis benefit the option of receiving an annuity instead of a lump-sum payment as follows:

   a. The annuity option is not offered to a beneficiary due a lump-sum benefit owed to a deceased payee as described in section D.1 above**.**

   b. The annuity option generally is offered regardless of the lump-sum value of the benefit.

   c. If the participant or beneficiary applies for an annuity instead of a lump sum, the benefit will be administered in accordance with internal guidance on the calculation and payment of annuities. However, if the applicant dies before the annuity payments commence and the death occurs:

      - <u>Before the annuity starting date</u>, the benefit will be treated as a lump-sum payment owed to a deceased payee as provided in section D.1 above**.**

      - <u>On or after the annuity starting date</u>, payment of survivor benefits will be determined in accordance with Internal Guidance Documents Annuity Benefit Forms and Beneficiaries.

   d. After a participant or beneficiary applies for a lump sum or an annuity, PBGC will honor a request to change the payment option if the request is received before the date the lump-sum payment is made or the annuity payments commence.

   e. For purposes of recoupment and recovery, a payee is treated as entitled to future benefit payments as of DOPT once annuity benefits are in pay status.

      A payee is treated as not entitled to future benefit payments as of DOPT once the benefit has been paid in a lump sum.

2. **Payment of Interest.** Interest is paid on a lump sum as provided in Internal Guidance Document Underpayment Reimbursement and Interest Payments.

3. **Eligible Rollover Distribution.** PBGC offers a payee due a lump-sum payment of $200.00 or more the ability to make a direct rollover of all or part of the payment into an individual

retirement arrangement or other eligible retirement plan as permitted under the IRC. If the payment is made after the payee's required beginning date (RBD), PBGC will process the full payment as ineligible for direct rollover but will provide information about the possibility of a partial indirect rollover (60 day).

PBGC will honor a rollover election only if the total payment, including interest, will be rolled over or, if the payee's election splits the payment between a rollover and a direct payment, the rollover portion is $500.00 or more.

4. **Tax Withholding.** Tax will be withheld from a lump-sum payment when required and as provided under the IRC and guidance thereunder.

5. **Lump Sums Payable under a QDRO.** Internal Guidance Document Qualified Domestic Relations Orders establishes the rules under which all or part of a participant's benefit may be paid to an alternate payee under a QDRO. Benefits due a participant and/or an alternate payee as provided under a QDRO are payable in a lump sum as follows:

    a. **Separate interest QDRO.** Under a separate interest QDRO, after applying the terms of the QDRO, PBGC will determine whether an alternate payee's interest and/or a participant's interest in a benefit is payable in a lump sum by applying this internal guidance document separately to the lump-sum value as of DOPT of each interest in the benefit.

       Example 3: A separate interest QDRO awards an alternate payee a portion of the participant's accrued benefit. PBGC calculates the lump-sum value of the participant's interest as of DOPT as $9,000.00 and the lump-sum value of the alternate payee's interest as of DOPT as $2,500.00. (In this example, DOPT is after January 1, 2024.) The participant's interest in the benefit is non-de minimis and therefore cannot be paid in a lump sum. However, the alternate payee's interest in the benefit is de minimis and therefore is payable in a lump-sum.

       Example 4: A separate interest QDRO awards an alternate payee a portion of the participant's accrued benefit. PBGC calculates that the lump-sum value of the participant's interest as of DOPT as $4,500.00 and the lump-sum value of the alternate payee's interest as of DOPT as $3,500.00. (In this example, DOPT is before January 1, 2024.) Each party's interest is de minimis, so the participant and the alternate payee's benefits are both payable in lump sums.

    b. **Shared payment QDRO**. Under a shared payment QDRO, a lump sum will be payable to an alternate payee only if the participant's benefit, before applying the terms of the QDRO, is payable in a lump sum as provided under this internal guidance document and the participant elects to receive the benefit in a lump sum.

       Example 5: A shared payment QDRO awards an alternate payee a portion of the participant's monthly payments. The benefit is not yet in pay status and has a lump-sum value of $8,000.00 as of DOPT. A lump sum is not payable to the participant or alternate payee because the participant's benefit is not de minimis as of DOPT. Payment to the participant and the alternate payee can be made only as an annuity.

       Example 6: A shared payment QDRO awards the alternate payee a portion of the participant's monthly payments. The benefit is not yet in pay status and has a lump-sum value of $4,900.00 as of DOPT. Since the benefit is de minimis, the participant may elect to receive the benefit in a lump sum or as an annuity. If the participant elects a lump sum, PBGC concludes that a lump sum of $3,300.00 plus interest will be payable to the participant and a lump sum of $1,600.00 plus interest will be payable to the alternate payee. However, if the participant elects an annuity, the alternate payee will also be paid an annuity.

c. **QDRO-ordered lump-sum payments.** If a QDRO provides that a benefit or payment due an alternate payee is payable in a lump sum, payment will be made in a lump sum only as provided in this Section E.5.

6. **Retroactive Annuity Payments Exceed Lump-sum Payment**. A payee whose benefit is de minimis and who may elect to receive an annuity instead of a lump sum may be eligible for a retroactive annuity starting date under Internal Guidance Documents Annuity Starting Dates or Required Beginning Dates. In some instances, retroactive annuity payments may equal or exceed the amount of the lump-sum payment due the payee if paid on the same date.

   If PBGC determines that the payment of retroactive annuity payments will equal or exceed the amount of the lump sum payable as of the same payment date, PBGC will pay the benefit only as an annuity.

   Example 7: A participant's benefit has a lump-sum value of $4,322.00 as of DOPT. (In this example, DOPT is after January 1, 2024.) The participant is eligible for a retroactive annuity starting date under Internal Guidance Document Required Beginning Dates. At the time the benefit determination is being prepared, a lump-sum payment of $5,600.00 including interest is payable. However, if the participant is paid an annuity, retroactive annuity payments of $6,900.00 including interest are payable. The participant will be notified of the annuity benefit and sent an annuity application.

7. **Partial Payments**. PBGC will not pay a benefit in a lump sum that is less than the lump-sum value of the benefit or the lump-sum value of the residual benefit, except as otherwise provided in this internal guidance document (for example, a payment under a separate interest QDRO or a withdrawal of employee contributions).

   Example 8: A participant's benefit has a lump-sum value of $11,000.00 as of DOPT; the benefit is non-de minimis. The participant, claiming hardship, requests that PBGC pay $4,000.00 of the benefit in a lump sum now and pay the remainder of the benefit as an annuity. Even though the requested payment is under the de minimis lump-sum threshold, the benefit is not de minimis. PBGC will pay the benefit only as an annuity on or after the participant's earliest PBGC retirement date.

   Example 9: A participant's benefit has a lump-sum value of $7,010.00 as of DOPT; the benefit is non-de minimis and the participant is due an annuity. (In this example, DOPT is after January 1, 2024.) The participant requests a lump sum of $7,000.00 in lieu of the annuity. The participant may not forfeit a portion of the benefit (that is, the $10.00) to receive a lump-sum payment. PBGC will pay the benefit only as an annuity on or after the participant's earliest PBGC retirement date.

   Example 10: A participant is due a total lump-sum payment with interest of $5,624.00 on December 1. The participant wants to reduce his/her tax liability for the current year and requests that one half of the payment be paid as a direct payment on December 1 of the current tax year and that the remainder be paid in a direct payment on January 1 of the following tax year. PBGC will not make a partial payment in each year.

F. Lump-Sum Payments by a Prior Plan Administrator

1. **Lump-Sum Payments Due Prior to DOPT.** PBGC generally will accept the calculation, valuation, and payment of a benefit in a lump sum by the plan administrator if the payment was due before DOPT, regardless of whether the payment was made before or on or after DOPT.

2. **Lump-Sum Payments Due On or After DOPT**. If the plan administrator made a lump-sum payment that was due on or after DOPT, PBGC generally will determine (i) whether such benefits were calculated, valued, and paid correctly under plan provisions, ERISA, the IRC, or other applicable law, and (ii) for payments made after the Overpayment Accrual Commencement Date (OACD) and subject to recovery, whether amounts in excess of those payable under Title IV were paid.

G. Exceptions Applicable to Lump-Sum Payments

1. **General Rule**. Nothing in this internal guidance document requires PBGC to pay a benefit in a lump sum nor prohibits PBGC from recalculating, valuing, recapturing, or recovering a benefit paid in a lump sum if PBGC determines that:

   - Payment would be or was made in violation of ERISA, PBGC regulations (for example, the regulations found in PBGC Regulations 4041.42 or 4044.4), the IRC, or other law applicable to the allocation and distribution of pension plan assets.

   - There is evidence of fraud, waste, or abuse regarding the payment.

   - Errors in the calculation, valuation, and/or payment of a benefit were made by the plan administrator.

   - Amounts greater than the guaranteed portion of the benefit are subject to recapture under section 4045 of ERISA.

2. No inference should be drawn from this internal guidance document as to whether a plan administrator was justified in paying lump sums at a particular time or under specific circumstances.

3. When necessary, in consultation with the Office of General Counsel (OGC), the Actuarial Services Division (ASD) and the Participant Services Department (PSD) will provide assistance and guidance in determining whether a benefit was acceptably calculated, valued, and/or paid in a lump sum by the plan administrator and what, if any, corrective, legal, or other action is required.

H. Correction of Lump-Sum Benefit and Payment Errors

Errors in lump-sum benefits or payments are corrected in accordance with Internal Guidance Document Benefit Corrections.

I. P5K Benefits

Effective July 16, 1998, PBGC raised its de minimis amount to $5,000.00. Benefit determinations issued since July 16, 1998, inform participants and beneficiaries that benefits with a lump-sum value as of DOPT of $5,000.00 or less (and that are not already in pay status) are payable in a lump sum and benefits with a present value of more than $5,000.00 are payable only as an annuity. In addition, certain benefits that were non-de minimis under earlier regulations and internal guidance document are now payable in an elective lump sum (with spousal consent) for participants who were alive on DOPT and on July 16, 1998. From July 16, 1998, through March 9, 1999, PBGC conducted the "P5K Project" to offer lump sums instead of annuity payments to affected participants (P5K participants) to whom a benefit determination was issued before July 16, 1998.

An affected participant who may not have been offered a lump sum under the P5K Project (or the surviving spouse of a deceased P5K participant) is eligible to receive a lump-sum payment under the following rules.

1. **Living P5K Participant.** A lump sum is payable to a living P5K participant as follows:

    a. The lump-sum value of the benefit as of DOPT is $5,000.00 or less.

    b. A benefit determination for an annuity was sent to the participant before July 16, 1998 (that is, the participant was a deferred vested participant entitled to a future annuity benefit at DOPT under previous de minimis benefit rules).

    c. A lump sum has not already been paid, and

    d. An annuity is not already in pay status.

    PBGC will pay the benefit in a lump sum upon receipt of a completed lump-sum application with spousal consent to the lump-sum payment. Spousal consent is required because the spouse is waiving the right to a QPSA or QJSA that may be associated with the annuity payable under earlier regulations and internal guidance documents.

2. **Deceased P5K Participant.** Provided the conditions described in sections J.1.a.-d above are met, a benefit owed a deceased P5K participant is payable as follows:

    a. **Post-Retirement Equity Act (REA) Plan (DOPT on and after August 23, 1984).** If the participant died:

        - **Before July 16, 1998,** a surviving spouse may elect a lump sum equal to the present value of the QPSA benefit (not the participant's benefit). If the participant was not married, a lump sum is not payable.

        - **On or after July 16, 1998,** a surviving spouse may elect to receive a lump sum equal to the value of the participant's benefit (not the QPSA benefit) or to receive a QPSA benefit. If the participant was not married, the lump sum is treated as a payment owed a deceased participant, which is payable to the participant's beneficiary as determined under Internal Guidance Document Beneficiaries.

    b. **Pre-REA Plan (DOPT before August 23, 1984).** If the participant died:

- **Before July 16, 1998,** a lump sum is not payable. In addition, a QPSA benefit is not payable; however, certain surviving spouses may be due a survivor benefit under Internal Guidance Document Survivor Annuities in pre-REA Terminations.

- **On and after July 16, 1998,** the lump sum is treated as a payment owed the deceased participant, which is payable to the participant's beneficiary as determined under Internal Guidance Document Beneficiaries.

For additional guidance on entitlement to a QPSA, see Internal Guidance Document Qualified Preretirement Survivor Annuities - Plans Terminating on and after August 23, 1984.

Appendix
Conversion of Residual Benefit to Annuity Amount

A residual benefit means the lump-sum value of a benefit as of DOPT that remains after PBGC disregards the value of any benefits described in section C.4.a above in determining whether a benefit is de minimis and therefore payable in a lump sum. PBGC converts a residual benefit to an annuity as follows, except as otherwise provided under PBGC internal guidance (for example, in the case of a withdrawal of employee contributions):

1. The lump-sum value of the annuity benefit as of DOPT, including the value of the benefits paid on or after DOPT, will be calculated as otherwise provided in PBGC Regulation 4022.7(d).

2. The lump-sum value of the benefit that was paid on or after DOPT will be disregarded to establish the residual benefit.

3. The ratio of the residual benefit to the lump-sum value of the benefit as of DOPT will be calculated.

4. This ratio will be applied to the annuity benefit that would have been due to calculate the residual annuity benefit that is due.

Example: A participant's estimated benefit had a lump-sum value of $4,000.00 as of DOPT. (In this example, DOPT is before January 1, 2024.). The participant was paid an estimated lump sum of $4,100.00 including interest. PBGC determines the amount of the annuity benefit due the participant (the final benefit) as follows:

1) The participant's monthly benefit is $110.00 (before taking into account the estimated lump-sum that was paid).
2) The lump-sum value as of DOPT of the benefit of $110.00 is $10,000.00.
3) The residual benefit as of DOPT is $6,000.00 ($10,000.00 - $4,000.00). Therefore, a lump-sum payment of the residual benefit is not permitted.
4) The ratio of the residual benefit, $6,000.00, to the lump-sum value of the monthly benefit, $10,000.00, is 0.6000 ($6,000.00 / $10,000.00).
5) The participant is due a final monthly benefit of $66.00 ($110.00 x 0.6000).