Plan Terminations

A Segment in Our Retirement Rescue Series

While a retirement plan is established with the intention of continuing indefinitely, the plan may be terminated when it no longer suits the needs of the business. Reasons may include company changes, such as acquisition, merger, bankruptcy or the establishment of a new plan type.

Steps to take in Plan Termination

Generally speaking, the process of terminating a retirement plan includes 6 steps: 1) plan amendments; 2) providing notice of termination to all participants and beneficiaries; 3) paying any outstanding required employer contributions; 4) distributing Plan assets; 5) filing the final Form 5500 series return; and, if desired, 6) applying for a final determination letter from the IRS.

Notice to Participants & Beneficiaries

Participants and Beneficiaries must receive notice of Plan termination and their election rights for distribution between 30 and 180 days before the date of distribution. Notices should only be delivered when the Plan Sponsor is certain that distribution will reasonably occur within the following 180 days.

Plan Amendment

The Plan must be amended to establish a termination date, comply with all changes in the law and qualification requirements, cease contributions, provide full vesting to all participants, and authorize distributions upon termination. Although the Plan is being terminated, it must comply with all law changes and qualification requirements even if the Plan is not a part of the current restatement cycle. Full compliance will allow the plan to maintain tax-preferred status at termination and ensure distributions are eligible for rollover to another qualified plan. The IRS has a cumulative list of changes in qualification requirements.

Plan Sponsors may choose to request a determination letter from the IRS regarding the Plan's qualification status by filing a Form 5310.

Distribution of Assets

Plan assets must be distributed as soon as is administratively feasible after the Plan termination date. Based on IRS guidelines, assets should be distributed within one year of plan termination. A Plan is not considered to be terminated if assets are not distributed, thus if assets are not distributed in a timely manner, the Plan must continue to comply with Internal Revenue Code.

Additional Requirements for Defined Benefit Plans

Pension plans covered by Title IV of ERISA, must comply with additional requirements imposed by the Pension Benefit Guaranty Corporation (PBGC) which can be found on the PBGC Plan Terminations webpage.

For more information on Plan Terminations, visit the IRS website.
Retirement Plans FAQs regarding Plan Terminations. http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Plan-Terminations
Terminating a Retirement Plan. http://www.irs.gov/Retirement-Plans/Terminating-a-Retirement-Plan

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