

JULY 2019

Voluntary Corrections for Required Minimum Distribution Failures

Many plan sponsors miss paying Required Minimum Distributions (RMDs) on time for reasons that may be out of their control. This Insight will provide a brief overview on how plan sponsors may self-correct when the plan does not make RMDs on time. You should discuss these options with your attorney before making any final corrections.

A qualified defined benefit plan must provide RMDs when a participant reaches his or her Required Beginning Date (RBD). Generally, the RBD is April 1 of the calendar year following the later of:

- 1) The year the participant attains age 70½, and
- 2) The year the participant terminates employment (this condition is not applicable for a participant who is a 5% or more owner).

Failure to timely pay the RMD may result in plan disqualification. Additionally, the participant/beneficiary is subject to a federal excise tax of 50% of the underpayment.

REASONS RMD FAILURES ARE COMMON

- Incomplete and/or inaccurate date of birth data result in an employer not knowing that a participant has attained age 70½
- Employers are unable to locate terminated vested participants who have attained age 70½
- Employer was not notified of a terminated vested participant's death and death benefit was not paid timely
- Active participant over age 70½ was a 5% owner but employer was not clear on RMD rules

WHAT TO DO IF YOUR PLAN HAS A RMD FAILURE

Missed RMDs should be corrected as soon as possible. The Voluntary Correction Program provides a procedure allowing plan sponsors to pay a fee and receive IRS approval for correction of plan failures at any time before an audit. As part of the VCP filing for RMD failures, the plan sponsor is also able to request a waiver of the participant/beneficiary federal excise tax. The following is a summary of what a plan sponsor needs to do to correct the missing payments:

- Determine the affected participants and the missed RMD amounts with interest to the correction date.
- Determine who will submit the VCP filing. Beginning in 2019, plan sponsors are now able to authorize an attorney, CPA or actuary to sign and submit on their behalf.
- Authorize payments to affected participants as soon as administratively possible.

NEW ELECTRONIC FILING REQUIREMENT FOR VCP SUBMISSION

Beginning April 1, 2019, all VCP submissions must be made electronically using Pay.gov.

- After creating an account on Pay.gov, plan sponsors will be able to complete and sign forms electronically and upload a PDF of any required attachments and documents.
- The user fee is paid through the electronic payment method options on Pay.gov.

BE PROACTIVE IN PREVENTING RMD FAILURES

- Maintain accurate data for all plan participants, including marital status and beneficiary information, to help ensure benefits are paid timely.
- Make it part of your annual data process to monitor participants who are nearing age 70 and attempt to update contact information BEFORE their RBD.

If you think your plan has a RMD failure, we can assist you with the necessary calculations and the VCP filing. Please contact Jim Ritchie at 443-573-3924.