

## Terminated Participants: The Importance of a Proactive Strategy

Consider this situation. A former employee requests a total payout of his or her retirement benefits. The distribution is processed, and the account is closed. You assume the matter is complete and move on. Then that pesky notification from the financial institution arrives indicating the participant never cashed the distribution check. Now what? As Plan Sponsor you have a fiduciary responsibility for the uncashed funds. According to the Department of Labor each distribution made by the Plan will remain a Plan asset until the check is cashed or wire transfer is successfully completed. This means when a distribution is made you could ultimately become required to ascertain the whereabouts of the participant or beneficiary who has become a missing payee.

The industry is becoming increasingly aware of this seemingly small problem which has grown into what might be billions of dollars of unclaimed benefits around the country. This year the Pension Benefit Guaranty Corporation (PBGC) extended its missing participant program to cover terminating Defined Contribution Plans. The addition of this optional program was a welcomed and much needed change. However, the concern still remains for active Plans, especially so for those with a large number of terminated participants with vested balances of less than \$1,000. Often these participants do not respond to requests to affirmatively direct their benefits and then become missing when there is no good address available.

EBS encourages Plan Sponsors to take time to review exiting employee processes and update your personnel and Plan records as needed. Here are a few suggestions to consider when dealing with terminating participants.

1. Ask the terminating employee to verify their current address before leaving and update Plan records. Advise them to provide an updated address should they relocate in the future.

2. Include the retirement plan in the exit conversation. Provide a print out of their most recent statement as a reminder of the account.
3. Notify your EBS Retirement Plan Professional when a participant terminates. For Plans with a vesting schedule provide the number of hours worked prior to termination. This will help with expediting distribution processing.
4. For terminating employees with vested balances of less than \$1,000 let them know about your Plan's involuntary cash-out provisions so they will expect to receive a check in the near future should they fail to respond. Most distribution forms include force-out language also.
5. Review your Plan's valuation reports for employees who terminate with a zero balance and then receive an Employer contribution later. Refer back and follow suggestions 1-4 if needed.
6. Periodically review participant addresses. November/December could be a good time to review addresses since you are preparing for W-2s during this time. Be sure you have good addresses for current participants, terminated participants, and beneficiaries with account balances.
7. If not a current provision, consider amending your Plan to allow force-out of vested balances that fall within the range of \$1,000 - \$5,000 to an Individual Retirement Account (IRA).

We hope the information provided will help you ensure that participants receive their benefits timely. It is important to note that there is a myriad of other issues to consider when dealing with missing participants which are not addressed in this article. For a more detailed discussion or to inquire regarding your unique situation please contact your EBS Retirement Plan Professional.