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NATIONAL RETIREMENT SERVICES, INC.

SMALL DISTRIBUTIONS CAN MEAN BIG SAVINGS

While the Internal Revenue Code and Employee Retirement Security Act specifically permit tax qualified retirement plans to force terminated plan participants with less than $5,000 in benefits to receive these benefits upon termination of employment, many plans are not doing so. These plans often have ex-employees with benefits under $5,000 and maintaining these small accounts creates significant expenses. These expenses, either borne by the plan participants or paid for by the employer, can be avoided by either a minor plan amendment or, in some cases, by simply carrying out the terms of the existing plan document.

Reduce Administrative Expenses!

Maintaining retirement benefits for terminated participants can be a costly proposition. Periodic disclosures concerning plan provisions, investment options, investment expenses, and benefit statements often must be provided. Retirement plan participant account maintenance involves significant expenses that must be paid (directly or indirectly) by plan participants or the sponsoring employer. Most of these expenses are incurred on a per capita basis, but are actually allocated as a percentage of account balances. This means that unless the employer pays all plan expenses, the true expenses of participants with small balances are not fully allocated to these participants. Instead, they must be absorbed by other participants with larger account balances.

Minimizing the number of plan participants can have other advantages. For example, the requirement for an annual plan audit is based on the number of participants and sometimes an audit would not have been necessary if former employees with small balances had their benefits distributed upon termination of employment. Defined benefit plans covered by the PBGC pay annual premiums based on participant count. In addition, there is a much higher likelihood that ex-employees with small benefits will become difficult or nearly impossible to locate, thus creating challenges when a retirement plan terminates and must distribute all benefits.

Further Expense Reductions!

Since 2005, federal tax law has required retirement plans that force benefit distributions to terminated participants with more than $1,000 and no more than $5,000 in benefits to pay these benefits to an Individual Retirement Account in the participant's name unless the participant requests distribution in an alternate form. All qualified retirement plans were required to be amended to contain this provision unless the plan by design did not require mandatory distributions of accounts in the $1,000 to $5,000 range. Fearful of being required to locate and contract with vendors who issue or broker IRAs of this sort, many plans simply set a $1,000 threshold for mandatory distributions, while a few went so far as to eliminate mandatory distributions of any size. In the intervening eight years, a thriving market for these forced IRAs has emerged and it is relatively easy for an employer to have an arrangement with a vendor who will take any and all participant benefits regardless of size. These vendors also stand ready to set up IRA accounts in amounts above $5,000 if the plan terminates and the participant cannot be located or is non-responsive. As might be expected, few plans that were designed to have no mandatory distributions over $1,000 have been subsequently amended to require such distributions. Employers who sponsor qualified retirement plans, and those who assist and advise them, would do well to examine plan provisions to determine whether mandatory distributions are required and, if they are, determine the dollar threshold that triggers the distribution. Moving the threshold from $1,000 to $5,000 often produces substantial expense reductions. Moving from having no mandatory

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distributions to $5,000 can produce even greater expense reductions.

Additionally, many employers who have retirement plans designed to require mandatory distributions simply do not administer their plans in accordance with this provision, resulting in a number of small ex-employee accounts generating expenses when they could have been removed from the plan. The reason for this is either a reluctance to police the plan provision and insist upon a distribution to non-responsive participants, or ignorance of the plan provision on the part of the individuals who administer the plan. Technically, failure to make mandatory distributions per the terms of the plan document can cause the plan to lose its tax qualified status or force the employer into Audit CAP in the event of an IRS audit. As stated above, maintaining these low balance accounts for terminated employees represents a substantial plan expense that can be avoided by simply following the terms of the plan.

Conclusion: Keep the Plan Lean & Clean!

If you are an employer with a retirement plan that does not require mandatory distributions or an employer with a retirement plan that has mandatory distributions that are not administratively enforced, you would do well to take steps to implement and enforce mandatory distributions of benefits of $5,000 or less. It should save money, as well as time spent keeping track of ex-employees with small benefits. NRS is prepared to assist our clients who are interested in this subject.

REMINDERS FOR JULY

July 15 – Defined contribution plans that permit participant investment selection must issue first quarter plan participant benefit statements if the Plan Year ended 02/28/2013.

July 15 – Form 5500/8955-SSA – Forms due for Plan Year ending 9/30/2012 that are on extension.

July 15 – Retirement plan employer contributions are due for employer tax returns due July 15 covering the fiscal period ending 04/30/2013 and for the fiscal period ending 10/31/2012 that are on extension until July 15.

July 31 – Form 5500/8955-SSA – Forms due for Plan Year ending 12/31/2012 that have not been placed on extension.

July & August – Annual notices to participants who direct investment of their plan assets are required under Reg. 2550.404a-5 and are due no later than one year after the previous year’s notices. The initial year notices were largely distributed in July and August 2012. This means that the second annual notice for those plans is due in July or August 2013.

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FOR MORE INFORMATION OR TO REQUEST A PROPOSAL, PLEASE VISIT OUR WEBSITE AT WWW.NRSERVICES.COM, OR FOR SALES SUPPORT, PLEASE CONTACT:

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