September 2014

Milliman

DB digest
Best Practices for Pension Administration

UPCOMING KEY DATES

10/1/14

Commence IRC section 436 benefit restrictions if the plan's certified or deemed 2014 AFTAP is less than 80%.

10/15/14

File 2013 Form 5500 using DOL EFAST2, if the due date was extended by a timely filed IRS Form 5558. (A posting of the 2013 Form 5500 basic plan information and 2013 Schedule SB on the plan sponsor's existing intranet site is required within 90 days of filing Form 5500.)

10/15/14

File 2013 IRS Form 8955-SSA, if the due date was extended by a timely filed IRS Form 5558.

10/15/14

Provide a notice describing the amount of the vested accrued benefit at normal retirement age to terminated vested employees who were reported on Form 8955-SSA if the due date was extended by a timely filed IRS Form 5558.

10/15/14

For plans with 100 or more participants, file the 2014 PBGC Comprehensive Premium Filing and pay flat-rate and estimated (or final) variable-rate premiums.

10/30/14

Provide a notice of IRC section 436 benefit restrictions to plan participants, if the 9/30/14 certified or deemed AFTAP is less than 80% and notice was not previously provided.

12/31/14

Deadline to certify the 2014 AFTAP if the plan used a "range" certification.

Advantages of a continuous death audit

Justin Guy

Have you been in a situation in which your pension plan has made payments to a deceased annuitant for several months and you were unable to recover those funds?

As fiduciaries, plan sponsors have a responsibility to preserve and protect the assets of the plan for all participants. One common risk area is overpayments due to an annuitant's death. Almost all pension plans offer a variety of payment options, which typically end at the time the annuitant dies. If a payment continues after the required end date without knowledge of the plan sponsor, funds are being improperly disbursed. The longer the death goes unreported or undiscovered, the greater the overpayment and the more difficult it will be to recover. This article is intended to illustrate the advantages of using a "continuous death audit" approach for the earliest possible detection of deceased annuitants as well as how this approach provides far better results than the traditional methods of death reporting.

Traditional methods of reporting

Traditionally, plan sponsors have been notified of a participant's death in one of the following ways:

- *Voluntary self-reporting* by the estate or a family member – It is impractical to believe that each annuitant's estate or surviving relatives will be able to notify the plan sponsor timely, if at all.

When someone is responsible for handling the business affairs following the death of a friend or family member, there are many details to be addressed. If the deceased were receiving an annuity from a pension plan, somewhere on the list of "to-do's" is reporting the death to the administrator of the plan. Unfortunately, the individual handling these financial affairs may not know that the pension payment exists, and will likely have no knowledge of the elected form of payment. Thus, they would not know that the selected form of payment was supposed to stop upon the participant's death.

Lacking knowledge of the payment itself or the failure to provide prompt notification to the plan administrator may result in monthly payments continuing beyond the date payments are required to end.

- *Trustee death audit* – Many trustees or paying agents perform periodic audits using search firms in order to identify deaths of annuitants. This approach can be an important source of notification. However, the time lapse between reports can result in a few months of overpayments, as these audits are usually done on a quarterly basis.

- *Outstanding checks* – Another means of identifying annuitant deaths is to closely monitor the status of paper checks and to perform ad hoc death searches after a certain number of stale or uncashed checks are identified. With most annuitants using electronic fund transfers (EFT) this approach has obvious limitations. Additionally, an uncashed check is not always indicative of a death. It could be (and frequently is) an annuitant holding onto checks in order to save trips to the bank.

- *Independent audits* – As electronic data storage and advances in technology have occurred in the past few decades, several plan sponsors have relied on the Social Security Administration's Death Master File (DMF).
- *Search firms* – While the DMF is available at a federal level, opportunities were recognized to partner with state and local government agencies, creating a unique service that combines multiple resources for data mining applications. As a result, companies formed that specialize in death verification, sometimes referred to as "mortality verification."
- *Public obituary searches* – An alternative method of validating an annuitant death is to use electronic newspaper or funeral home obituaries. Unlike prior methods, this method is a secondary process and relies on other events to identify a possible deceased annuitant, such as the return of mail, an EFT Advice Notice, or outstanding checks. Often these obituaries are easily accessible through Internet search engines, such as Google, Yahoo, or Bing.

Overall, each traditional method of reporting has limitations that will not prevent all overpayments related to annuitant deaths, and it is most effective to employ multiple approaches to manage and minimize the risk.

The Death Master File

The Death Master File[1] is a database maintained and controlled by the U.S. federal government with a variety of subscription-based options to perform death verifications by Social Security Number (SSN) against the 86 million records supported.

In 2013, the Bipartisan Budget Act of 2013 issued a provision[2] that established a restriction on accessing contents of the DMF.

Until this legislation was in place, a variety of free and paid services were available, such as the Social Security Death Index (SSDI) for ad hoc searches of individuals by name or by SSN. One of the primary reasons for limiting access was to prevent fraud from identity theft of a deceased person. According to a 2011 U.S. Treasury Audit,[3] more than 70 million dollars in tax refunds was issued to over 19,000 individuals using the SSNs of deceased individuals.

Working with a certified search firm

As a result of the recent legislation, it is preferable to find a service provider with certified access to the DMF in order to receive new and updated information from the Social Security Administration.

In March of 2014, guidelines were published[4] that included a temporary certification program for people to access the DMF, including service providers offering subscription service options.

Another primary advantage for using a search firm is their relationship with federal, state, and local resources, providing updates that may not be available in the DMF. Some firms have established relationships with other federal agencies such as the Department of Defense and the Department of Veterans Affairs. Negotiations and relationships at the state and local level often exist but will vary depending on the provider.

In an analysis of Milliman's available data and partnership with a search firm, a total of 1,587 unique records were identified by local agencies not reported on the public DMF. If the DMF were the only source relied upon for plan administrators, each of these records could still be paying out funds resulting in overpayments.

Overpayment recoupment

The most obvious impact to pension plans is the disbursement of funds that should not have occurred after the annuitant's death and required end date. While many estates and family members will make efforts to repay the pension plan, the collection of overpayments is not easily administered and not always successful. Operational experience has shown that approximately 30% of all overpayments are not successfully returned to the plan funds. As a result, plan sponsors may be required to contribute more to the plan in order to make the trust whole.

Milliman's approach

For some plan sponsors, Milliman has partnered with a certified search firm in order to continuously monitor two distinct populations. Both annuitants and deferred vested participants are monitored on a weekly basis for mortality verification purposes.

Why deferred vesteds? If these participants are not in pay, there is no risk of overpayment, so why monitor this population? The answer has roots in de-risking. If a terminated vested participant dies, the liability to the plan could be removed if that participant is not entitled to a death benefit based on marital status or other applicable plan provisions. In addition, contacting any beneficiary in as timely a fashion as possible will reduce the administrative burden of trying to locate beneficiaries years later before they become lost.

To illustrate the impact of prompt notification of a death for an annuitant, consider the following:

- Administrator conducts annual death audit on July 1.
- Annuitant dies on July 25, 2014.
- Death is not reported by estate.
- Annuitant has EFT.
- Annuitant is receiving a single life annuity of $500.

1 Social Security Death Master File: https://www.ssdmf.com.

2 Summary of the Bipartisan Budget Act of 2013. Retrieved September 15, 2014, at: http://budget.house.gov/uploadedfiles/bba2013summary.pdf.

3 U.S. Department of the Treasury (September 20, 2013). Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds. Retrieved September 15, 2014, at: http://www.treasury.gov/tigta/auditreports/2013reports/201340122fr.pdf.

4 Federal Register (March 26, 2014). Temporary Certification Program for Access to the Death Master File. Retrieved September 15, 2014, at: https://www.federalregister.gov/articles/2014/03/26/2014-06701/temporary-certification-program-for-access-to-the-death-master-file.

In this example, an overpayment for the months of August 2014 through July 2015 is likely, totaling $6,000 due to the timing of the audit and trust cut-off calendars. If the death is reported on the public DMF, which Milliman monitors weekly, only the August overpayment is inevitable. Therefore, $5,500 in overpayments would be prevented.

PAYMENT MONTH	ANNUAL AUDIT	CONTINUOUS AUDIT
08/01/2014	$ 500.00	$ 500.00
09/01/2014	$ 500.00	$ -
10/01/2014	$ 500.00	$ -
11/01/2014	$ 500.00	$ -
12/01/2014	$ 500.00	$ -
01/01/2015	$ 500.00	$ -
02/01/2015	$ 500.00	$ -
03/01/2015	$ 500.00	$ -
04/01/2015	$ 500.00	$ -
05/01/2015	$ 500.00	$ -
06/01/2015	$ 500.00	$ -
07/01/2015	$ 500.00	$ -
TOTAL	$ 6,000.00	$ 500.00

Although we have seen a 70% successful rate of recoupment, this is across the entire plan. It is much more likely to recoup $500 dollars from an estate than $6,000. Also, if identified early enough, it may be possible to recall the EFT without funds being lost from the plan at all!

In real-life administrative activities, a total of 149 annuitants became deceased between July 15, 2013, and August 1, 2013, for the same population Milliman supports.

Overall, the cost of administering these activities is far less than the cost of a single overpayment that is unsuccessfully returned. Milliman can achieve even higher savings due to a per-record fee structure. The more records searched, the lower the cost per record.

If you recognize the opportunities to employ this continuous death audit approach, a Milliman consultant can help you minimize overpayments.

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