

Small Benefit Payments

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A. Background

Participants, beneficiaries, and alternate payees entitled to small benefit payments that are payable in a single sum, at times, fail to submit a benefit application. In these cases, the requirement that a benefit application must be received before payment can be made creates an administrative burden for PBGC. PBGC must keep records for these payees and benefits in its systems until payment is made. The longer the benefit or payments remain unpaid, the more burdensome payment may become later (e.g., the payee due the payment dies before receiving payment and PBGC must then determine to whom payment is due).

Section 205(g) of ERISA and section 417(e) of the Internal Revenue Code (IRC) allow pension plans to pay certain benefits without the consent of the payee (i.e., a benefit application from the payee requesting payment is not required).

This internal guidance expands rules for making small benefit payments of less than \$200 without the submission of a benefit application to payees in the Missing Participants Program. This internal guidance supplements the following Internal Guidance: Lump-Sum Benefit Payments, Underpayment Reimbursement and Interest Payments, Missing Participants Program, and Payments to Beneficiaries.

B. Scope and Effective Date

This internal guidance applies to small benefit payments due participants, beneficiaries, and alternate payees in PBGC-trusteed plans (collectively "payees"). It also applies to payees covered under the Missing Participants Program. This internal guidance is effective upon issuance.

C. Definition

1. **Small Benefit Payment** - For purposes of this internal guidance, a Small Benefit Payment is a payment of less than \$200 including interest payable either as a lump-sum benefit, as described in Internal Guidance Lump-Sum Benefit Payments, or as a single sum where ongoing or continuing annuity payments are not due the payee (e.g., back payments or underpayments owed to a deceased payee that are payable to the payee's designated beneficiary).

D. Internal Guidance

If a Small Benefit Payment is due and PBGC considers the available information on the payee to be reliable and sufficient to make payment, PBGC will pay it without an application for the benefit in accordance with the following rules.

1. **Notification.** PBGC will notify the payee in a benefit determination or other applicable notification (e.g., notification of an estimated benefit or of entitlement to a benefit under the Missing Participants Program) of its intent to pay the benefit as soon as practicable after the notification is sent. The payee will not be given the option of receiving an annuity nor to have the benefit paid in a direct rollover to an individual retirement arrangement or another qualified retirement plan, even if the Small Benefit Payment is a lump sum.
2. **Payment.** Federal income tax will be withheld only if required under the IRC, and payment will be made as soon as practicable after the notification is sent.
3. **Multiple payees.** If payments with respect to the benefit are payable to more than one payee (e.g., multiple beneficiaries or a participant and a beneficiary) in the same tax year and the total payment including interest payable to a payee is less than \$200, payment will be made to that payee as provided in this section.
4. **Subsequent Payments after Initial Small Benefit Payment.** If more than one payment with respect to the benefit is payable to the same payee in the same tax year, and the payments will total \$200 or more, a benefit application is required and federal income tax will be withheld as provided in the IRC. If the subsequent payment(s) made to the same payee occur in different tax years, and total less than \$200 in the tax year paid, no application or tax withholding will be required.

E. Notifications Issued Prior to this Internal Guidance

In general, if an individual who is due a small benefit payment requests payment, the individual may be paid without submission of a benefit application in accordance with Section D, regardless of whether PBGC previously requested a completed application in order to receive the benefit.

F. Examples

Example 1:

A participant's estimated benefit has a lump-sum value as of Date of Plan Termination (DOPT) of \$175. The participant is due a lump-sum payment of \$189 including interest as of the expected payment date of February 1. Information about the participant is considered reliable and sufficient to make the payment; therefore, a benefit application is not required, and payment can be made as provided in Section D. PBGC notification of the estimated payment is mailed January 3, and the gross payment of \$189 (tax will not be withheld) will be sent directly to the payee on February 1.

Example 2: Subsequent Payment – Payments total more than \$200 in the Same Tax Year

Continuing from Example 1: Later in the year after the valuation is completed, PBGC determines that the value of the benefit as of DOPT is \$275. The participant is due a residual benefit of \$100 (\$275 - \$175). The payment for the residual benefit will be \$110 including interest as of the expected payment date of November 1. Because payments for the tax year will total \$299 (\$189 + \$110), a benefit application is required and federal income tax will be withheld as provided in the IRC.

Example 3: Subsequent Payment in Different Tax Years

Continuing from Example 1: The following year after the valuation is completed, PBGC determines that the value of the benefit as of DOPT is \$275. The participant is due a residual benefit of \$100 (\$275 - \$175). The payment for the residual benefit will be \$113 including interest as of the expected payment date of March 1.

Although payments with respect to the benefit total more than \$200, Section D applies because the payment of the residual benefit will be made in a different tax year. An application is not required if information about the payee is still considered reliable and sufficient to make payment.

Example 4: Single-sum Small Benefit Payment Due

A participant was receiving a monthly benefit of \$80 in the form of a 15-year C&C. The participant died in April. PBGC was notified of the death in May when the Post Office returned the May payment. The certain period ended in June of the same year, and therefore, two months remained in the certain period, May and June. In mid-July, PBGC determines that the participant's surviving child is due the remainder of the C&C. An underpayment for May and June of \$162 including interest is payable on September 1. Information about the beneficiary is considered reliable and sufficient to make payment without an application; therefore, payment can be made as provided in Section D.

Example 5: Multiple Payees

a. Participant and Beneficiary Due Payment in the Same Tax Year

Continued from Example 1: Shortly after receiving the payment of \$189, the participant died. Later in the same year after the valuation is completed, PBGC determines that the value of the benefit as of DOPT is \$275. The participant was due a residual benefit of \$100 (\$275 - \$175) that is now payable to the participant's designated beneficiary. The payment for the residual benefit will be \$110 including interest as of the expected payment date of November 1. Payments for the tax year will total \$299 (\$189 + \$110).

Although payments with respect to the benefit will total more than \$200, Section D applies to the beneficiary because the subsequent payment is being made to a different payee and will be less than \$200. An application is not required if information about the beneficiary is considered reliable and sufficient to make payment.

b. Multiple Beneficiaries

A participant was due a lump-sum benefit of \$300, but dies before payment is made. PBGC determines that three beneficiaries are each due an equal share of the benefit or \$100 ($\$300 \div 3$) each. A payment of \$100 including interest is due each beneficiary as of the expected payment date. Information about two of the beneficiaries is considered reliable and sufficient to make payment without an application; therefore, payment can be made to the two beneficiaries, as provided in Section D. The third beneficiary cannot be located; therefore, payment cannot be made without an application.

Example 6: Notification Issued Prior to this Internal Guidance

Two years before the issuance of this internal guidance, PBGC sent a benefit determination informing a participant that a lump-sum benefit of \$150 plus interest was payable. The participant did not complete and return the enclosed lump-sum application. A year after the issuance of this internal guidance, the participant inquires about the benefit and requests a lump-sum payment. As of the expected payment date, the total payment with interest is \$170. The benefit is payable without an application, as provided in Section D, if information about the participant is considered to be reliable and sufficient to make payment.