

March 2005

## Be Aware of March 28 Deadline for Change in Automatic Rollover Rules

Effective March 28, 2005: A retirement plan may not make a forced cash out of a participant's vested benefit in an amount between \$1,000 and \$5,000 unless the benefit is automatically rolled over to an individual retirement account or individual retirement annuity.

If the participant affirmatively elects to receive his or her benefit in some other form permitted under the plan, the automatic rollover is not required.

The automatic rollover must be made to an "individual retirement plan." This includes both individual retirement accounts and individual retirement annuities. The custodians of these plans must be banks, insurance companies or other registered financial institutions. A plan can choose one or more individual retirement providers to receive automatic rollovers.

### Here Is What Plan Sponsors Must Do In Order To Comply With The New Requirements:

- Identify IRA providers and enter into written agreements with them.
- Sign a brief plan amendment before the end of the first plan year ending after March 28, 2005.
- Prepare new Summary Plan Descriptions or a Summary of Material Modifications describing the automatic rollover provisions and conforming to the new fiduciary safe harbor.
- Revise termination notices.

Except for the plan amendment, these steps must be accomplished before processing any cash outs on or after March 28, 2005. If all of these steps cannot be completed by March 28, 2005, a plan can postpone mandatory distributions as long as they are made prior to December 31, 2005.

### What Is Kravitz Doing About This Change?

We are reviewing IRA and retirement plan recordkeepers who are planning to provide this automatic rollover service. So far, only a few providers have entered into this new market. We will be making recommendations as soon as our review is complete.

We believe it makes sense to wait until more providers have entered the field—thus providing more options from which we can make recommendations. In the meantime, we will prepare the required plan amendments for our clients who are using our document or who no longer have a separate document provider.

## The Bottom Line: Our Opinion

We believe that the new law is beneficial for most plan sponsors and participants. By complying and forcing payments to Individual Retirement Accounts, you are reducing the plan's administrative burden and expense. For example, if participants cannot be found or do not respond to you, you no longer have the responsibility of locating them.

## You Can Opt To Avoid The Automatic Rollover Requirement. See below.

Some of our clients have expressed their desire to avoid the automatic rollover requirements by reducing the force out threshold to \$1,000. If you wish to do so, please check the box below, enter the plan name and a contact person and fax this page to us at 1-818-379-6100.

If you have any questions or need any assistance in complying with these new requirements, please contact your Kravitz consultant.

I wish to amend my plan to reduce the force out threshold to \$1,000.

---

Plan Name

---

Contact Name

*Louis Kravitz & Associates, Inc. is the largest firm of retirement consultants headquartered in California. We specialize in design, implementation and administration of virtually every type of retirement plan. Our consultants, actuaries and other specialists have the experience and ability to make certain your retirement plans are properly designed, meet your needs and operate to your satisfaction. We have been dedicated to providing high quality service since our firm was founded in 1977.*

© 2005 Louis Kravitz & Associates, Inc. All rights reserved. This Client Release is published as an information source for our clients and friends. Articles are general in nature and are not a substitute for legal advice in a particular case. We welcome your comments and questions.