

Information Needed for Financial Options Risk Mitigation Act (INFORM)

FACT SHEET

A year ago, the Trump Administration issued Notice 2019-18, which announced that the Department of Treasury (Treasury) and the Internal Revenue Service (IRS) no longer planned to pursue changes to the Internal Revenue Code (Code) to prohibit pension plans from offering lump-sum buyouts to retirees. In the absence of such guidance, in order to ensure that all participants and beneficiaries who are put in the position to make such a crucial decision are afforded sufficient information to make an educated decision, Senator Murray has introduced the Information Needed for Financial Options Risk Mitigation (INFORM) Act.

What is a buyout? A buyout is an offer by a pension plan to a participant, who would receive a pension benefit in the future, or a retiree, who is already receiving pension benefits, for a lump-sum payment in lieu of the future lifetime payments from the pension plan. Companies who sponsor pension plans generally offer lump-sum buyouts to improve their balance sheets and reduce the total liabilities of their pension plans.

Why are buyouts a problem? When companies offer lump-sum buyouts, they transfer their risk to the participant or the retiree. With a traditional pension, retirees are guaranteed income for their lifetime, but if those participants or retirees are provided a lump sum instead, there is a strong chance they might outlive their savings. The complex actuarial formulas used to determine the immediate value of the lifetime pension benefit often leave participants or retirees, who accept a lump sum offer, with less money than they may have received otherwise. Moreover, in 2015 the GAO published a report that found that disclosures to retirees about buyout offers sometimes omitted key information and that retirees often did not fully understand the trade-offs in the choice they were given.

The **Information Needed for Financial Options Risk Mitigation Act (INFORM)** would require plan sponsors to provide participants and beneficiaries with the critical information that would allow them to make an informed decision when presented with such a lump sum offer. INFORM would require a paper notice to affected participants and beneficiaries 90 days before the period in which they must make a decision. The required notice would include information that would allow people considering what's best for their financial futures to compare between benefits offered under the plan and the lump sum, and would explain how the lump sum was calculated, the ramifications of accepting a lump sum such as the loss of certain federal protections, details about the election period, where to follow up with questions, and other information. INFORM would also require disclosure to the Department of Labor so information can be collected on these practices.