

Are You Forgetting Something?

Often-overlooked Form 8955-SSA may be a plan sponsor's best friend.

By Nancy Gerrie

As America ages, company-sponsored retirement plans also have aged. While many defined benefit (DB) pension plans have been around since the 1940s and 1950s, 401(k) and other defined contribution (DC) plans are now starting to hit their third and fourth decades of existence. As a result, assets and participant counts in these plans have become substantial. And due to our aging and mobile workforce, both DB and DC plans are including record numbers of former employees in those participant counts. Accordingly, many DB plan sponsors have tried to whittle down their terminated participant numbers by offering lump sum cash-outs, and DC plans have increasingly adopted "auto-rollover IRAs" for amounts of \$5,000 or less. However, these techniques for shedding old benefits and account balances can backfire if plan records are not properly updated to prove that benefits have been paid out and liabilities extinguished.

The Form 8955-SSA as an Important Safeguard

This is where the lowly Form 8955-SSA can save a plan sponsor thousands of dollars in benefit claims or many hours of administrative time trying to prove, sometimes many years later, that a benefit has been paid out. Unfortunately, many plan sponsors do not realize how valuable a properly completed 8955-

SSA can be in heading off problems. Sometimes the completion of the 8955-SSA is overlooked entirely, or it is not completed properly or under the right circumstances. Plan sponsors who rely on third-party administrators to fill out the annual Form 5500 may not realize that the separate, but related, Form 8955-SSA has been ignored. They are missing out on the ways this overlooked Form can protect them, not to mention that they are facing possible penalties of up to \$5,000 per year for failure to complete the Form properly.

The Form 8955-SSA is submitted annually to the IRS, unlike the annual Form 5500 which is submitted to the DOL. Each year the plan administrator must list on the 8955-SSA the name and social security number of every participant who terminated employment in the prior plan year who did not yet cash out his or her account balance or begin pension payments. The amount of the participant's benefit (or account balance) is listed, and DB plans must also include special codes to record the type and frequency of annuity payments offered. The only participants who are not required to be listed on a Form 8955-SSA are those who begin their DB pension, or cash out their DC account in full, in the plan-year in which they terminate employment.

The IRS then shares all the information on the 8955-SSA with the Social Security Administration (SSA), where it is registered in the SSA's database.

When retiring individuals file for Social Security benefits, they receive a form notice from the SSA ("SSA Potential Private Retirement Benefit Information Notice") telling them that they may have a retirement benefit due from the plan sponsor. The SSA notice will indicate the name and contact information for the plan, the plan sponsor, and the plan administrator, along with the amount and type of the benefit in the database.

However, if an individual listed on a prior year's Form 8955-SSA starts to receive his or her DB pension benefits in a later year, or takes a distribution or rollover of his or her full DC account balance, it is critical for the plan administrator to "reverse out" the registration of that individual's benefit with the SSA. This is accomplished by listing the individual again on the Form 8955-SSA in the year the benefits are paid (or rolled over), using special codes that indicate to the SSA database that that individual no longer has this private retirement benefit.

Proper Form Coding

The notification letter from the SSA is one reason why it is so important to complete the Form 8955-SSA properly. After many years have passed, participants often forget that they have already received a payment from their former employer's plan. And if a plan sponsor neglects to "reverse out" the

codes in the SSA database, the participant will receive the SSA Notice telling him or her that a benefit is due from the plan. The DOL's website instructs individuals receiving one of these letters that "you should review the plan information on this notice and contact the plan administrator identified to make a claim for any benefits due to you." Unless a plan administrator has kept scrupulous records of decades of past benefit payments, it is difficult to convince a former employee (or the beneficiary of a deceased employee) who is brandishing an official letter from the government that the former employee actually received the payment many years earlier.

Frequent record purges and plan recordkeeper changes over the years further reduce the likelihood that a plan administrator will be able to demonstrate definitively that a payment has already been made. This is where the Form 8955-SSA can provide valuable back-up evidence of plan payment. Plan sponsors who have kept copies of each year's 8955-SSA can show that former participants' payment codes on the 8955-SSA reflect that they received their payment. Although participants who begin receiving benefits in the same


year of employment termination will not appear on any 8955-SSA, they also will not receive the SSA notice, thereby reducing the likelihood of confusion over whether a payment is due.

Plan sponsors who implement a lump sum cash-out in a DB plan also must remember to take the final step of listing all participants who have taken the cash-out on a final Form 8955-SSA. In addition, a plan that merges into another plan will need to list all terminated vested participants under both the old plan information and the merged-in plan information in the plan year following the merger. If this step is not taken at the time of the plan merger, any subsequent attempts to "reverse out" those merged-in participants under the new plan number when they take payment of their plan benefits will not clear out the old plan's information in the SSA database.

Retaining Copies to Verify Future Claims

While plan sponsors and plan administrators of course should be diligent in meeting their reporting obligations with respect to Forms 8955-SSA, they should also regard these Forms

as important defense mechanisms in warding off the risk of having to make duplicate pension payments to former employees due to incomplete or missing records. Accordingly, plan sponsors should retain copies of all filed Forms 8955-SSA in order to substantiate a benefit entitlement or deferred vested benefits. These documents should help prove when the participant has received the benefit, and are valuable in the absence of other records or supporting information. This documentation can be used to explain a claim denial and serve as insurance against any potential litigation that may ensue. Without these records, it is possible that a benefit claim may become a "he said/she said" situation, leading to a costly litigation defense.

Plan sponsors who want to avoid future problems with faulty SSA information and forgetful plan participants should pay particular attention to the many benefits of properly filing and retaining copies of the often-overlooked but surprisingly useful Form 8955-SSA. 

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PSCA 2015 403(b) Plan Survey

Deadline: April 10, 2015

PSCA is conducting its seventh annual 403(b) plan survey. The survey is similar to PSCA's *Annual Survey of 401(k) Plans* and provides non-profit organizations the same quality benchmarking data. The survey provides data on:

- Automatic Enrollment
- Investment Advice
- Investment Options
- Organization Contribution Formulas and Rates
- Participant Education
- Participation Rates
- Plan Administrative Practices
- Withdrawals and Loans

For more information visit our website at <http://www.psc.org/403-b-plan-research>.

Please contact us at research@psc.org or 540.323.7828 with any questions.

