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# New law may revive group IRAs

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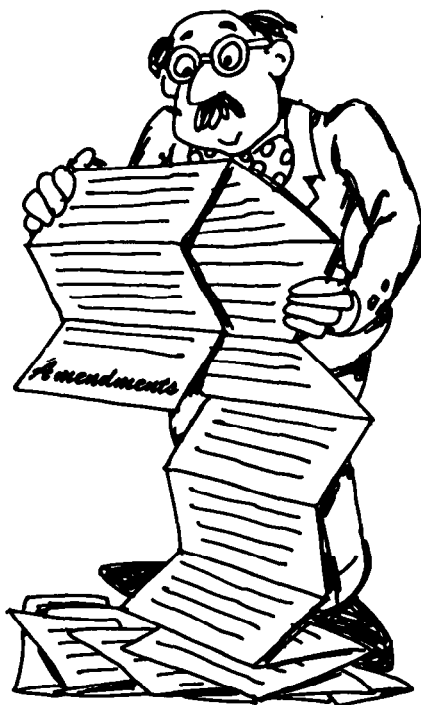
**O**n July 3, President Bush signed into law the Unemployment Compensation Amendments of 1992, which contains provisions that impact taxation of distributions from all qualified retirement plans. Plan sponsors will be forced to change their procedures for processing distributions beginning January 1, 1993.

Important provisions of the act include:

- Most taxable distributions from qualified plans will be eligible to be rolled over into other qualified plans or IRAs. Exceptions are post-tax employee contributions, annuities payable over participants' lifetimes or with a fixed period duration of 10 or more years, minimum required (age 70 1/2) distributions, payments to beneficiaries other than spouses, and some qualified domestic relation order payments.
- Many of the old rules concerning rollovers have been eliminated, including the 50% partial distribution threshold, total distribution rules, and sale of subsidiary rules.
- As a qualification requirement, plans must allow participants to make a direct transfer of eligible distributions to other qualified plans or IRAs. "Direct transfers" will not pass through the participant's hands; they will move from trustee to trustee.
- If a direct transfer is not elected, mandatory 20% withholding of federal income tax must be made. This also applies to hardship withdrawals from §401(k) plans.
- Written notice must be provided to plan participants of their distribution options, including the direct transfer option.

## Administrative implications

At the time this article is being written, legislation has been proposed to modify the act, including complete repeal, exemptions from the direct transfer requirement for *de minimis* distributions, and other changes. Beginning in 1993, however, virtually every defined contribution plan, as well as many defined benefit plans, may have to provide for direct



transfers. Since there are thousands of recipient trustees with individual procedures, plan sponsors are faced with a potential nightmare. If each terminating participant uses his or her own vehicle, the plan sponsor will have to make unique transfer arrangements for every termination. Further, the trustee would have to verify the qualified status of each receiving fund.

## Group IRA

One partial solution to the problem is a product that has been dormant for a decade for lack of interest — the group IRA. A group IRA, limited to departing participants, in a new twist, would eliminate the additional plan sponsor and trust administration and the extra legwork for the departing participant. A plan-to-plan transfer to the group IRA arranged by the plan sponsor would be a new participant distribution choice.

A group IRA product should have a range of funds that satisfies ERISA Section 404(c), so the sponsor is not taking on any additional fiduciary risk by offering the product to its participants. Reporting to the plan sponsor could simply consist of a summary of

new accounts, so the program's effectiveness could be easily monitored. Once participants have terminated and rolled their money into group IRAs, how they ran their IRA accounts would be of little interest to plan sponsors.

All fees should be paid by participants. Sponsors could negotiate with group IRA carriers for underwriting on a group basis, with fees depending on the group's individual characteristics and the particular arrangement. An "exclusive" arrangement, for example, could lower fees.

Participation should be restricted to terminating employees. The product does not compete with the sponsor's existing defined contribution plans.

Group IRAs offer limited relief from the new administrative complications of the 1992 Unemployment Amendments. However, to the extent they simplify the life of plan sponsor, group IRAs would seem a worthwhile vehicle for plan sponsors and their advisors to consider.

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## Election Committee invitation

The Committee on Elections is beginning to prepare the first ballot for the 1993 election. On that ballot, Fellows are asked to nominate up to six FSAs for Board of Governors' positions. To aid them, a list is provided of those who are eligible for election and have met specific criteria for committee and other service to the profession. In addition, Fellows who have the experience, interest, and time to serve on the Board of Governors may submit their names for consideration. Anyone who would like to do so is invited to summarize his/her accomplishments and background in a letter to Daphne D. Bartlett, chairperson of the Committee on Elections, and send it to the SOA office before December 15.