



Legislative Update

January 14, 2005

IRS Releases Guidance on Automatic IRA Rollovers

Amendment required to plans that include mandatory distributions

On January 4th the IRS released Notice 2005-5, addressing “Automatic IRA Rollovers,” which were introduced with the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). If your retirement plan includes mandatory distributions (involuntary cash-outs to participants), this Notice requires your consideration. It’s important to note that the IRS has not yet provided clear guidance on the actual implementation of the requirements of the Notice. However, ACI wants to make you aware of the general implications of the Notice.

Before March 28, 2005, anyone who sponsors a plan that includes mandatory distributions must evaluate the importance of these distributions to the operation of the plan, and your willingness to comply with new regulations if you retain mandatory distributions after March 28th. The Notice requires the adoption of a model amendment to your existing retirement plan document if you retain mandatory distributions.

What are Automatic IRA Rollovers?

EGTRRA required that mandatory distributions of more than \$1,000 and not more than \$5,000 be automatically rolled over to an IRA if the participant fails to make an election to receive the distribution or have it rolled into another qualifying savings vehicle. The Notice implies that the employer will execute the documentation necessary to establish the IRA and will determine how IRA assets are initially invested. This raises several other issues, which we hope will be addressed in the near future.

What’s next?

The Los Angeles Benefits Conference, which was co-founded by Pat Byrnes in 1992, is scheduled for January 27th and 28th. The issue of automatic IRA rollovers is sure to garner a significant amount of attention from both the private sector and the IRS, given its complexity and the looming compliance date. As we learn more from the Benefits Conference, we will relay that information to you.

For the moment, we suggest that sponsors of plans that include mandatory distributions do two things:

- First, if you have terminated participants with account balances or lump-sums worth less than \$5,000, you may want to process mandatory distributions to these participants before March 28th.
- Second, begin evaluating the importance of this feature. If a sponsor determines that these distributions are not vital to the plan’s successful operation, the simplest course of action may be to simply amend them out of the plan document by March 28, 2005, thus avoiding the new compliance requirements.

As always, should you have any questions, please feel free to call your plan administrator.