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PKF O'CONNOR DAVIES ACCOUNTANTS AND ADVISORS

Employee Benefits Plan Newsletter

Lost Participants in Employer-Sponsored Retirement Plans

By Louis F. LiBrandi, Principal

Employers who sponsor retirement plans are reminded to implement procedures for dealing with former plan participants who leave their vested account balances in the plan long after they have separated from service with their employer. We previously issued a newsletter on this matter. We advised our readers that the Department of Labor ("DOL") had commenced investigations of large defined benefit plans that had reported on Line 6 of their Form 5500 a significant number of retired or separated participants entitled to future benefits. This issue is applicable to both defined benefit and defined contribution plans.

We now have an update related to lost participants in employer-sponsored retirement plans that we wish to share with our readers.

Maintaining Contact Records

It is our understanding from attending practitioner community events that the IRS has begun to review an employer's procedures and processes for maintaining contact or an address for their former workers. In this connection, the IRS Employee Plans Compliance Unit ("EPCU") has developed a project which focuses on plans that may have incurred a failure to provide a benefit. This project is in response to a Form 5500 Schedule H, Line 4i, response of "yes" to the question of whether the plan failed to provide any benefit when due under the plan. Respondents to the question are sometimes marking "yes" because they lacked procedures for maintaining contact information on former participants who relocated or who failed to process a check received from the plan.

Costs Associated with Unclaimed Plan Benefits

The costs to employers of having to manage unclaimed money left behind by former plan participants can be substantial. Many fees charged by a plan's service provider are levied on a "per-participant" basis, so a plan with a considerable number of former participants who have not claimed their vested account balances could become costly to the employer.

In addition, the administrative burden and the resources required to locate former participants who may have moved with no forwarding address, or perhaps — and for whatever reason — will not accept a payment or cash a check from the plan, can be very time-consuming. Most importantly, the employer maintains the fiduciary risks and responsibilities for the accounts of former employees who are no longer productive for the organization but, nonetheless, are required to be notified of their protected benefit.

The Takeaway

As government regulators appear to be focused on this issue, it becomes ever more vital for employers to develop and maintain a rigorous process — including written procedures — to maintain contact information on former employees and to locate them should contact be lost.

Contact Us

PKF O'Connor Davies, LLP provides a full spectrum of compliance services for qualified and non-qualified employee benefit plans. For more information, please email Tim Desmond, Partner at tdesmond@pkfod.com or Lou LiBrandi, Principal at llibrandi@pkfod.com or by telephone to 212.286.2600.

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