

Termination Distributions

Distributions for Terminated Participants



The balances in a Qualified Retirement Plan are subject to special distribution rules when a participant terminates employment depending on the vested balance in the account. It is important as a plan sponsor to monitor termination distributions and ensure that the Involuntary Cash Out Provisions are being followed.

What Happens When a Participant Terminates?

Terminated participants can request a distribution of their account following termination of employment. If a participant does not request a distribution, the plan sponsor or (if you choose) JULY will send distribution information to the participant. For terminated participants that do not make a distribution election within a specified time of generally 30 days, these participants would then follow the Involuntary Cash Out Provisions.

What is the Involuntary Cash Out Provision?

Retirement plans are required to outline what happens if a participant does not elect a distribution. These provisions are outlined in the document and must be followed by the plan sponsor.

- **Vested Balance more than \$5,000, excluding the rollover source** – The balance will remain in the plan until the participant elects a distribution.
- **Vested Account Balance between \$1,001 and \$5,000** – The balance will either be paid out into an Automatic Rollover IRA (ARO) or will remain in the plan until the participant elects a distribution.
- **Vested Account Balance of \$1,000 or less** – The balance will either be paid out as a lump sum cash distribution to the participant or will be paid out into an ARO.

What Automatic Rollover Services does JULY Offer?

JULY assists our clients by working with PenChecks to enhance distribution processing, lower fees, and reduce fiduciary liability. The plan sponsor notifies JULY when a termination occurs and JULY then reviews the information and notifies PenChecks to communicate with the participant, monitor the 30 day wait and process

the distribution if elected. If the participant does not respond, JULY and PenChecks will automatically rollover the participant balances that are less than \$5,000 or cash out those less than \$1,000 depending on the plan document provisions.

Once the participant balance is rolled to PenChecks the following steps are taken:

- Each Participant receives a welcome letter notifying them of their account and how to claim it.
- Each Account is added to the National Registry of Unclaimed Funds
- Participants can claim their accounts securely online 24/7
- PenChecks searches annually for each IRA participant and mails them a letter of notification
- PenChecks files all appropriate tax forms including 5498 and 945.

Benefits of Using PenChecks

There are many benefits of using PenChecks including, lower fees, reducing fiduciary liability, and reducing administrative burdens.

- **Lowers Fees** – PenChecks manages the cash out of terminated participants which in turn helps reduce the plan administration and recordkeeping fees for your plan.
- **Reduces Fiduciary Liability** – When participants transfer out of your plan, you will no longer have fiduciary liability for their accounts. In addition, you will be following your plan document provisions by processing the involuntary cash outs.
- **Reduces Administrative Burden** – PenChecks and JULY will work closely together to manage the termination distribution process. They search for lost participants, mail paperwork, and offer counseling to participants about their options.

For more details about Termination Distributions that may be required for your plan, contact your JULY Client Service Manager at 888.333.5859.

This document is intended to provide general information and is not meant to be a comprehensive technical document. For details on how this might affect your plan, please contact JULY.