Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

A Clarification on Partial Plan Terminations

September 11, 2020 - Since many companies have had to furlough or layoff their employees in 2020 as a result of COVID 19, there could be a chance that your retirement plan might have had a partial plan termination. According to IRC 411 (d)(3) and Rev. Rul. 2007-43 a partial plan termination occurs when the turnover rate for a company exceeds 20%.

The turnover rate is calculated by taking all participating employees (vested and non-vested) who had an employer-initiated severance from employment during the applicable period and dividing it by the sum of all the participating employees at the start of the applicable period plus the employees who became participants during the applicable period.

For example, for the year 2020, if an employer terminated 25 employees who are participating in their retirement plan and there were 75 participants at the beginning of the year, and 25 new eligible participants in the current year, the turnover rate would be 25% and the plan would have experienced a partial plan termination.

When a partial plan termination occurs any unvested amounts in the plan for participants will become immediately vested.

As a result of temporary layoffs related to COVID 19, a question arose, if an employee was terminated and then rehired in 2020, does that count as an employer-initiated severance. Under the FAQ's for the IRS, this does not count towards an employer-initiated severance. It is important to note that the termination and the rehire must happen in the same plan year. It should also be noted that a furlough is not a termination so a furlough does not count as an employer-initiated severance.

If you have any questions in regards to partial plan terminations please contact [Vincent Pasini] at [vpasini@dopkins.com].