



## BEST PRACTICE

### **Preparing an Effective Summary Plan Description for Retirement Systems (1996 and 2010) (CORBA)**

**Background.** The primary means of communicating pension plan benefits information is often through a summary plan description (SPD). Many public employee retirement systems (PERS), in a shared responsibility with the plan sponsor, provide their participants with an SPD, either voluntarily or as a requirement of state law. An SPD is an important document that tells participants what the pension plan provides and how it operates, and describes all the significant features of the plan. It might be the primary material participants rely on for information about their retirement plan benefits. The practice of creating an SPD establishes a commitment to communicate and ensures that a broad-based level of plan information is made available to all participants.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that all state and local government pension plans prepare an SPD that completely, accurately, and clearly describes the significant components of the pension plan for participants.

- 1) Preparing the SPD – When preparing the SPD, plan sponsors and administrators should follow a comprehensive process that includes the following:
  - a) Assessing the informational needs of participants, their interests, and their general reading level.
  - b) Thoroughly analyzing the terms of the pension plan, its administration, and application to members and beneficiaries.
  - c) Preparing the initial draft of the SPD, which includes gathering information from relevant individuals and groups, including technical personnel, plan participants, and the plan’s administrative staff.
  - d) Having the retirement system attorney and actuary review the SPD for completeness and accuracy before finalizing the document. This review is important because courts might rely on the SPD as the most accurate description of the plan and might enforce the terms of an SPD, even if they are not included in an underlying plan document.
  - e) Carefully considering the level of detail in the SPD. A thorough understanding of the plan’s features is needed, but the information should not overwhelm participants. The best level of detail usually can be achieved by involving many individuals in the drafting process.
  - f) Including charts, tables, and graphs to increase readability and understanding. Most SPDs include examples showing benefits payable at various ages and years of service.
  
- 2) Provisions of the SPD – At a minimum, an SPD should provide the basic information summarizing the following components of the plan (in addition to complying with all applicable requirements of state and local law):
  - a) A description of the type of plan (i.e., defined benefit, defined contribution, hybrid) and citations of the governing law of the retirement system.
  - b) How the plan is administered, including the plan year, a description of the board of trustees and the plan administrator, and the plan administrator’s contact information.
  - c) Where and how to obtain a copy of the actual plan rules (e.g., statutes or separate plan document).
  - d) When an employee can begin to participate in the plan.
  - e) An explanation of contributions and issues related to withdrawals.

- f) Service rules, which includes service definitions such as periods of service, service credits, and purchase of additional service credits, if permitted by the plan.
  - g) How benefits are calculated. Benefits might include those received in retirement and upon disability, death, or termination of employment.
  - h) Benefit changes, rules, and funding requirements.
  - i) When benefits become vested.
  - j) When and in what form benefits may be paid.
  - k) A description of the rules relating to qualified domestic relations orders (QDROs).
  - l) Whether members are covered by Social Security retirement benefits and how they can get information about Social Security benefits or offset if not covered.
  - m) Circumstances that might result in disqualification, ineligibility, or denial or loss of benefits.
  - n) How to file a claim for benefits and how to appeal a denial of benefits.
  - o) Issues related to loans (for defined contribution plans).
  - p) Tax considerations related to benefit distributions.
  - q) Investment alternatives and fees for defined contribution plans (See *GFOA Best Practices, Participant Education – Guidance for Defined Contribution Plans* (2009) and *Monitoring and Disclosure of Fees for Defined Contribution Plans* (2008)).
  - r) Conversion rules and calculation of benefits and service when transferring from a defined benefit to defined contribution or hybrid plan, from a hybrid to a defined benefit plan, and combinations thereof.
  - s) A description of the member's responsibilities under the plan.
  - t) An explanation that the terms of the plan documents and governing statutes prevail if descriptions in the SPD should conflict with the provisions of the plan.
- 3) Distribution and Review – Plan sponsors and administrators should distribute the SPD to participants either at work, through the mail, or via electronic media such as e-mail. Plan sponsors should also emphasize that participants have a responsibility to familiarize themselves with the document to help them make informed decisions. In addition, the SPD should be:
- a) Available for review in the office of the retirement system or on its Web site.
  - b) Reviewed and updated at least annually and when the plan is modified or when legal or legislative changes would affect participants. When a plan is significantly modified, an updated SPD that reflects these changes should be distributed to participants.

### **References.**

- GFOA Best Practice, *Monitoring and Disclosure of Fees for Defined Contribution Plans* 2008.
- GFOA Best Practice, *Participant Education – Guidance for Defined Contribution Plans*, 2009.
- *Trustee Handbook*, The International Foundation of Employee Benefit Plans, 1990.
- *Employee Benefit Issues: The Multiemployer Perspective*, The International Foundation of Employee Benefit Plans, 1994.
- Summary Plan Description Distribution Requirements, BenefitsLink.com.
- Plan Information, United States Department of Labor, available at <http://www.dol.gov/dol/topic/health-plans/planinformation.htm>.

Approved by the GFOA's Executive Board, March 5, 2010.