

Information Needed for Financial Options Risk Mitigation (INFORM) Act of 2022

In 2015, the Government Accountability Office (GAO) [found](#) that participants and beneficiaries need better information when presented with lump-sum buyout offers to replace their lifetime income in retirement. This year, MetLife [reported](#) that a third of participants who took lump sums from their retirement accounts depleted their funds within five years on average and may regret making such decisions. Senators Murray, Smith, and Baldwin have reintroduced the Information Needed for Financial Options Risk Mitigation (INFORM) Act to ensure participants and beneficiaries are given sufficient information to make an educated decision on such a significant matter.

What is a buyout? A buyout is an offer by a pension plan to a participant or beneficiary for a lump-sum payment in lieu of 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 beneficiary. 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 due to living longer than expected or, as the MetLife study demonstrates, rapidly spend that lump sum. The complex actuarial formulas used to determine the immediate value of the lifetime pension benefit often leave those participants and beneficiaries who accept a lump sum offer with less money than they may have received otherwise. Moreover, GAO's 2015 report 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 (INFORM) Act of 2022** 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. The INFORM Act also would require a 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 is 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. The INFORM Act would further require disclosure to the Department of Labor, so information can be collected on these practices.