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Fast Facts about the new Automatic Rollover Regulations

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ThePensionSpecialists, Ltd.



Beginning March 28, 2005, under new Department of Labor final Regulations, retirement plans will not be able to cash out participant accounts in excess of \$1,000 without a participant's consent. If participants do not consent, any involuntary distributions must be rolled into an Individual Retirement Account (IRA).

Some of our clients have already received this recommendation from their respective ERISA attorney, and we urge that your plan be amended to reflect this change as soon as possible. This is a plan qualification requirement—all plans must be amended this plan year in order to comply with these new regulations and to retain qualification.

Background

Under current law, Plan Administrators may distribute a check to participants failing to respond to a cashout request, as long as an account balance, without including any rollover contributions, is less than \$5,000. For this purpose, a plan is allowed to disregard amounts attributable to rollover contributions.

This benefited the plan administrator because it allowed the plans to pay out small balance terminated participants and eliminated the need to carry them forward in future.

Beginning March 28, 2005, retirement plans will no longer be able to cash out participant accounts greater than \$1,000 without the participant's consent. However, the ability to disregard

rollover contributions does not apply in determining whether a participant's accrued benefit is over \$1,000 for automatic rollover purposes. If the participant does NOT consent, any involuntary distributions must be rolled into an Individual Retirement Account (IRA). As a result, Plans will be required to set up automatic rollover IRAs for distributions of small accounts in excess of \$1,000 but less than \$5,000. These regulations are effective for distributions on or after March 28, 2005, and include extensive compliance procedures for these IRA rollovers. This new rule affects all plan participants who terminate OR who have terminated in the past but still retain small account balances in your plan.

In our opinion, the simplest way to deal with this new requirement is to reduce the cash out limit from \$5,000 to \$1,000.

Steps To Eliminate Cash-outs Over \$1,000

If your plan wishes to avoid application of the new automatic rollover requirements, you should consider the following steps:

- Pay out any current terminated participant accounts of \$5,000 or less prior to March 28, 2005, if permitted by the terms of the plan.
- Adopt the reduction in cash out limit amendment immediately to reduce the mandatory distribution amount to \$1,000 or less;

Story continued on reverse side

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- Government Filings
- Termination Services
- Human Resource Administration
- Payroll Administration

Communication Services

- Group Orientation Meetings
- One-on-One Enrollments
- DOL 404(c) Compliance
- Employee Booklets

- Distribute a summary of material modification to the summary plan description describing the change to all plan participants once the plan has been amended; and
- Use revised plan distribution forms for participants terminating after March 28, 2005, reflecting this reduction in cashout limit.

Steps To Implement The IRA Rollover Requirement

If you do not reduce the cash out limit by plan amendment, you will be required to set up mandatory IRAs for all participants who have terminated and have account balances between \$1,000 and \$5,000.

The necessary steps include:

- Choose and enter into a written agreement with a financial organization willing to accept automatic rollovers.
- Choose a default IRA investment among those designated by DOL regulation.
- Amend your plan document to reflect the new rules.
- Notify participants in writing of the automatic rollover requirements, with special tax notice.

• Modify the summary plan description to explain the automatic rollover requirements.

After reviewing this regulation with other ERISA attorneys and pension specialists, it is our position that most plans will amend your plan to reduce the cashout limit to \$1,000. Any charges for plan amendment can be paid from plan assets. Please call us if you have any questions about this requirement or if you wish to discuss this further.

If you wish to read more about these new rules, you can find the regulations on the internet:

Department of Labor Regulations issued September 28, 2004:
<http://www.dol.gov/ebsa/regs/fedreg/final/2004021591.pdf>

IRS Notice 2005-5 issued 12/29/04:
<http://www.treas.gov/press/releases/reports/rollovernotice20055.endjs2169.pdf>

IRS Newsflash issued 2/17/05:
http://www.irs.gov/pub/irs-tege/epnf_021605.pdf

Should you have further questions related to the topic(s) discussed in this publication or information seen on our website, please contact us by calling 815.394.5500 ext. 103. Our Specialists are here to help.

About ThePensionSpecialists,Ltd.

ThePensionSpecialists,Ltd. is an independent retirement plan administrator. Our mission is to provide the highest quality services to assist clients in reaching their objectives.

Formed in 1987, we have grown to service over 930 employer retirement plans, with services covering over 25,000 plan participants with over \$350 million of retirement plan assets. We consult with clients to implement plans and proactively service them with interactive communication aimed at maximizing benefits, while

solving problems. Our in-house staff performs all plan administration.

ThePensionSpecialists,Ltd. provides services to many well known companies, which include Broker Dealers, Investment Firms, CPA Firms, Law Firms, Medical Groups, hospitals, Engineers and Retail Businesses.

For more information about us, access our website at www.pensioninsider.com, or call us at 815.394.5500, or toll free at 800.963.5501.

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