




Heike Fischer

From: PenChecks, Inc. [info@penchecks.com]
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news & information 

Q What does a plan without a default IRA provision do with small accounts?

A Some plan sponsors just send a check to the participant's last known address after withholding the proper tax amounts. They do this for accounts up to \$1,000. For accounts valued between \$1,000 and \$5,000, the default IRA is the only way to force a distribution. But if that check does not get cashed, they are not sure what they should do with it. They would have to think about bringing it back into the plan. But could they do that if they didn't restore the amounts that were withheld? We know that there is a way to modify the Form 945 to recover certain withholding amounts provided it is done within the calendar year that the distribution was made. We think that a far simpler solution for plans is to amend their plan document to include a default IRA option with no minimum. Otherwise most sponsors are just stuck with these accounts, which increases their fiduciary exposure and overall plan costs.

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