

What to Do When a Participant Terminates Service

There are several critical steps to follow when a participant terminates services. Please read the instructions below carefully to ensure the former employee receives the appropriate distribution forms. **The initial paperwork can be found on the Prime Plan Solutions Web site under the “Distribution Forms” link. Select “Separation from Service” from the drop-down menu.**

The IRS and Department of Labor require that the participant receive adequate notice of his/her distribution rights under the plan within a reasonable time before the distribution. Notification must include the “Special Tax Notice Regarding Plan Payments” provided not more than 180 days nor less than 30 days before the actual distribution. Forms contained in this guide include a waiver of the minimum 30-day period. However, the 180-day period cannot be waived.

Most plans make the employer contribution deposit at the end of the plan year (i.e. required Safe Harbor Match, Safe Harbor Non-Elective Contribution, Profit Sharing, or Discretionary Match). A distribution request for the terminated participant can be made prior to that final contribution, but the Special Tax Notice Regarding Plan Payments and distribution paperwork may need to be provided again after the employer contribution is deposited.

Alternately, you may choose to make the Safe Harbor Match, Safe Harbor Non-Elective Contribution, Profit Sharing, or Discretionary Match deposit for every participant through the last pay period in which the terminated participant contributed. **You may not make the employer contribution only for the terminated participant.** According to the IRS, employer contributions must be deposited at the same time for every eligible participant in the plan.

Participants with vested account balances are allowed to liquidate assets upon a distributable event. The Plan Administrator should provide the following distribution paperwork:

- PARTICIPANT DISTRIBUTION ELECTION FORM
- SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS

Prepare a cover letter to accompany the paperwork or provide detailed instructions to the participant. Instruct the terminated participant to read all documents, complete the Participant Distribution Election Form, and return the original to the plan trustee. Instructions should indicate a deadline to return the forms to ensure the 180-day period is not exceeded. Also, you should notify participants with a vested account balance under \$5,000 they will be forced out of the plan if paperwork is not returned within 30 days of receipt.

What to do if the participant returns the Distribution Form:

Upon receiving a completed form, verify the 180-day period was not exceeded. If paperwork is in good order, fax the completed form to Prime Plan Solutions at 816-218-0079. Retain the original paperwork for your files.

Prime Plan Solutions will process the distribution as soon as administratively feasible. A check (payable to the participant) will be mailed to the plan trustee, for delivery to the participant. If you want the distribution check sent directly to the participant's address or rollover institution*, then mail the original form to Prime Plan Solutions. Be sure to keep a copy for your plan's permanent records.

Regular Mail: Prime Plan Solutions
 P. O. Box 219162
 Kansas City, MO 64121-9162

Overnight Mail: Prime Plan Solutions
 330 W 9th St
 Kansas City, MO 64105

***This option requires the trustee's signature to have a medallion guarantee. Paperwork containing a medallion signature guarantee cannot be faxed; the original form is required.**

What to do if the participant does not return the Distribution Form after 30 days:

A participant who does not respond to the termination paperwork after 30 days must be forced out of the plan if his/her vested account balance is less than \$5,000. A participant with a balance between \$1,000 and \$5,000 must receive an automatic rollover to a Lord Abbett IRA account. A terminated participant with a balance less than \$1,000 will receive a cash distribution with the mandatory 20% federal income tax withheld. Terminated participants with a balance greater than \$5,000 have the right to postpone their distributions until the plan's normal retirement age (usually age 65).

Specific instructions for each of the three categories are outlined below.

Terminated Participant with a Vested Balance Less Than \$1,000

- The plan trustee must instruct Prime Plan Solutions to distribute the vested balance directly to the participant (and withhold the mandatory 20% for federal income tax) **after** all employer contributions to which the participant is entitled are deposited to the plan;
- Complete the Force Out Distribution Election Form (available on the Plan Sponsor Web site under the "Distribution Forms" link) and fax to Prime Plan Solutions at 816-218-0079;
- Prime Plan Solutions will process the distribution and send a check for 80% of the vested balance (payable to the participant) directly to the plan trustee, for delivery to the participant, and remit 20% to the IRS.

Terminated Participant with a Vested Balance Between \$1,000 and \$5,000; including Rollover Assets

- The plan trustee must instruct Prime Plan Solutions to roll over the vested balance to an IRA **after** all employer contributions to which the participant is entitled are deposited to the plan;
- Complete the Automatic Rollover IRA Instruction Form and Mandatory IRA Rollover Application (available on the Plan Sponsor Web site under the "Distribution Forms" link). Send both documents to Prime Plan Solutions*;
- Prime Plan Solutions will process the rollover and provide the participant with information regarding the new IRA account.

Terminated Participant with a Vested Balance Exceeding \$5,000

- The terminated participant has a right to postpone the distribution. Retain proof the termination paperwork was provided to the participant. We recommend providing a copy of the paperwork to the participant at least once per year (retain proof of delivery).

Please contact Prime Plan Solutions at 888-445-0031, Monday through Friday from 8:30 AM to 6:00 PM Eastern Time or via e-mail at primeplansolutions@dstsystems.com if you have questions.

***Paperwork containing a medallion signature guarantee cannot be faxed; the original form is required.**