PlanFacts

NEWPORT GROUP™

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Stay on Track with Required Minimum Distributions

Do you know which of your former employees who still have savings in your retirement plan are turning 70½ this year? Or how many are older than that? Or how many accounts in your plan are held by beneficiaries? These individuals are required by law to withdraw money from your retirement plan each year. As a plan sponsor, you need to keep track of birthdates and beneficiary ownership, so you can make certain that plan distributions are being made properly. Failure to distribute a required minimum distribution (RMD) timely is a plan qualification failure that can put your entire plan at risk. Individuals who should be taking RMDs also pay a price if they don't take a distribution. They will owe a 50% excess accumulation tax on the portion of the required amount that should have been distributed but remained in the plan.

Update Your RMD List

Step 1: Identify participants turning 70½ in 2018

Former employees who still have a balance in the plan must take their first RMD for the year they reach age 70½ (i.e., six months following a 70th birthday).[1] Anyone who turns 70½ in 2018 must take their first RMD by April 1, 2019. These individuals should be added to the list you maintain of participants who are subject to RMDs.

If a plan participant is still working for you beyond age 70½ and they do not own 5% or more of the company, the plan may permit the employee to delay RMDs until April 1 of the year following the year they leave employment.[1]

Step 2: Identify participants age 71 or older in 2018

After the 70½ year RMD, plan participants must continue taking an RMD each year by December 31 until the account is depleted—no exceptions.[2] Review the list of individuals who took RMDs last year and update the list to reflect any deaths or individuals who have depleted their account.

Step 3: Identify beneficiaries with inherited account balances

Beneficiaries who inherit retirement savings from a deceased plan participant generally have four options:[2]

- Take a lump-sum distribution
- Roll over the account to an IRA (or another retirement plan for spouse beneficiaries)
- Take annual RMDs
- Deplete the account within five years

A beneficiary's specific distribution timing and calculation options under the tax laws depend on the plan participant's age at death and whether the beneficiary was a spouse of the participant. Confirm that you have beneficiary elections in place for all deceased plan participants.

Notify Individuals in RMD Status

Work with your Newport Group representative to review the timing for providing RMD notices to all participants and beneficiaries who will be required to take a distribution in 2018 (or by April 1, 2019, for first-year RMDs), including the deadlines for distribution recipients to make payment elections (e.g., single or multiple payments).

Calculate and Distribute RMDs

Most plan sponsors tap into the expertise of their recordkeeper or third party administrator to calculate and distribute RMDs. Newport Group calculates RMD amounts based on the demographic data and participant or beneficiary elections it has received. For participants who fail to make distribution requests, you will be responsible for providing direction to pay out the RMDs for the year in order to maintain the qualified status of your plan.

RMD Calculations

An RMD is calculated by dividing the prior year's December 31 account balance by a life expectancy factor.[2] The life expectancy factor is based on the plan participant's age as of his or her birthday in the distribution year and IRS life expectancy tables. (The life expectancy used for beneficiary distributions depends on multiple factors.)

Newport Group Solution: Newport Group provides RMD support services to all of its plan sponsor clients—tracking reports, RMD calculations, and participant communications. To learn more about your role in the RMD process or to review RMD data current on file regarding your plan, contact your Newport Group Representative.

Adding a Safe Harbor 401(k) Plan

If your 401(k) plan consistently fails the ADP/ACP nondiscrimination tests each year, you may want to consider amending your plan to add a safe harbor 401(k) feature.

Benefits of a Safe Harbor 401(k) Plan

- Potential to increase plan participation and contribution rates
- Deemed to satisfy ADP/ACP and top-heavy testing
- Allows highly paid employees to maximize deferrals

Amendments to Add a Safe Harbor Feature

- If you amend an existing 401(k) plan, you must amend before the first day of the next plan year to add the safe harbor feature, and it must remain in effect for the next 12-month plan year.[4]
- If you adopt a new 401(k) plan or add a 401(k) feature to your profit sharing plan, you may adopt or amend the safe harbor feature during the current year so long as it is in effect for at least three months.[4]
- If you are a newly established employer, you may adopt a safe harbor 401(k) plan anytime during the current year following establishment of the business.[4]

You must provide notice to participants and a deferral election period, generally 30-90 days before the change becomes effective (October 1–December 1 for a calendar-year plan).

Newport Group Solution: Contact your Newport Group Representative if you would like to learn more about safe harbor 401(k) plan features or amendment timing.

[Contact your Newport Group representative for more information](#).

Footnotes

[1]IRSTreasury Regulation 1.401(a)(9)-2
[2]Treasury Regulation 1.401(a)(9)-5
[3]Treasury Regulation 1.401(a)(9)-3, 5
[4]Treasury Regulation 1. 401(k)-3(e), 1.401(m)-3(f)

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