# Partial Plan Terminations

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A plan termination often occurs due to the closing of the company or because of a financial hardship that prevents the employer from being able to continue to cover the cost of operating the plan. However, many employers are unaware that a partial plan termination can occur even while the retirement plan is still active and operating.

If the plan experiences a decrease of more than 20% of plan participants (without regard to the vested status of each participant) due to employer-initiated severances, it may be presumed that the plan has experienced a partial plan termination. This scenario most often occurs when a company closes down a division or when the company experiences a financial hardship that forces them to lay off employees. When determining if the 20% threshold has been met, terminations due to voluntary severance, death, disability or retirement are generally not included in the calculation. Also, the 20% figure is based on facts and circumstances and may NOT be considered a partial termination if the company is in an industry that typically has high turnover. Although the determination is normally made over the course of a plan year, it can extend over more than one plan year if there is a series of related events that result in a greater than 20% reduction, like the gradual shutdown of a facility.

So what happens if it is determined that the plan has experienced a partial plan termination? Affected participants must be made 100% vested in their account balances. If a participant has already received a distribution that was not fully vested, and it is later determined that a partial plan termination occurred and the participant should be made fully vested as an affected participant, then the participant must receive an additional distribution for the portion of the account that was not paid initially. The Internal Revenue Service (IRS) FAQs indicate that an "affected employee" is anyone who left employment for any reason during the plan year in which the partial termination occurred and who still has an account balance in the plan.

There are certain industries that have very high turnover rates and thankfully the IRS acknowledges this and has made an exception for them. If your company experiences routine turnover in excess of 20% each year then you will not be considered to have had a partial plan termination.

It is very important that you notify your Third Party Administrator if you plan to close a division of your company or lay off a group of employees. Your TPA will help you make the determination, accelerate vesting for affected participants and assist with restoring any previously forfeited balances, as necessary.