

## CASE OF THE WEEK

### w/o 11.06.2011 Terminating 403(b) Plans

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors on a broad array of technical topics related to IRAs and qualified retirement plans. For example, we routinely guide Columbia Management's financial advisor partners through the rules related to 403(b) plans.

A recent call with a Wells Fargo advisor in Michigan is representative of a common inquiry regarding the termination of a 403(b) plan. The advisor asked: **What are the steps to terminating a 403(b) plan?**

#### Highlights of Recommendations

- Review the underlying 403(b) plan investments to identify language that may affect the sponsor's ability to terminate the 403(b) plan. For example, if a 403(b) annuity contract does not contain language that accommodates distributions upon plan termination, the plan sponsor may not be able to terminate the plan.
- Adopt a binding resolution to terminate the 403(b) plan.
- Establish a plan termination date.
- Notify all plan participants and beneficiaries about the plan's termination.
- Cease plan contributions.
- Fully vest all benefits on the termination date.
- Provide a distribution tax notice to participants and beneficiaries.
- Authorize the distribution of all benefits as soon as administratively practicable after the termination date (generally within one year of the termination date) in accordance with [Rev. Rul. 2011-7](#).
- Avoid setting up a replacement 403(b) plan during the period that begins on the termination date and ends 12 months after all benefits have been distributed from the terminated plan.
- Note: 403(b) plans subject to ERISA may have to comply with additional requirements (e.g., file a final Form 5500).

#### Conclusion

As a result of the final 403(b) regulations that are effective for 2009 and later plan years, we have clear guidance on the steps required to terminate 403(b) plans. Financial advisors who work with 403(b) plans who understand what is expected of 403(b) sponsors set themselves apart from the average advisor and, thereby, win more clients and retirement plan business. As always, the Columbia Management Learning Center is available to help.