Pension Plan Fix-It Handbook

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Retiring Boomers, Closures, Mergers Lead List Of Good Reasons to Assess Distribution Process

By Mary B. Andersen, CEBS, ERPA, QPA

Baby boomers are retiring in droves and beginning to collect Social Security. Many are receiving notices from Social Security that they may be entitled to retirement benefits from a former employer. As a result, employers must answer such inquiries about potential benefits.

In the years since these employees' departure, some companies have gone through downsizing, restructuring, plan service-provider changes and internal payroll and HR system changes. Others have spun off or acquired divisions. At the same time, the service-provider market has changed through acquisition and dissolution. Is it really any wonder why certain plan administrative practices are not so seamless as they should be?

Could the raft of retiring baby boomers and their potential claims be the catalyst for a reported regional U.S. Department of Labor initiative focusing on benefit distributions from defined benefit plans? DOL hasn't confirmed the activity, so we don't know for sure, but regardless, it is a good time to revisit these key plan administrative areas:

- Participant records
- Lost participants
- Terminated participants with a vested benefit
- Required minimum distributions

Participant Records

Basic demographic data is critical to accurate plan administration (see box at right).

Defined benefit plans generally review participant data during the actuarial valuation process. It is not unusual for benefits department staff to inherit incomplete former participant records from an acquisition and have no knowledgeable person available to answer questions.

When faced with this situation, some companies have resorted to plugging critical data such as date of birth in order to continue the valuation process. This should be less of a problem with defined contribution plans, because of their frequent participant statements, as long as the plan sponsor has an accurate mailing or email address. It is important to develop a process to address missing participant data.

Lost Participants

Both the IRS and DOL offer some guidance on dealing with lost participants. (See also ¶760 — Lost Participant Issues.)

IRS

Until Aug. 31, 2012, the IRS provided letter-forwarding services to help locate missing plan participants. However, the agency discontinued this service because it believed that plan sponsors have other methods to locate

See *Andersen*, p. 2

Basic Participant Demographic Data

Basic defined benefit demographic data includes:

- date of birth;
- date of hire;
- date of termination;
- date of rehire;
- salary history;
- hours worked, in the case of hourly paid workers;
- rate of pay;
- amount of vested benefits; and
- up-to-date contact information

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missing participants and beneficiaries, such as commercial locator services, credit reporting agencies and internet search tools.

In addition, Revenue Procedure 2013-12, which describes plan correction methods under the Employee Plans Compliance Resolution System, provides information on steps to locate terminated participants entitled to additional benefits as a result of a correction. The revenue procedure requires that reasonable actions be taken to find all current and former participants and beneficiaries to whom additional benefits are due, but who have not been located after a returned mailing to the last known address.

In general, such actions include, but are not limited to:

- a mailing to the individual's last known address using certified mail;
- use of the Social Security letter-forwarding program;
- a commercial locator service;
- a credit reporting agency; or
- internet search tools.

Depending on the situation, the use of more than one search method may be appropriate.

DOL Guidelines

DOL in Field Assistance Bulletin 2014-01 lists the following search methods as the minimum steps the fiduciary of a terminated defined contribution plan must take to locate a participant:

- Send a notice using certified mail.
- Check the records of the former or current employer, or any related plans of the employer.
- Send an inquiry to the designated beneficiary of the missing participant.
- Use free electronic search tools.

FAB 2014-01 also describes additional appropriate search methods and the distribution options for a terminating plan, if a participant cannot be located.

These methods, while geared to terminating plans, provide some guidance for ongoing plans.

Terminated Participants with Vested Benefits

This is very difficult issue for many plan sponsors, especially those that, through a corporate acquisition, now have responsibility for participants they don't know. In addition to the guidance provided by the IRS and DOL, plan sponsors may wish to check:

- Facebook
- Twitter
- professional organizations
- community organizations
- emergency contact information in employment records
- beneficiaries noted in any benefit paperwork that might have been acquired
- internet telephone directories

It is not an easy undertaking, and most plan sponsors do not have the resources to conduct time-consuming searches for large numbers of lost participants. There are organizations that may do the search for you, for a fee.

No matter what steps you take to locate a lost participant, make sure you document the process.

Required Minimum Distributions

Required minimum distributions must begin for most people no later than the April 1 following the end of the calendar year in which a participant reaches age 70½ or retires. If an employee is a 5-percent owner, the RMD must begin the April 1 following the calendar year age 70½ is attained, regardless of whether the employee retires. Failure to distribute an RMD subjects the participant or beneficiary to a 50-percent excise tax.

Failure to meet the minimum distribution rules is a qualification issue that can be corrected under the EPCRS program. The IRS will waive the excise tax if the plan sponsor files under the Voluntary Correction Program or Audit CAP program and requests the waiver.

RMDs can be problematic if the plan sponsor and the service provider do not carefully spell out roles and responsibilities. It is not unusual for a service provider, particularly in the case of defined contribution plans, to offer to notify participants subject to an RMD.

See *Andersen*, p. 3

Andersen (continued from p. 2)

Sometimes the service is just that, a notification with little or no follow-up to ensure the RMD was actually made. Actuaries generally will remind plan sponsors of RMD-eligible participants through the actuarial valuation process, but the reminders are only as good as the data provided!

What Should Plan Sponsors Do?

As Ben Franklin said, "an ounce of prevention is worth a pound of cure."

Scrub Your Data

Each year, whether through health and welfare open enrollment, Form 5500 preparation, non-discrimination testing or actuarial valuation data submission, plan sponsors have the opportunity to scrub their data. Yes, it can be a daunting task but working with service providers to identify questionable data and taking steps to clean it up, even on an incremental basis, can go a long way should DOL knock on your door.

Lost Participants

Many plan sponsors have begun the task of locating lost participants. Engage a service provider that specializes in this process. Plan sponsors should make sure they understand what the search organization will and will not do, and how results will be documented.

Monitor Your Service Providers

You may have outsourced administrative functions but plan sponsors cannot outsource their fiduciary responsibility. In the unlikely event a service provider accepts fiduciary responsibility, the plan sponsor still has the fiduciary responsibility to monitor that service provider!

Mary B. Andersen is president and founder of ERISAdiagnostics Inc., an employee benefits consulting firm that provides services related to Forms 5500, plan documents, summary plan descriptions and compliance/ operational reviews. Andersen has more than 25 years of benefits consulting and administration experience. Andersen is a CEBS fellow and member of the charter class. She also has achieved the enrolled retirement plan agent designation. Andersen is the contributing editor of Thompson's Pension Plan Fix-It Handbook.