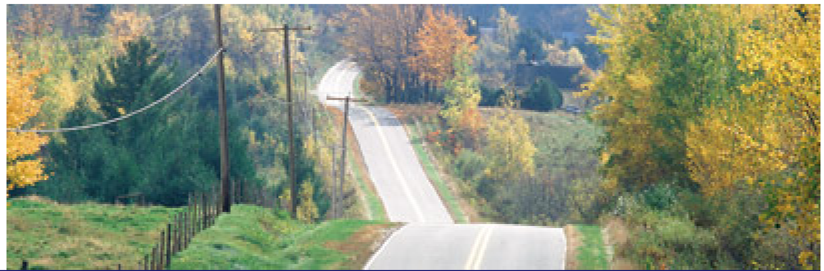

# THE WHITE PAPER

Strategies for Managing Your Assets

October 2016

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## When Employees Leave, but Plan Accounts Stay

Work force reductions may leave some employers with low-balance plan accounts owned by former employees. These accounts can be expensive to maintain and burdensome to administer. Below, you will find answers to commonly asked questions about handling these small accounts.

**Can we just distribute small accounts to the former employees?** Check your plan's provisions. Under federal law, plans can provide that, if a former employee has not made an affirmative election to receive a distribution of his or her account assets or to roll those assets over to an IRA or another employer's plan, the plan can distribute the account - as long as its balance does not exceed $5,000. For accounts valued at $1,000 or less, the plan can simply send the former employee a check for his or her balance. Distributions of more than $1,000 must be directly transferred to an IRA set up for the former employee. Accounts valued at $1,000 or less may also be rolled over for administrative convenience.

**Should nonvested assets be included when determining whether a mandatory distribution can be made?** You only have to include the value of the former employee's nonforfeitable accrued benefit. If the employee was not fully vested in any portion of the account when he or she left your employ, you do not have to count the nonvested portion.

**What about rollovers?** A plan may provide that any amounts that a former employee rolled over from another employer's plan (and any earnings on those rolled over assets) are to be disregarded in determining the employee's nonforfeitable accrued benefit. Thus, you may be able to cash out and roll over accounts greater than $5,000. Note that rolled over amounts are included in determining whether a former employee's accrued benefit is greater than $1,000 for purposes of the automatic rollover requirement.

What requirements do we have to meet when rolling over a small account? To fulfill your fiduciary duties as a plan sponsor, the following requirements must be met:

- The rollover must be a direct transfer to an IRA set up in the former employee's name.
- The IRA provider must be a state or federally regulated financial institution, such as an FDIC-insured bank or savings association or an FCUA-insured credit union; an insurance company whose products are protected by a state guaranty association; or a mutual fund company.
- You must have a written agreement with the IRA provider that addresses appropriate account investments and fees.
- The IRA provider cannot charge higher fees than would be charged for a comparable rollover IRA.

(Other fiduciary responsibilities apply.)

**Are there rules for investing the rollover IRA?** The investments chosen for the IRA must be designed to preserve principal and provide a reasonable rate of return and liquidity. Examples include money market mutual funds, interest-bearing savings accounts, certificates of deposit, and stable value products.

**Do we have to provide disclosures?** Yes. Before you cash out an account, you must notify the former employee in writing, either separately or as part of a rollover notice, that, unless the employee makes an affirmative election to receive a distribution of his or her account assets or rolls them over to another account, the distribution will be paid to an IRA. As long as you send the notice to the former employee's last known mailing address, the notice requirement generally will be considered satisfied. In addition, you must include a description of the plan's automatic rollover provisions for mandatory distributions in the plan's summary plan description (SPD) or summary of material modifications (SMM).

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