

Frequency of Benefits Payments

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A. Background

PBGC pays in annuity form benefits that are not de minimis and de minimis benefits for which a participant or beneficiary has elected an annuity in lieu of a lump-sum distribution.

Some pension plans allow payees to receive their annuity benefits on a monthly, quarterly, semiannual, yearly, or other basis, as long as payment is made at least once a year. PBGC generally pays annuity benefits as monthly payments. However, PBGC historically has paid certain "small" annuity benefits as annual payments to reduce the time and cost associated with making those payments on a monthly basis. Over time, PBGC has moved towards predominantly paying benefits through electronic direct deposit, which is done at a lower cost than payments by paper check.

In this edition of the internal guidance, PBGC is lowering the threshold amount to annualize benefits from \$50.00 to \$1.00, and eliminating examples that provide explanations of how to handle frequency for contingent annuitant benefits that are greater than the participant's monthly benefits. This is due to the unlikelihood of that situation occurring with the decreased annual payment threshold of \$1.00 a month.

B. Scope and Effective Date

This PBGC Internal Guidance applies to pension benefits paid as annuities in PBGC administered plans. It is effective upon issuance for all new payees with a first payment date on or after December 1, 2017 and existing PBGC payments assumed or changed as of a payment date on or after December 1, 2017, including reinstatement of suspended benefits.

C. Definitions and Conditions

For purposes of this internal guidance, the following definitions apply:

1. **Annual payment.** An annual payment is a single payment which constitutes payments due for the following twelve months. If payments are not due for all of the following twelve months, the annual payment should only include payment for the months for which payments are due. For example, if a beneficiary is receiving a period certain annuity and there are only five months remaining in the certain period, the annual payment will only include payments for those five months.
2. **Annual payment date.** The annual payment date is the first of the month on which an annual payment is made, or should be made, for a prospective 12-month period.

3. **Annuity benefit.** An annuity benefit is the monthly amount of the benefit after form conversion, early retirement, or other factors are applied, but before withholding or other deductions are applied, such as those for recoupment, federal income tax, earnings offsets, etc.

D. Internal Guidance

1. General Rule: Frequency of Payments

PBGC generally pays annuity benefits as follows:

- a. **Monthly Payments**

PBGC will pay on a monthly basis an annuity benefit that is more than \$1.00 a month.

- b. **Annual Payments**

PBGC will pay on an annual basis an annuity benefit that is \$1.00 or less a month.

- c. **Exceptions**

PBGC may make exceptions to the general payment frequency rules based on the facts and circumstances of a **particular plan**. Scenarios where exceptions may apply include when payment frequency is an integral part of a plan's provisions for a benefit or a permitted optional form in the plan. Request guidance by emailing PSDGuidance@pbgc.gov for a case-specific determination if needed.

2. Changes to Frequency of Payments

- a. **PBGC-Initiated Changes**

- i. PBGC will change payment frequency of existing annuity payments as soon as practicable following trusteeship (i.e., plan assumption), which may be annualizing small monthly payments from a newly trustee plan, or changing a newly trustee plan's annuity payments from annual (or quarterly, or semiannual) payments to monthly payments if the plan paid in a different frequency for monthly amounts greater than \$1.00.
- ii. PBGC will also change payment frequency of existing annuity benefits when making changes to the annuity payment, e.g. when a final benefit is more than or less than the estimated benefit, or when reinstating an annuity benefit that was suspended.
- iii. PBGC will not change payment frequency of existing annual payments that were annualized under a prior annual threshold amount simply because the threshold has been lowered to \$1.00.

- b. **Payee-Initiated Changes**

- i. PBGC **will change** an annual payment to a monthly payment at the payee's request, only if the payment is more than \$1.00 a month (i.e. the annual payment was annualized under an earlier higher annual threshold).
- ii. PBGC **will not change** a monthly payment to an annual payment at the payee's request, if the monthly benefit payment is more than \$1.00 a

month, regardless of the circumstances or when the payment began (i.e. under an earlier higher annual threshold).

3. Overpayments between Annual Payment Dates

When a payee receiving an annual payment dies, PBGC will not treat the amount attributable to the period between the date of death (DOD) and the next annual payment date as an overpayment solely because of the death of the payee. However, other overpayments are includable overpayments for computation and netting (see Computation and Netting of Post-DOPT Overpayments and Underpayments Internal Guidance) and therefore may be subject to PBGC's recoupment and recovery rules under Recoupment, Recovery and Administrative Correction Internal Guidance. Participants who began to receive annual payments prior to the effective date of this 8th edition will continue to receive annual payments unless the benefit amount is adjusted (for example, from estimated to final payments).

Example 1: (\$50 threshold) Steve is receiving an estimated benefit of \$40.00 per month in the form of a joint-and-50%-survivor annuity, in 1999. At the time there was a \$50 annual threshold. His annual payment is \$480.00 (\$40.00 x 12). His annual payment date is March 1. In November 2018, PBGC determines that Steve's final benefit is \$34.00 per month. Steve is overpaid by \$6.00 per month, or \$72.00 per year. PBGC will adjust Steve's benefit and payment frequency on March 1, 2018 (his next annual payment date) and recoup from his future monthly payments.

Example 2: (\$50 threshold) John was receiving a joint-and-50%-survivor annuity benefit of \$40.00 per month. At the time there was a \$50 annual threshold. His annual payment date is June 1. John died on January 24, 2018. PBGC will not treat the portion of the annual payment representing the 4 months between his death (\$160.00) and the next annual payment date (February through May) as an overpayment solely because of his death.

Example 3: (\$50 threshold) However, if John's payment was an estimated payment of \$40.00 per month and PBGC subsequently determined that his final benefit should have been \$34.00 per month, PBGC will treat \$72.00 (\$6.00 x 12 months) as an overpayment in computation and netting as described above, and seek repayment from his surviving spouse's benefit.

4. Benefit Adjustments after annual threshold reduced to \$1.00

Participants who began to receive annual payments prior to the effective date of this 8th edition will continue to receive annual payments, unless the benefit amount is adjusted (ex. estimated to final payment). At the time of the adjustment, the \$1.00 annual threshold is applied, and if the monthly benefit amount is greater than \$1.00, the frequency is changed to monthly, effective as of the next annual payment date.

Example 4: (\$50 and \$1 threshold) Maria began receiving an estimated benefit of \$20.00 per month in the form of a joint-and-100%-survivor annuity, in 2001. At the time there was a \$50 annual threshold. Her annual payment is \$240.00, which is paid on her annual payment date of December 1. In February of 2018, PBGC determines that Maria's final benefit is \$12.00 per month. PBGC will adjust Maria's benefit amount and payment frequency on December 1, 2018, her next annual payment date, and begin to pay her \$12.00 per month.

Example 5: (\$50 and \$1 threshold) Robert began receiving an estimated benefit of \$16.00 per month in the form of a single life annuity, in 2012. At the time there was a \$50 annual threshold. He received annual payments until 2016 when he requested to change his frequency to monthly payments, which was permissible under guidance at the time. In 2018, PBGC determines his final benefit is \$18.00 a month, and adjusts his benefit amount. Robert continues to be paid monthly, and his frequency cannot be changed to annual because his monthly payments are above the current annual threshold of \$1.00 a month.

5. Survivor Benefits frequency

- a. **Payee receiving annual payments - survivor's monthly benefit due is same as payee's or less, however, the survivors benefit is payable under the lower \$1 threshold amount.**

When the recipient of an annual payment dies and the survivor is due the same monthly amount or less (always will be \$50 or less), PBGC will begin paying the survivor benefit to the beneficiary as a monthly payment beginning on the deceased participant's next annual payment date, unless the survivor's benefit is \$1.00 or less a month.

Example 6: (\$50 and \$1 threshold) Michael began receiving a joint-and-50%-survivor annuity benefit in 2003. At the time there was a \$50 annual threshold. His monthly payment is \$8 per month. His annual payment is \$96 (\$8 x 12). His annual payment date was March 1st. Michael died January 15, 2018. As of his DOD, there is a \$1.00 a month annual threshold.

When Michael died, his beneficiary, James, was entitled to a survivor benefit of \$4.00 a month. The survivor benefit is payable to James as a monthly benefit. His first monthly payment date is the date which would have been Michael's next annual payment date, or March 1, 2018. James receives his first monthly payment of \$4.00 on March 1, 2018. James' benefit may not be paid annually because it exceeds the \$1.00 a month threshold.

- b. **Payee receiving monthly payments/ Survivor receives annual payments**

When the recipient of a monthly payment dies and a monthly survivor benefit of \$1.00 a month or less is payable, PBGC will begin paying the survivor benefit to the survivor beginning as of the first of the month after the death of the recipient. The annual payment date will be the date that the first payment is made to the survivor.

Example 7: (\$50 and \$1 threshold) James was receiving a joint-and-50%-survivor annuity benefit of \$1.50 a month. James died on November 15, 2017. Rebecca, his beneficiary, was due a survivor benefit of \$.75 per month, beginning as of December 1, 2017, the first of the month after James's death. Because the monthly amount of the survivor benefit is \$1.00 or less, Rebecca is paid an annual payment of \$8 (\$.75 x 12). Rebecca does not have the option of changing to a monthly benefit.