Alliance

News & Views

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“Your Retirement Plan Might be Partially Terminated!”

An Unintended Consequence of Reducing Your Workforce

Tough economic times are forcing companies to consider cut backs. Those choosing to cut staff may unwittingly fall into a retirement plan trap known as a ‘Partial Plan Termination’.

Partial Plan Termination may occur when the workforce reduction is at least 20% of the employees covered by the plan during a specified period (e.g. the Plan Year). Other facts and circumstances must be considered when determining whether a Partial Plan Termination has occurred. For example, if the reason for the workforce reduction is Employer initiated (such as a lay-off), then it is likely that this may result in a Partial Plan Termination. The result is that under Code Section 411(d)(3), all affected employees must become fully vested in their benefits - eliminating otherwise valuable forfeitures for your company.

In addition to the loss of forfeitures which may have been used to defray plan expenses, Plan Sponsors may be required to make a second distribution to terminated employees at the end of the Plan Year if the workforce reduction is deemed a partial plan termination.

At this time, there is no proposed relief for Employers facing Partial Plan Termination as a result of the current economic conditions. It is important to be aware that changes in your company can have significant impact on your plan. Please contact us with any concerns as to whether a staff reduction has affected your Plan. Alliance is here to guide you through these tumultuous economic times and help maintain your Plan’s qualified status.

Focus on Service
Personal Attention

Individual attention in a retirement plan is often promised but vaporizes when the sales team leaves. You are then left with the low level maze of the dreaded call center. This, as our clients know, is not the way questions are answered at Alliance. Frustration and misinformation is avoided by providing one contact who knows your plan and will serve as your go-to person.

Among many of the factors that differentiate our professional service, perhaps the most important is our commitment to personal client service. This commitment has resulted in extremely long lasting beneficial relationships with clients.

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Terminated Employees - Pay Them Out or Pay the Price !

Added Administrative and Communication Burden

Former employees can be incredibly burdensome to a retirement plan. Providing all participants, regardless of employment status, with plan materials is a responsibility that becomes more time consuming as employees leave the company. Terminated participants are entitled to the Summary Annual Report, updated Summary Plan Descriptions, Summary Material Modifications and information on investment changes. Time is valuable and comes at a price; therefore, tracking down a new address for a plan participant that is no longer with the company is an extra step.

Fiduciary Liability and Risk

Every plan sponsor has fiduciary liability and risk. Retaining former employees' account balances in a plan can increase that liability. Dissatisfied with a termination, workers may be tempted to stir up trouble. While lawsuits against a plan sponsor are vastly unsuccessful, they certainly are a very unwanted and potentially expensive problem.

Positive Changes - Take Action to Manage Terminated Employees' Accounts

- Encourage terminating participants to roll over their balances to an IRA. Doing so is a tax free way to move money and allows a greater variety of investment options.
- Minimize your risk for potential lawsuits by providing terminating employees with education and guidance about their options.
- Promote the opportunity for new employees to roll money into the Plan during enrollment.
- Avoid plan audits by keeping your participant count under 120 as of the beginning of a plan year.

Around the Corner

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Try Them, You May Just Like Them"

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