

The Importance Of Timely Distribution Processing

If you use the services of Trombino Pension Administrators, Inc. to assist in your distribution process, you should make it a practice to send us a Distribution Request Form as soon as possible following the termination of a plan participant.

One of the responsibilities of the Plan Administrator is to ensure that the plan is operated in accordance with the provisions of the plan document. The plan document will usually have a large number of provisions relating to plan distributions. These provisions are in place to help the Plan Administrator identify who is eligible for a distribution, the form a distribution may take, when distributions are available, situations in which a distribution must be made from the plan, as well as situations in which a participant may delay distribution from the plan.

It is important for the Plan Administrator to be well acquainted with these provisions and to have a set of procedures in place to ensure the distribution process is handled correctly and timely. Not to do so can lead to operational failures. For example, many plans provide that if a participant terminates service with a vested account balance that is less than a specified amount (usually \$1000 or \$5000), and they do not provide distribution instructions upon receiving proper notification, the participant's account balance should be automatically distributed. To not make this type of "automatic cashout" distribution would be an operational error.

When a participant terminates service, it is a good practice for the Plan Administrator to remind the participant about their retirement plan account as part of the exiting procedures. The appropriate distribution election form, IRS notice, and other required notices can be provided at that time, or sent to the participant soon after.

This is a good practice for a number of reasons. First, it ensures that all participants are treated equally under the terms of the plan. Second, it ensures that the distribution provisions of the plan are executed timely. Third, it decreases the chance of a terminated participant becoming a "missing participant" who is unable to be located at a later date. Fourth, it helps to limit the administrative burden that often accompanies having a large number of terminated participant account balances in the plan.

Finally, in the case where a terminating participant has an outstanding plan loan, the Plan Administrator has a duty to timely inform the participant of the plan's rules regarding the outstanding loan. For example, most plans provide that the outstanding balance becomes payable upon termination or the loan will be defaulted. Often the plan has a grace period of time in which the participant can decide to pay back the outstanding balance and avoid default, or not pay back the outstanding balance and allow the loan to default. The rules for avoiding a loan default, the tax consequences of a loan default, and the timing of a loan default all need to be disclosed to the terminated participant.

For those Plan Administrators who use Trombino Pension Administrators, Inc. to assist in the distribution process, all of the above can be accomplished by simply providing us with a Distribution Request Form at the time of a participant's distribution. Upon receipt of the Distribution Request Form we will send a distribution package of information to the participant that contains a distribution election form, information regarding the tax consequences of the distribution, the distribution options that are available under the plan, the circumstances under which their account may be distributed without their consent, as well as information regarding their outstanding plan loan, if applicable.

If you would like to review your plan's distribution provisions or distribution procedures, or if you are unfamiliar with our Distribution Request Form, please do not hesitate to contact our office, and one of our administrators will be happy to discuss this very important aspect of plan operation with you.

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