

Employee Benefit Plans

Explanation No. 2 Minimum Vesting Standards Defined Contribution Plan

Note:

Plans submitted during the 2020 Required Amendment List submission period must satisfy the applicable changes in plan qualification requirements listed in Section IV of Notice 2020-83, 2020-50 I.R.B. 1597 (the 2020 RA List).

This publication contains copies of:
Form 5623, Worksheet 2
Form 6041, Deficiency Checksheet 2

These forms are included as examples only and should not be completed and returned to the Internal Revenue Service.

The purpose of the Worksheet Number 2 (Form 5623) and this explanation is to identify major problems in the area of plan vesting. However, there may be issues not mentioned in the worksheet that could affect the plan's qualification.

The worksheet applies only to plans to which Internal Revenue Code section 411 applies, except plans mentioned in section 411(e) (such as governmental plans) and plans that cover participants who are employed in maritime or seasonal industries.

Generally, a "Yes" answer to a question on the worksheet indicates a favorable conclusion while a "No" answer signals a problem concerning plan qualification. This rule may be altered by specific instructions for a given question. Please explain any "No" answer in the space provided on the worksheet.

The sections cited at the end of each paragraph of explanation are to the Internal Revenue Code, the Income Tax Regulations, and the Department of Labor (DOL) Regulations. Rev. Rul. means Revenue Ruling. A basic requirement to keep in mind for the vesting standards is that each participant's vested interest must satisfy the statutory minimum at all times. A plan that generally provides faster vesting than the statutory

minimum will not fail to qualify merely because the plan does not adhere to the specific language found in the statute. For example, a plan that provides full and immediate vesting at age 21 would satisfy the statutory minimum vesting requirements even though language about a requirement for years of service is not found in the plan.

The technical principles in this publication may be changed by future regulations or guidelines.



I. Years of Service And Breaks in Service

This section applies only to plans in which years of service are a factor in determining a participant's vested interest. Therefore, DO NOT complete this section if the plan provides full and immediate vesting for each participant. Questions a. through f. and l. through p. apply to plans that count hours of service. Questions g. through p. apply to plans that use the elapsed time method of counting service.

Line a. A vesting computation period is a 12-consecutivemonth period used to determine whether an employee has completed a year of service for vesting purposes. Any plan must designate a vesting computation period, except a plan that uses an "elapsed time" method of counting service, or a plan in which years of service are not a factor in determining a participant's vested interest.

DOL Regs. 2530.200b-1(a)

DOL Regs. 2530.203-2

Line b. Depending on the definition of "hour of service" and the method used to count these hours, a plan must credit an employee with 1 year of service for vesting if the employee completes at least 1000, 870, or 750 hours of service in a vesting computation period.

- i) (H = 1000) A plan that counts all hours of service, or that uses an equivalency based on a period of employment (day, week, semi-monthly payroll period, month, or shift), cannot require the completion of more than 1000 hours of service. 411(a)(5)(a)
DOL Regs. 2530.200b-1(a)
DOL Regs. 2530.200b-3(e)
- ii) (H = 870) A plan that counts "hours worked," or that uses an equivalency based on earnings for an employee who is compensated on an hourly rate, cannot require the completion of more than 870 hours of service.
DOL Regs. 2530.200b-3(d)(1)
DOL Regs. 2530.200b-3(f)(1)
- iii) (H = 750) A plan that counts "regular time hours," or that uses an equivalency based on earnings for an employee who is compensated on a basis other than an hourly rate, cannot require the completion of more than 750 hours service.
DOL Regs. 2530.200b-3(d)(2)
DOL Regs. 2530.200b-3(f)(2)

Answer the following by using the applicable method of counting hours (i, ii, or iii above).

Line c. If a plan counts all hours of service, credit each hour for which (1) an employee is paid or entitled to payment for the performance of duties, (2) an employee is paid or entitled to payment because of a period of time during which no duties are performed, and (3) back pay is either awarded or agreed to by the employer. Note: Item (2) may be limited to 501 hours for any single occurrence.

DOL Regs. 2530.200b-2(a)

If a plan credits hours of service by an equivalency based on a period of service, and an employee is required to be credited with at least 1 hour of service under the paragraph above, then, depending on the basis used, the plan must credit hours of service as follows:

Basis of Equivalency	Number of Hours Credited
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Day.....	at least 10
Week.....	at least 45
Bi-weekly payroll period.....	at least 95
Month.....	at least 190

DOL Regs. 2530.200b-3(e)

If a plan counts "hours worked," credit each hour for which an employee is paid or entitled to payment for the performance of duties; also credit hours for which back pay is awarded, or agreed to, by the employer to the extent that the back pay covers a period in which the employee would have been employed in the performance of duties for the employer.

DOL Regs. 2530.200b-3(d)(3)(i)

If a plan counts "regular time hours," credit each hour for which an employee is paid or entitled to payment for the performance of duties (except hours for which a premium rate is paid).

DOL Regs. 2530.200b-3(d)(3)(ii)

If a plan credits hours of service by an equivalency based on earnings for an employee who is compensated on an hourly rate, an employee must be credited during a computation period with at least the number of hours equal to either the employee's total earnings--

- 1) from time to time during the computation period, divided by the hourly rate of those times; or
- 2) for performance of duties during the computation period divided either by the employee's lowest hourly rate during that time, or by the lowest hourly rate payable to an employee in the same, or a similar, job classification.

DOL Regs. 2530.200b-3(f)(1)(i)

If a plan credits hours of service by an equivalency based on earnings, and determines compensation other than on an hourly rate, the employee must be credited during a computation period with at least the number of hours equal to his or her total earnings for duties performed during that period, divided by the employee's lowest hourly rate of compensation during the same period. (See the DOL Regulations.) Note: If the same hourly rate of compensation is used for all employees, this method may result in discrimination in favor of highly compensated employees.

DOL Regs. 2530.200b-3(f)(2)

Line d. If H = 1000 in b., above, answer this question; otherwise check N/A. If a plan credits hours of service for periods during which no duties are performed, the plan must designate the method of determining the number of hours to be credited and the method of crediting the hours to the computation periods. The plan must conform to the requirements of DOL Regulations sections 2530.200b-2(b) and (c). Section 2530.200b-2(f) of the DOL Regulations, however, also indicates that a plan is not required to state these rules if they are incorporated by reference.

DOL Regs. 2530-200b-2(b), (c) & (f)

Line e. The break in service rules allow a plan to disregard certain service before the employee has a break. If all of an employee's service with an employer is counted for vesting, the plan need not provide these rules. In this case check N/A.

Depending on the definition of "hour of service" and the method used to count these hours, a plan may charge an employee with a break in service for any vesting computation period in which the employee fails to complete more than B hours of service. The number required for B, if a certain method of counting hours is used, equals half of the hours used in question b. of this section of the worksheet. Therefore, a plan may provide that an employee be charged with a break in service if in a computation period the employee fails to complete: more than 500 hours of service in a plan that counts all hours of service; or, more than 435 hours if the basis used is "hours worked"; or, more than 375 hours if the basis is "regular time hours."

DOL Regs. 2530.200b-3 & 4

DOL Regs. 2530.203-2(d)

Line f. An individual shall be credited with certain hours of service if such individual is absent from work for any period by reason of 1) pregnancy of the individual, 2) birth of a child of the individual, 3) placement of a child with the individual in connection with an adoption or 4) caring for a child described in (2) or (3) immediately following such birth or placement. This credit is credit for maternity or paternity leave. Credit for maternity or paternity leave is only made to avoid a break in service and not to obtain a year of service. The absence does not have to be approved leave.

Credit for maternity or paternity leave is required only if such leave is on account of the reasons described above. Thus if an individual quits employment with employer A and two years later adopts a child, no credit under this provision would be given if the individual eventually returns to work for employer A because said individual's absence from employer A's workplace is on account of quitting and not on account of the adoption of or the caring for the child immediately following the adoption.

Hours of service must be credited to the computation period in which the first hour of maternity or paternity leave occurs, if such individual would experience a break in service with respect to such computation period if such maternity or paternity leave is not credited and such individual will not experience a break in service if such maternity or paternity leave is credited. If such maternity or paternity leave is not credited to the first computation period, it is credited to the second computation period whether or not it is needed to preclude a break in service.

The rules may be illustrated with the following example: Individual A separates from service on March 1, 2006, of a calendar year computation period after earning 300 hours of service. The plan defines a year of service as a computation period in which the employee earns 1000 hours. The employer provides for paid maternity leave for a period not to exceed 300 hours.

Under the normal rules of crediting service paid maternity leave must be credited for service. Therefore, individual A in 2006 would not experience a break in service even if the hours required to be credited are not so credited. Accordingly, no hours of service would be credited to the first computation period in 2006. Therefore, all such hours of service are credited in the second computation period of 2007.

The number of hours credited with respect to a computation period is the number of hours such individual would normally have worked in the computation period if such individual were not on maternity or paternity leave. If the number is not ascertainable, the plan may credit 8 hours with respect to any day said individual is absent on maternity or paternity leave. The plan may limit the number of hours credited to any computation period to the number of hours needed to avoid a break in service, i.e., 501 hours, 436 hours, or 376 hours depending on how hours are counted. The plan may provide that the participant has the burden of proving that the absence was by reason of one of the covered causes.

The plan can use a simplified method for complying with the requirements relating to maternity and paternity absences. If the plan's break in service rules require a minimum of six consecutive one year breaks in service for service to be disregarded (versus the statutory minimum of five), then the plan will not have to include any special rules relating to maternity and paternity absence. This simplified method is available only if the plan computes years of service on the basis of hours of service or permitted equivalencies. It does not apply to elapsed time plans.

411(a)(6)(E)1.410(a)-9

Line g. The employment commencement date must be no later than the date on which the employee first performs an hour of service for the employer. The severance from service date is the earlier of the date an employee quits, retires, is discharged, or dies, or the first anniversary of the first day of a period of absence from service for any reasons other than quitting, retiring, discharge, or death.

The employee must be credited with service equal to at least the time between the employment commencement date and the severance from service date.

1.410(a)-7(b) & 411(a)(5)(B)

Line h. Generally a plan must aggregate all separate periods of service, except for any that may be disregarded due to the rule of parity. Alternatively, instead of keeping separate periods of service, the plan may aggregate by adjusting the employment commencement date. If the plan uses this alternative to credit the aggregate period of service, check "Yes" for question h.

1.410(a)-7(b)(6)(ii) & 411(a)(5)(B)

Line i. A period of severance is the period of time between the employee's severance from service date and the date the employee again performs an hour of service for the employer.

If an employee severs from service by quitting, being discharged or retiring, and then performs an hour of service within 12 months of the severance from service date, the plan must consider the period of severance as a period of service.

Also, if an employee severs from service for any reason other than quitting, being discharged, or retires and then performs an hour of service within 12 months of the date on which he or she was first absent from the service, the plan must consider that period of severance as a period of service.

1.410(a)-7(d)(1)(iii) & 411(a)(5)(B)

Line j. The break in service rules allow a plan to disregard certain service before the employee has 5 consecutive 1-year breaks. If all of an employee's service with an employer is counted for vesting, the plan need not provide these rules. In this case, check N/A.

If a plan uses elapsed time, substitute "1-year period of severance" for "1-year break in service." A 1-year period of severance is a 12-consecutive month period beginning on the severance from service date and ending on the first anniversary of that date provided that within this period the employee does not perform an hour of service for the employer maintaining the plan.

1.410(a)-7(d)(4) & 411(a)(5)(B)

Line k. An individual shall not incur the first 12-month period of severance that would otherwise be counted if severance is due to maternity or paternity leave. Such 12-month period is neither counted as a year of service nor as a period of severance. Maternity or paternity leave is a period an individual is absent from work by reason of 1) pregnancy of the individual, 2) birth of the child of the individual, 3) placement of a child with the individual in connection with an adoption or 4) caring for a child described in (2) or (3).

Credit for maternity or paternity leave is required only if such leave is on account of the reasons described above. Thus, if an individual quits employment with employer A and two years later adopts a child, no credit under this provision could be given if the individual eventually returns to work for employer A because such individual's absence from employer A's workplace is on account of quitting and not on account of the adoption of or the caring for the child immediately following the adoption.

If an individual works until July 1, 2006, is first absent from employment on July 1, 2006 on account of maternity or paternity leave, and on July 1, 2009 performs an hour of service, the period of service must include the period from the employment commencement date until June 30, 2007 (one year after the date of separation for a reason other than the employee quitting, retirement, discharge or death). The period from July 1, 2007 to June 30, 2008 is neither a period of service nor a period of severance. The period of severance would be from July 1, 2008 to June 30, 2009.

411(a)(6)(E)(iii)

1.410(a)-9

Line l. In general, for vesting purposes, count all years of service with the employer who maintains the plan. However, there are several exceptions to this rule. Years of service before an employee reaches age 18 may be excluded. If a plan uses a vesting computation period, count the vesting computation period in which an employee becomes 18 as a year of service. If a plan uses elapsed time, count the period after the employee became 18 when figuring the employee's period of service.

Except for top-heavy years, a contributory plan that uses a vesting computation period may exclude a year of service in which an employee made no mandatory contributions, if the absence of the contribution was the only reason the employee was ineligible to participate in the plan. A year of service in which a partial mandatory contribution was made may not be excluded, regardless of the effect on participation. If a plan uses elapsed time you may exclude only the period in which the mandatory contribution was not made. You may also disregard years of service before the employer maintained the plan or a predecessor plan as well as years of service not required to be taken into account because of a break in service. (For a definition of a predecessor plan, see 1.411 (a)-5(b)(3)(v)(B) of the Income Tax Regulations.) You may also disregard the years of service completed before January 1, 1971, unless the employee completed 3 years of service (whether or not consecutive) any time after December 31, 1970. (In determining whether an employee completed 3 years of service under

this rule, do not apply the other exceptions described in this paragraph.) Finally, you may disregard plan years completed before section 411 applied to the plan, if the service would have been disregarded under any terms of the plan which at that time served as break-in-service rules.

411(a)(4)

1.411(a)-5(a) & (b)

Line m. For vesting purposes, count all years of service with the employer, including the years spent as a nonparticipant and those when the employee was in a category of employees excluded from the plan, unless one of the exceptions noted in section 411(a)(4) applies (see I. above). Years of service excluded for years prior to age 22 under the law before the Retirement Equity Act may not, subsequent to the effective date of REA, be excluded unless 1) such service is for years prior to age 18, or 2) such service would be excluded under the Rule of Parity prior to REA. This change only applies to those with an hour of service after REA's enactment.

Line n. For vesting purposes, years of service with an employer must include credit for service with other related employers (while related) that are members of a controlled group of corporations, (see section 1563(a) without regard to subsection (a)(4) and (e)(3)(C)) and trades and businesses under common control and affiliated service groups (see sections 414(b), (c) and (m)).

1.411(a)-5(b)(3)(iv)(B)

414(b), (c) & (m)

Line o. If the employer maintains the plan of a predecessor employer, service with the predecessor is counted as service with the employer. If the employer is not maintaining the plan of a predecessor employer, check N/A.

414(a)(1)

Line p. Services of any employee who is a leased employee to any employer aggregated under section 414(b), (c), or (m) must be credited for vesting purposes whether or not such individual is eligible to participate in the plan. Thus, for example, if an individual was an employee of X, participates in plan Y and separates with X subsequent to acquiring a benefit in plan Y but prior to obtaining vesting in plan Y, begins working immediately with leasing company Z and through company Z is leased back to X, and is now excluded from plan Y, such service as a leased employee to X must be counted in plan Y for purposes of determining vesting, breaks in service, etc., of such individual's prior accrued benefit.

414(n)(4)

Q&A 12 Notice 84-11

II. Vesting on Separation From Service - Return to Service Without a Break in Service

A distinction should be made between a separation from service and a break in service. A participant may separate from service without affecting his or her position on the vesting schedule, if the participant returns to service with the employer before having 5 consecutive 1 year breaks in service.

For example: A plan has a vesting computation period that coincides with the calendar year. An employee separates from service after January 1, after completing 300 hours of service. The employee later returns to covered employment and completes more than 200 hours of service before December 31 of the same year.

Of course, an employee would have a break in service without a separation from service in any vesting computation period in which the employee completes 500 or less hours of service while remaining employed with the employer.

Line a. In a given vesting computation period, it is possible that a participant will avoid a break in service but will not complete sufficient hours of service to be credited with a year of service. In this case the participant will remain in the same position on the vesting schedule (without advancement).

1.411(a)-6

Line b. The plan may provide for forfeiture of nonvested amounts prior to a participant incurring 5 consecutive 1-year breaks in service only as the result of distribution on termination with opportunity for restoration upon resumption of covered employment (cash-out/buy-back). See V., below regarding rules relating to cash-out distributions. If the participant incurs 5 consecutive 1-year breaks in service, the plan may be able to forfeit nonvested amounts even though there has not been a cash-out distribution. See III., below.

411(a)(7)(B) & (C)

1.411(a)-7(d)(4)

III. Vesting on Return to Service After a Break in Service

A plan may provide that a participant who separates from service and has a one year break in service will not receive the credits described below immediately. The plan cannot, however, require the participant to complete more than one year of service upon the participant's return before the credits described below are provided the participant. Service is figured from the date of return to employment. After the waiting period is satisfied, the waiting period is counted as part of the postbreak service.

In the case of a participant, whether or not vested upon separation, all service must be counted if the participant returns prior to having 5 consecutive breaks in service. In such instances, pre-break service will count in determining vesting in both pre-break and post-break account balances and post-break service will count in determining vesting in both pre-break and post-break account balances.

If the participant has 5 or more consecutive breaks in service, all service (both pre-break and post-break) must be counted in determining the vesting percentage in the post-break account balances in two circumstances. First, when a participant has any nonforfeitable interest in the accrued benefit attributable to employer contributions at the time of separation from service. Second, when the number of years of service before the break exceed the number of consecutive break in service years.

Thus, in the case of a participant with a nonforfeitable interest at the time of separation, the length of the break in service is irrelevant with respect to counting pre-break service for the percent of vesting in post-break account balances upon reemployment. The length of the break is relevant with respect to counting post-break service for percent of vesting in pre-break accrued benefits (obviously, only where the participant was not 100% vested upon the break) if the break in service is at least 5 consecutive years.

For a nonvested participant, under the rule of parity, pre-break service must be counted in determining percent vesting in post-break account balances unless the number of consecutive break in service years equals or exceeds the greater of the number of years of service before the break or 5. For the nonvested participant (just as for a vested participant) post-break service is counted for the percent vesting in pre-break account balances only where the number of consecutive break in service years is less than 5.

In all cases, post-break service must apply to post-break account balances.

For a plan that uses elapsed time, if the participant has one year of severance, the plan is required to consider prior periods of service in determining the participant's interest in severance is less than five years.

If the participant has at least a 5 year period of severance, the plan is required to consider a prebreak period of service in determining the vesting portion of post severance contributions if the period of severance is less than the period of service.

411(a)(6)(B), (C) & (D)

1.411(a)-(6)(c)(1)

1.410(a)-7(d)(7)

IV. Contributory Plans

Line a. The plan must provide a method to identify and distinguish that part of any account balance that resulted from employee contributions from that part that resulted from employer contributions. A plan that provides for separate accounts for employer and employee contributions satisfies this requirement. When separate accounts are not maintained, the account balance of employee contributions can be determined by multiplying the total account balance by a fraction:

- 1) The numerator is the total amount of the employee's contributions under the plan less withdrawals, and
- 2) The denominator is the total amount described in (1) above, and the employer's total contributions under the plan on behalf of the employee, less withdrawals. Employee contributions include all amounts that are contributed to the plan, even if the amounts are used to provide ancillary benefits such as death, incidental life, or health insurance.

Employee withdrawals include only amounts distributed to the employee. They do not reflect the cost of any death benefit under the plan (cost of pure life insurance protection is not considered paid for by employee contributions).

411(c)(2)

1.411(c)-(1)

Line b. An employee's account balance that resulted from the employee's own contributions must be nonforfeitable.

411(a)(1)

Line c. The plan must provide that vesting in employer contributions conforms to statutory required minimums and may not be offset by nonforfeitable rights to account balances that resulted from employee contributions (which are always fully vested).

TIR 1334(V-1)

Line d. A plan cannot provide that an employee may forfeit any part of the account balance that resulted from employer contributions because of the withdrawal of the employee's own contributions after the employee is vested in 50 percent of the account balance that is the result of employer contributions. For contributions made before September 2, 1974, see Line e.

401(a)(19) & 411(a)(3)(D)

1.401(a)-19

Line e. If forfeitures cannot occur because of a withdrawal of mandatory employee contributions, check N/A.

Except where top-heavy rules are applicable, a plan may require a participant to forfeit all or part of the participant's account balance that resulted from employer contributions because of withdrawal of any mandatory employee contributions if the participant is less than 50 percent vested in the account balance. However, if the forfeiture is permitted, the forfeited amounts must be restored when the participant repays the amount of mandatory employee contributions withdrawn.

When a participant has a right to part of the employer-derived benefit from contributions made before September 2, 1974, the right is not treated as forfeitable even though all or part of the benefit may be forfeited by the participant's withdrawal of an amount that resulted from the benefit. However, the benefit must have been the result of mandatory contributions by the participant before September 2, 1974, and the amount that can be forfeited must not be more than the proportionate amount withdrawn. This rule does not apply to a plan with mandatory contributions made after September 2, 1974.

The amount required to be restored must not be less than the amount forfeited. Forfeited amounts may be restored from income or gain to the plan, forfeitures, or employer contributions. If assets for the restored benefit are provided in the plan year following the plan year in which the repayment occurs, an account balance will not be considered as unfunded. The plan may require that restoration of employer contributions be contingent on repayment of withdrawn mandatory employee contributions. The plan may require repayment no earlier than (i) in the case of a withdrawal on account of separation from service, before the earlier of 5 years after the first date on which the participant is subsequently reemployed, or the close of the first period of 5 consecutive 1-year breaks in service commencing after the withdrawal; or (ii) in the case of any other withdrawal, 5 years after the date of the withdrawal.

Also, the plan could delay the forfeiture until the expiration of the time for repayment. Then, because no restoration would be required, a "No" answer is acceptable.

1.411(a)-7(d)(2) & (3)

V. Cash-Outs and Other Distributions of Benefits That Result From Employer Contributions

A cash-out is a distribution of all or some portion of the participant's nonforfeitable accrued benefit under the plan, accompanied by a forfeiture of the nonvested benefit and a disregard to service to which the distribution is attributable for the purpose of computing the employee's accrued benefit. If the plan has no cash-out provision, this line is N/A and only lines b. and c. need be completed. Cash-out rules may not be applied to accounts from which mandatory contributions have been withdrawn. The forfeitable account balance attributable to a cash-out distribution must be forfeited no later than the end of the plan year in which the participant incurs 5 consecutive 1-year breaks in service. Also, answer line c. for all distributions, not just cash-outs.

1.411(a)-7(d)(1)

411(a)(11)

Line a. Distributions which cash-out an accrued benefit

- i) Any involuntary cash-out distribution must be an amount not less than the participant's entire nonforfeitable account balance. An involuntary cash-out is one which does not require consent. An involuntary cash-out may not be made if the participant's nonforfeitable account balance, including employee derived amounts, is in excess of \$5,000 and the benefit is immediately distributable.
411(a)(7)(B)(i)
1.411(a)-7(d)(4)(i)
- ii) A cash-out distribution may only be made on an employee's termination of participation in the plan. Unless the participant receives a cash-out distribution on termination, the plan must delay forfeiture until the plan year in which the participant incurs 5 consecutive 1-year breaks in service. A distribution made not later than the close of the second plan year following the year in which a participant terminates participation in the plan is deemed to be made on termination. Distributions after the second plan year and prior to the 5th consecutive break may be made on account of termination of participation if the facts and circumstances so demonstrate. If the participant has received a cash-out distribution, the plan may forfeit benefits at any time until, but no later than, the end of the plan year in which the participant incurs 5 consecutive breaks in service. Pursuant to final regulations under section 1.411(a)-7(d)(4)(i) and (vi), an involuntary distribution of an employee's vested account balance of \$5,000 or less can be treated as made due to termination of the employee's participation if the distribution could have been made at the termination of participation but for the fact that the account balance was then valued at more than the cash-out limit previously in effect under section 411(a)(11). This provision applies to distributions made on or after March 22, 1999. However, an employer is permitted to apply this rule to plan years beginning on or after August 6, 1997.
411(a)(7)(B)
1.411(a)-(d)(4)(i) & (iii)
- iii) A plan that provides for cash-out distributions must contain a repayment provision in the event the participant resumes employment covered by the plan. The plan may provide that repayment must be made (i) in the case of a withdrawal on account of separation from service, before the earlier of 5 years after the first date on which the participant is subsequently reemployed, or the close of the first period of 5 consecutive 1-year breaks in service commencing after the withdrawal; or (ii) in the case of any other withdrawal, 5 years after the withdrawal. A participant who is cashed-out and who, upon subsequent reemployment, repays the full amount must be reinstated in the full array of section 411(d)(6) protected benefits that existed with respect to his or her benefit prior to the cash-out. (See VII.c., below.) Upon repayment, the employer-derived benefit required to be restored by the employer must not be less than the amount of the account balance of the employee, both the amount distributed and the amount forfeited, unadjusted by any later gains or losses.
1.411(a)-7(d)(4)(iv) & (v)
1.411(d)-4 Q&A 2(a)(2)(iii)
- iv) When a cash-out distribution has been made, the service attributable to the amount distributed may be disregarded for the purposes of computing the balance to remain in an employee's account. In the case of a cash-out distribution where the nonforfeitable account balance is not in excess of \$5,000, the entire remaining account balance will be forfeited.

For a voluntary cash-out, an employee may receive less than the total nonforfeitable account balance in a plan that provides for a partial cashout. Then, to get the account balance not required to be taken into account at any time, multiply the employee's total account balance at that time (figured as though there was no prior distribution) by a fraction. The numerator is the amount of the distribution, and the denominator is the present value of the total nonforfeitable benefit immediately before the distribution. Service disregarded under this section may not be disregarded when determining employees' eligibility to participate or their position on the plan's vesting schedule.

411(a)(7)(B)

1.411(a)-7(d)(4)(iii)

Line b. Distributions which do not cash-out an accrued benefit.

(i) and (ii) It may be possible under some plans for a participant who separates from service with less than a 100 percent vested interest in the account balance to receive a distribution of the vested interest before having 5 consecutive breaks in service. In this event, and in plans in which an employee can increase his or her percentage of vesting after a distribution, figure account balances in a manner which satisfies one of the methods outlined below.

A separate account may be established or an account balance must be maintained for the employee's interest in the plan as of the time of the distribution and at any relevant time in the future. A participant's vested interest in a separate account cannot be less than the amount determined by the first of the following formulas:

$$1) \quad X = P (AB + [R \times D]) - (R \times D)$$

X is vested interest at relevant time.

P is vested percentage at relevant time.

AB is account balance at relevant time.

D is amount of the distribution.

R is the ratio of the account balance at the relevant time over the account balance after distribution. The relevant time is the time at which the vested percentage in the account cannot increase.

$$2) \quad x = P(AB + D) - D \text{ may be used instead of the above formula. A separate account is not needed with this formula.}$$

Line c. The plan cannot immediately distribute any benefits where the vested account balance (taking into account employer and employee contributions) exceeds \$5,000 without the consent of the participant (see below for transition rules). A benefit is immediately distributable if any part of the benefit (account balance) may be distributed before the later of NRA or age 62. If a participant has attained NRA, but has not yet attained age 62 (or vice versa), the participant's failure to consent to a distribution is deemed to be an election to defer commencement of payment sufficient to satisfy section 401(a)(14). For plans subject to section 417, spousal consent is also required unless the nonforfeitable account balance does not exceed \$5,000 (without taking into account amounts which were rolled over by the participant into the employer's plan), or the distribution is in the form of a qualified joint and survivor annuity. Also, in a plan subject to section 417, participant and spousal consent to an immediate distribution will be required where such distribution is after the "annuity starting date" (defined in section 417(f)(2)), even if the nonforfeitable account balance does not exceed \$5,000. See Worksheet 3 concerning Joint and Survivor requirements.

The cash-out limit under section 411(a)(11) was raised to \$5,000 from \$3,500 for distributions after August 5, 1997. Regulations were issued implementing this increase and other changes to the cash-out rules. One of these changes was to the lookback rule, which provided that the present value of a vested account balance was deemed to exceed the cash-out limit if it had exceeded the cash-out limit at the time of any previous distribution. Temporary regulations under section 1.411(a)-11(c)(3), effective for distributions on or after March 22, 1999, eliminated the lookback rule for distributions other than those made pursuant to an optional form of benefit under which at least one scheduled periodic distribution remained payable. The final regulations, effective October 17, 2000, also eliminated the parallel lookback rule under section 1.417(e)-(1)(b)(2)(1). Thus the lookback rule was eliminated both for plans subject to the spousal-consent rules of section 417 and for plans not subject to those rules. Under this removal of the lookback rule, a participant's vested account balance of \$5,000 or less may be distributed without consent even if the account balance had been valued at more than \$5,000 at the time of a previous distribution.

However, in accordance with section 417(e)(1), if a plan is subject to the spousal consent rules consent would be required after the annuity starting date for the immediate distribution of the account balance being distributed in any form, including a qualified joint and survivor annuity or qualified preretirement survivor annuity, regardless of the amount of the account balance.

For distributions made on or after March 28, 2005, mandatory distributions of more than \$1,000 from a qualified plan must be paid in a direct rollover to an IRA if the distributee does not make an affirmative election to have the amount paid in a direct rollover to an eligible retirement plan or to receive the distribution directly. Spousal consent is required for such a distribution only if the plan is subject to the joint and survivor annuity and preretirement survivor annuity requirements and the present value of the distributee's non-forfeitable benefit under the plan exceeds \$5,000.

411(a)(11),

401(a)(31)(B)

417(e)

1.411(a)-7(d)(5)

1.411(a)(11)-1

Notices 2005-5 & 2005-95

Line d. Section 411(a)(8) provides that the term “normal retirement age” means the earlier of (A) the time a plan participant attains normal retirement age under the plan or (B) the later of age 65 or the fifth anniversary of the time a plan participant commenced participation in the plan. A plan’s normal retirement age is relevant for a number of purposes, including determining the date at which a participant is eligible to receive his or her normal retirement benefit and calculating the amount of the benefit received.

Pursuant to ITR § 1.401(a)-1(b)(2), which was finalized on May 22, 2007, pension plans may permit in-service distributions upon attainment of normal retirement age. Under the regulation, a pension plan (including a defined contribution money purchase pension plan) cannot have a normal retirement age that is less than an age reasonably representative of the typical retirement age for the industry in which the covered workforce is employed. A normal retirement age of 62 or greater is deemed reasonable; below age 62, the sponsor must demonstrate the normal retirement age is reasonable (substitute “age 50” for “age 62” in the case of a plan where substantially all of the participants are qualified public safety employees (within the meaning of § 72(t)(10)(B)). If the plan’s normal retirement age is at or above age 55, the IRS will give deference to a good faith determination made by the employer (or, in the case of a multiemployer plan, made by the trustees) that the normal retirement age is reasonable under the industry standard described above assuming that the determination is reasonable under the facts and circumstances. If the plan’s normal retirement age is below age 55, it is presumed to be earlier than the earliest age that is reasonable under the industry standard described above unless the Commissioner determines otherwise under the facts and circumstances.

Notice 2007-69, 2007-2 .B. 468, provided that, until the first plan year beginning after June 30, 2008, plans that, immediately prior to May 22 2007, had normal retirement ages that were below age 62 (but would not permit any participant hired at age 18 or older to attain NRA before age 40) would not be disqualified, provided the plan sponsor adopts a good faith interim amendment to comply with the regulation or reasonably and in good faith determines that no such amendment is necessary. (This relief is not applicable to plans that are not required to be amended to raise the plan’s normal retirement age effective before the first day of the first plan year beginning on or after July 1, 2008 – that is, governmental plans and some collectively bargained plans).

Notice 2007-69 also provided that if a plan’s normal retirement age, as in effect under the plan immediately prior to May 22, 2007, was below age 55 (but would not permit any participant hired at age 18 or older to attain NRA before age 40), the plan sponsor’s good faith determination of the typical retirement age for the industry will be given deference until the date the Service rules on the plan’s NRA, provided the sponsor’s determination was reasonable under the facts and circumstances and the sponsor requests a private letter ruling on the plan’s NRA by June 30, 2008. If, during the ruling process, it is determined that the plan’s NRA does not reasonably represent the typical retirement age for the industry, the plan’s NRA will be required to be raised only prospectively from the date of issuance of the private letter ruling. If the plan sponsor chooses not to request a private letter ruling, the plan will still be eligible for the relief described in the preceding paragraph, assuming the plan’s NRA, as in effect under the plan on May 22, 2007, would not permit any participant hired at age 18 or older to attain NRA before age 40.

Accordingly, for determination letter applications filed in Cycle C, a plan sponsor was not required to demonstrate the reasonableness of the plan’s definition of normal retirement age unless the pension plan was not eligible for the relief under Notice 2007-69 or the relief for the plan ended before December 31, 2008. Notice 2008-108, 2008-2 C.B. 1275, provides, however, that the final regulations will be taken into account in the Service’s review of plan submitted for determination letters filed in Cycle D since the relief provided under relief in Notice 2007-69 is temporary.

Plan amendments that are adopted to raise the plan’s normal retirement age in compliance with §1.401(a)-1(b)(2) above are interim amendments under Rev. Proc. 2007-44, 2007-2 C.B. 54. Accordingly, the remedial amendment period with respect to § 1.401(a)-1(b) (2) and (3) is extended to the end of a plan’s applicable 5-year or 6-year remedial amendment cycle (described in section 6.01 of Rev. Proc. 2007-44) that includes the date on which the remedial amendment period would otherwise end, if, by that date, the plan sponsor either adopts a good faith interim amendment to comply with § 1.401(a)-1(b)(2) and (3) or reasonably and in good faith determines that no amendment is required. Such an amendment is excepted from the anti-cutback rules of § 411(d)(6) to the extent that it eliminates a participant’s right to an in-service distribution at the earlier age. In order to comply with § 411(a) and § 411(d)(6), however, a plan subject to § 411 for which the normal retirement age has been raised to comply with the new regulations must ensure that a participant who became or would have become eligible for payment of benefits at the normal retirement age under the prior plan terms, and who has severed from employment with the employer or employers maintaining the plan, continues to be eligible for payment at the same age and in at least the same amount as under the prior plan terms with respect to benefits accrued prior to the applicable amendment date (within the meaning of § 1.411(d)-3(g)(4)).

The NRA regulations were originally effective for governmental plans for plan years beginning on or after January 1, 2009, but in Notice 2009-86 the Service and Treasury announced their intention to amend the NRA regulations to change the effective date for governmental plans to plan years beginning on or after January 1, 2013. Notice 2009-86 also provides that governmental plan sponsors may rely on the notice with respect to this extension until the NRA regulations are amended.

411(a)(8)

411(d)(6)

1.401(a)-1(b)(2)

1.411(d)-4, Q&A-12

Notice 2007-69, 2007-2C.B. 468.

Line e. A plan may permit “in-service” distributions to a participant who has attained age 62 and has not separated from employment at the time of the distribution, in accordance with section 401(a)(36)

401(a)(36)

VI. Vesting Schedule

The plan's vesting schedule identifies the factor to be used when determining how much of the employer's contributions to the account an employee is entitled to at any time.

Lines a. and b. In general, a plan must provide vesting at a rate at least equal to one of the vesting schedules described in section 411(a)(2). For contributions made for plan years beginning before January 1, 2007, and subject to the special rule for matching contributions, section 411(a)(2) is satisfied if an employee is 100% vested in the employer-derived accrued benefit after no more than 5 years of service ("5-year cliff" vesting) or if an employee is 20% vested after 3 years of service and an additional 20% for each subsequent year of service with 100% vesting after 7 years of service ("3 to 7 year graded" vesting). Effective for plan years beginning after December 31, 2001, a defined contribution plan satisfies the minimum vesting requirements with regard to employer matching contributions if it has a "3-year cliff" or a "2 to 6 year graded" vesting schedule. For contributions made for plan years beginning after December 31, 2006, all employer contributions are subject to a "3-year cliff" or a "2 to 6 year graded" vesting schedule.

(For years beginning before the applicable effective date in the Small Business Job Protection Act of 1996, a multiemployer plan could provide for 10-year cliff vesting for employees covered under a multiemployer collective bargaining agreement. A multiemployer plan may not retain 10-year cliff vesting with respect to participants who have more than one hour of service under the plan in a plan year beginning on or after the applicable effective date, but must satisfy one of the vesting schedules in section 411(a)(2)(A) and (B). The applicable effective date is the earlier of January 1, 1999, or the later of January 1, 1997, or the date on which the last of the collective bargaining agreements pursuant to which the plan is maintained terminates.) A plan's vesting schedule cannot merely satisfy the requirements of any one of the applicable permissible vesting schedules in section 411(a)(2) in a given year without satisfying the requirements of that particular vesting schedule for all years. For example, a plan other than a multiemployer plan that provides no vesting for the first four years of service and then provides 60 percent vesting after 5 years of service with an additional 20 percent for each subsequent year to provide 100 percent vesting after 7 years of service would not satisfy the requirement. This schedule would satisfy a composite of the requirements of either "5-year" or "3-7 year" vesting for all years but would not meet the requirements of either one of these schedules for all years.

A plan may no longer be required to adopt a "4-40" vesting schedule. Furthermore, a plan may not continue to use the "4-40" vesting schedule because it does not provide vesting at a rate at least equal to one of the vesting schedules described in section 411(a)(2).

A plan may satisfy one of the minimum vesting schedules for one group of employees and another schedule for another group of employees provided the groups are not structured to avoid the minimum vesting requirements.

1.411(a)-3(a)(2), Rev. Proc. 89-29

Line b. A new vesting schedule substituted by a plan amendment must satisfy one particular vesting schedule of the schedules listed in section 411(a)(2)(B) for each year of service, but this does not have to be the same schedule as the plan satisfied before the amendment. Therefore, a plan that provides for 100 percent vesting only after 3 years of service may be amended to "2 to 6 year" vesting provided the requirements of section 411(a)(10) are met.

1.411(a)-3(a)(3)

VII. Amendments Affecting Accrued Benefits And Vesting

This section applies to plan amendments that affect, either directly or indirectly, the accrued benefit or the vesting schedule under the plan. Code sections 411(a)(10) and 411(d)(6) generally prohibit any plan amendment that would decrease the accrued benefit of any participant or the nonforfeitable percentage applicable to any participant.

Line a. If the plan's vesting schedule is not being changed, check N/A. If the vesting schedule is being amended, for every employee who is a participant on the amendment adoption date or the amendment effective date, whichever is later, the nonforfeitable percentage (determined as of that date) of the participant's right to the employer-derived accrued benefit may not be less than the participant's percentage figured under the plan without regard to the amendment. For example, if a plan is being amended to replace a 2 to 6 year vesting schedule with 3 year cliff vesting, a participant who has three years of service at the time of the amendment and elects to go under the new schedule must be 40% vested in the amount accrued after completing their third year of service.

1.411(a)-8(a)

Line b. If the plan's vesting schedule is not being changed, or if the schedule is being changed but the nonforfeitable percentage under the amended schedule cannot, at any time, be less than the percentage determined under the old schedule, check N/A.

Although each participant's nonforfeitable percentage, as of the amendment's adoption or effective date, may not be less under the new schedule than it would have been under the old schedule (see a., above), the new schedule may provide for lower nonforfeitable percentages in future years. For example, if a plan replaced a 3 year cliff vesting schedule with a 2 to 6 year vesting schedule, a participant with two years of service on the date of the change could have 20 percent vesting after the change rather than the 0 percent vesting before the change. However, when the participant earned a third year of service, the participant's vesting would only be 40 percent under the new schedule whereas it would have been 100 percent under the old schedule.

If this reduction in future vesting can occur, the plan must provide that each participant who has completed 3 years of service with the employer and whose nonforfeitable percentage is determined under the new vesting schedule may elect to have the nonforfeitable percentage determined under the old vesting schedule.

The plan may limit the period for this election, and the election may be irrevocable.
IRC 411(a)(10)(B)

Lines c., d., e., f., and g. If the National Office of the IRS has approved the amendment as being a retroactive amendment which may decrease accrued benefits under Code section 412(c)(8), and section 302(c)(8) of ERISA, check N/A.

Except as described below, No other plan amendment may decrease, either directly or indirectly, the accrued benefit of any plan participant. Plan provisions that may indirectly decrease a participant's accrued benefit include, but are not limited to, those relating to years of service and breaks in service for benefit accrual, and to actuarial factors for determining optional retirement benefits. Any changes in the method of determining optional retirement benefits are subject to the protections of the anti-cutback provisions. Benefit changes are not precluded. The plan must provide, however, that the benefit available at any future date will not be less (with respect to an individual who either before or after the amendment satisfies the pre-amendment requirements for such benefit) than the benefit accrued as of the date of the amendment.

"Section 411(d)(6) protected benefits" are benefits described in section 411(d)(6)(A), early retirement benefits and retirement-type subsidies, and optional forms of benefit. A plan amendment that has the effect of eliminating or reducing such benefits (other than to the extent provided in regulations), with respect to benefits accrued prior to the amendment, is treated as an impermissible cutback of section 411(d)(6) protected benefits. The protection of section 411(d)(6) also applies in the case of plan mergers, transfers, and transactions amending or having the effect of amending a plan to transfer plan benefits. 1.411(d)-4 Q&As 1(a) & 2(a)(3).

An optional form of benefit is a distribution form with respect to an employee's benefit that is available under the plan and is identical with respect to all features relating to the distribution form, including the payment schedule, timing, commencement, medium of distribution, the portion of the benefit to which such distribution features apply and the election rights with respect to such optional forms. Thus, to the extent there are any differences in such features, the plan provides separate optional forms of benefit. For example, a joint and 50 percent survivor annuity and a joint and 75 percent survivor annuity are separate optional forms, regardless of whether they are actuarially equivalent. Likewise, a distribution that is available in cash or in employer securities consists of two separate optional forms of benefit. A benefit payable at different times (such as early or late retirement), or upon the occurrence of different events or the satisfaction of different conditions, consists of separate optional forms of benefit. A pattern of repeated plan amendments providing for substantially similar benefits in similar situations for substantially consecutive, limited periods of time will be treated as creating a protected optional form to the extent necessary to carry out the purposes of section 411(d)(6). For example, a pattern of repeated plan amendments providing that a particular optional form of benefit is available to certain named employees for a limited period of time may result in that optional form being treated as provided under the terms of the plan to all covered employees without regard to the limited period of time and the limited group of named employees. However, patterns of repeated plan amendments adopted and effective before July 11, 1988 are to be disregarded in determining whether such amendments have created an ongoing optional form of benefit under the plan.

1.411(d)-4 Q&A 1(b)

1.411(d)-4 Q&A 1(c)

The following benefits are among those not subject to the protection of section 411(d)(6): ancillary life insurance protection, social security supplements described in section 411(a)(9), the availability of loans (other than the distribution of an employee's accrued benefit upon default under a loan), the right to make employee contributions or elective deferrals, and the right to direct investments.

1.411(d)-4 Q&A 1(d)

The regulations provide that under certain circumstances protected benefits may be eliminated or reduced. These circumstances include the situation where such an elimination or reduction is necessary to retain qualified status because of a change in law, provided the plan is timely amended to comply with the change in law and section 7805(b) relief is granted. Also, pursuant to transition rules in regulations 1.401(a)-4 and 1.411(d)-4, certain protected benefits may be eliminated under certain circumstances in order to comply with those regulations. If a plan has more than two joint and survivor annuity options which are actuarially equivalent and otherwise identical (e.g., joint and 50 percent, 75 percent, and 100 percent), it may generally eliminate the options that fall between the lowest and highest survivor benefit percentages (i.e., in this case, the joint and 75 percent survivor annuity). A plan may also eliminate the right to a future distribution in the form of property (other than cash) if on plan termination a participant may elect to receive the optional form of benefit in the specified property. A profit-sharing plan that does not provide for an annuity option and that is terminated may be amended to provide for the distribution of a participant's benefit upon termination in a single sum without the participant's consent provided the employer does not maintain another defined contribution plan (other than an ESOP). A plan may be amended to add an involuntary cash-out provision or to change the threshold amount for an involuntary cash-out. A plan may also be amended to eliminate or change a provision for loans, to eliminate provisions permitting transfers of benefits between plans of the employer, to make certain de minimis changes in the timing of benefits, and special rules that would permit the transfer of benefits between defined benefit and defined contribution plans. There are also special exceptions for ESOPs.

1.401(a)-4 Q&A 5

1.411(d)-4 Q&As 2, 3 & 8

In general, a plan may not be amended to add or modify conditions with respect to section 411(d)(6) protected benefits if the amendment would result in any further restriction. However, objective conditions may be added to benefits that have not yet accrued and may also be added to accrued protected benefits if permitted under the transition rules or the permissible benefit cutback provisions of the regulations.

1.411(d)-4 Q&As 2, 3, & 7

There are no exceptions to the protections of section 411(d) for plan terminations except as expressly provided under the regulations.

411(d)(6)

1.411(d)-3(b)

1.411(d)-4 Q&As 2, & 3

The following paragraphs describe the conditions under which plans may be amended to restrict or eliminate optional forms of benefit.

1.411(d)-4 Q&As 2, & 3

A defined contribution plan does not violate the requirements of section 411(d)(6) merely because the plan is amended to eliminate or restrict the ability of a participant to receive payment of accrued benefits under a particular optional form of benefit for distributions with annuity starting dates after the dates the amendment is adopted if, after the plan amendment is effective with respect to the participant, the forms of payment available to the participant include payment in a single-sum distribution form that is otherwise identical to the optional form of benefit that is being eliminated or restricted. "Otherwise identical" means that the single-sum benefit paid must be identical in every aspect to the optional form eliminated or restricted under other provisions of the regulations under section 411(d)(6) except with respect to the timing of payments after commencement.

1.411(d)-4 Q&A 2(e)

Under certain express requirements, the regulations permit the elimination of optional forms of benefit in connection with distribution event transfers and employment change transfers of benefits from one plan to another with a participant's consent. The section 411(d)(6) requirements do not apply to amounts that have been distributed. Amounts that are directly rolled over to another plan under section 401(a)(31) are considered distributed under section 411(d)(6). Amounts that are distributable in an eligible rollover distribution must be rolled over under section 401(a)(31) to accomplish a distribution event transfer (except for certain cases in which the entire amount cannot be rolled over under section 401(a)(31), such as cases in which a single-sum distribution option is not available, or the participant's benefit includes an amount attributable to basis under section 72 (generally, after-tax employee contributions)). Where the entire amount distributable cannot be rolled over, an elective distribution event transfer under section 414(l) is permitted if the participant's entire nonforfeitable accrued benefit is transferred by means of either an elective transfer of the entire nonforfeitable accrued benefit under section 414(l) or a combination of a contemporaneous section 401(a)(31) transfer and a section 414(l) elective transfer. The regulations also apply for distributable event transfers between defined benefit plans and defined contribution plans. The right to distribution event transfers is an optional form of benefit under section 411(d)(6).

For transfers occurring on or after January 1, 2002, section 411(d)(6) is not satisfied by an elective transfer that occurs at a time at which the participant is eligible to receive an immediate distribution of the participant's entire nonforfeitable account balance in a single-sum distribution that would consist entirely of an eligible rollover distribution within the meaning of section 401(a)(31)(C). Such transfers must be accomplished by means of a direct rollover under section 401(a)(31) and section 414(l) elective transfers not permitted under the revised regulation must be eliminated by an amendment within the plan's GUST remedial amendment period.

Announcement 2000-71

1.411(d)-4 Q&A 3(c)

The regulations permit the elimination of optional forms of benefit in connection with employment change transfers of benefits from one defined contribution plan to another with a participant's consent. The exemption applies for elective transfers under section 414(l) of a participant's entire benefit under a defined contribution plan, that are made in connection with certain corporate transactions (such as a merger or acquisition) or in connection with a participant's change in employment status (for example, the transfer to a different subsidiary or division of the employer, without regard to whether the transfer constitutes a separation from service) to an employment status under which the participant does not accrue additional allocations under the transferor plan, whether or not the participant would be eligible for a distribution of the participant's entire benefit in a single-sum distribution that would be an eligible rollover distribution. Such employment change transfers can be made to a plan that is outside the employer's controlled group, to another plan of the same employer, or to a plan that is maintained by another member of the employer's controlled group. The employment change transfer can be made even if the participant's benefit is not fully vested, provided that the vesting schedule amendment requirements of section 411(a)(10) are satisfied by the receiving plan. In order to be eligible for this employment change transfer exemption, the transfer generally must be between defined contribution plans of the same type. To the extent the benefits are transferred from a money purchase pension plan, the transferee plan must be a money purchase pension plan. To the extent the benefits being transferred are part of a qualified cash or deferred arrangement under section 401(k), the benefits must be transferred to a qualified cash or deferred arrangement under section 401(k). To the extent the benefits being transferred are part of an employee stock ownership plan as defined in section 4975(e)(7), the benefits must be transferred to another employee stock ownership plan. Benefits transferred from a profit-sharing plan other than from a qualified cash or deferred arrangement, or from a stock bonus plan other than an employee stock ownership plan, may be transferred to any type of defined contribution plan.

Rev. Rul. 94-76

1.411(d)-4 Q&A 3(b)

A defined contribution plan may be amended to replace the ability to receive a distribution in the form of marketable securities as defined in section 731(c)(2) (other than employer securities under section 402(e)(4)) with the ability to receive a distribution in the form of cash. The right to distributions from a defined contribution plan in the form of cash, employer securities or other property that is not marketable securities is generally protected.

If a plan includes an optional form of benefit under which benefits are distributed in the medium of an annuity contract that provides for cash payments, that optional form of benefit may be modified by a plan amendment that substitutes cash payments from the plan for the distribution of the annuity contract, where those cash payments from the plan are identical to the cash payments payable from the annuity contract in all respects except for the source of the payments (i.e., timing and amount).

A defined contribution plan that continues to offer a lifetime annuity form of distribution must purchase an annuity contract from an insurance carrier in order to provide that optional form (and the plan may either distribute that contract to the participant or hold the contract as a plan asset from which it makes the payments to the participant). A defined contribution plan that gives a participant the right to an in-kind distribution (including employer securities and property that is not marketable securities) may be amended to limit the types of property in which distributions can be made to a participant to specific types of property allocated to the participant's account at the time of the amendment (and with respect to which the participant had the right to receive an in-kind distribution before the plan amendment). A defined contribution plan that gives a participant the right to a distribution in a type of property may be amended to specify that the participant is permitted to receive a distribution in that type of property only to the extent that the plan assets allocable to the participant's account at the time of the distribution include that type of property.

1.411(d)-4 Q&A 2(b)

Pursuant to section 1.411(d)-4, Q&A 10 of the revised regulations, an amendment to eliminate an age 70½ distribution option may apply only to benefits with respect to employees who attain age 70½ in or after a calendar year, specified in the amendment, that begins after the later of December 31, 1998, or the adoption date of the amendment. An age 70½ distribution option is an optional form of benefit under which benefits payable in a particular distribution form commence at a time during the period that begins on or after January 1 of the calendar year in which an employee attains age 70½ and ends April 1 of the immediately following calendar year.

A plan using this relief generally may not preclude an employee who retires after the calendar year in which the employee attains age 70½ from receiving an optional form of benefit that would have been available if the employee had retired in the calendar year in which the employee attained age 70½. The amendment must be adopted no later than the last day of the remedial amendment period.

VIII. Miscellaneous

Line a. A defined contribution plan will not be treated as meeting the minimum vesting standards of section 411 (and, therefore, will not be a qualified plan under section 401 (a)) if under the plan the allocation of employer contributions or forfeitures is discontinued or decreased because of the attainment of any age. This rule is effective for plan years beginning on or after January 1, 1988 with respect to employees who have an hour of service in such years. A plan will violate this requirement if optional forms of benefit, ancillary benefits, or other rights or features that are provided with respect to allocations attributable to credited service prior to a certain age are not provided with respect to allocations attributable to credited service after that age. This requirement does not preclude a plan from setting a cap or limit on the total employer contributions and forfeitures that will be allocated to a participant's account or from limiting the total number of years of service that will be taken into account in determining the amount of such allocations, provided those limits are not directly or indirectly tied to age. However, in applying any limitation based on years of service, the plan may not take into account years of service prior to the effective date of this rule (i.e., the first day of the first plan year beginning after 1987) that are disregarded in determining allocations to a participant's account because of the participant's attainment of any age. Also, if the plan determines allocations using a service related allocation formula, then for 1988 and later plan year allocations the plan may not disregard, because of the participant's attainment of any age, any year of service completed by the participant. Continued allocations are not required where they would violate section 415 or cause the plan to fail to meet the integration requirements or to be discriminatory.

Proposed regs. 1.411(b)-2

Line b. A plan will violate section 401(a), including section 401(a)(25) and section 411(d)(6), if it may directly or indirectly deny a section 411(d)(6) protected benefit through the discretion of the employer or third parties, such as plan administrators. (See section VII for the definition of "section 411(d)(6) protected benefits".) This does not preclude a plan from conditioning the availability of benefits on stated nondiscriminatory, objective standards (including, e.g., availability of single sum distributions upon execution of a covenant not to compete) or prevent the employer from exercising administrative discretion in determining whether such standards have been met. A plan condition (such as the plan's level of funding) that is within the employer's discretion is not considered an objective standard.

1.411(d)-4 Q&A 4, 5 & 6

Employee Benefit Plan

Minimum Vesting Standards Defined Contribution Plans

(Worksheet Number 2 – Determination of Qualification)

Instructions – All items must be completed. A “Yes” answer generally indicates a favorable conclusion is warranted, while a “No” answer indicates a problem exists. Please use the space on the worksheet to explain any “No” answer. See Publication 6389, Explanation Number 2, for guidance in completing this form.

The technical principles in this worksheet may be changed by future regulations or guidelines

Name of plan

I. Years of Service and Break in Service	Plan Reference	Yes	No	N/A
<p>Note – Questions g. - k. do not apply to plans that use hours of service as a basis for determining service for vesting purposes. Questions a. - f. do not apply to plans that use the elapsed time method of determining service. Questions l. - p. must be considered for all plans.</p>				
a. Does the plan designate a "vesting computation period"? [0202]				
b. Is an employee required to complete no more than H hours of service during the "vesting computation period" to be credited with a year of service? [0203]				
c. Does the plan credit hours of service in accordance with Department of Labor (DOL) Regulations? [0204]				
d. If the plan credits hours of service for periods when no duties are performed, does the plan incorporate, in its own words or by reference, the rules for determining and crediting those hours? [0205]				
e. Is a "break in service" defined as a vesting computation period when the employee is not credited with more than B hours? [0206]				
f. Does the plan credit service to the appropriate computation period in order to avoid a break in service for employees on maternity or paternity leave? [0207]				
g. Does the plan credit an employee with a period of service; beginning no later than the employment commencement date and ending no sooner than the severance from service date? [0208]				
h. Does the plan determine an employee's total period of service by aggregating all individual periods, unless the periods of service may be disregarded under the rule of parity? [0209]				
i. In determining an employee's period of service, does the plan also take into account the service spanning rules? [0210]				
j. Is a 1-year period of severance defined as a 12-consecutive-month period beginning on the severance from service date and during which the employee does not perform an hour of service for the employer? [0211]				
k. Is the first period of severance ignored to the extent that such period is attributable to maternity or paternity leave? [0219]				
l. Are all years of service counted for vesting purposes, except as provided in Internal Revenue Code section 411(a)(4)? [0213]				
m. Are years of service with the employer before the participant entered the plan, including years of service with the employer in noncovered employment, counted for vesting purposes? [0214]				
n. Are years of service with other members of a controlled group of corporations, or with trades or businesses under common control or with other organizations that comprise an affiliated service group counted for vesting purposes? [0215]				
o. When the employer maintains the plan of a predecessor employer, does the plan provide that service with the predecessor employer is counted as service with the employer? [0216]				
p. Is service of individuals who are leased employees of any controlled group or affiliated service group counted? [0217]				

II. Vesting on Separation from Service-Return to Service Without Break in Service	Plan Reference	Yes	No	N/A
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Note – in a plan that uses the elapsed time method of determining service for vesting purposes, a break in service is a 1-year period of severance.

a. Does an employee continue to vest, starting at the point in the vesting schedule where the employee left employment, in both the pre-separation and post-separation account balances? [0221]				
b. If any part of the employee's account balance may be forfeited before the participant incurs five consecutive one year breaks in service, does the forfeiture occur as the result of a distribution on termination with opportunity for restoration as required by regulations? [0290]				

III. Vesting on Return to Service After a Break in Service	Plan Reference	Yes	No	N/A
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If a participant separates from service, has a 1-year break in service and returns to service, does the plan provide the following with respect to a such a participant once one year of service has been completed post return

a. If such participant does not have five consecutive breaks in service, both the pre-break and post-break service will count in vesting both the pre-break and post-break account balances? [0231]				
b. If such participant has five or more consecutive breaks in service, both the pre-break and post-break service will count in vesting the post-break account balances if either (1) such participant has any nonforfeitable interest in the accrued benefit attributable to employer contributions at the time of such separation from service or (2) upon returning to service the number of consecutive breaks in service is less than the number of years of service. [0232 and 0233]				

IV. Contributory Plans-Complete Only if Plan Permits Employee Contributions (Voluntary or Mandatory)	Plan Reference	Yes	No	N/A
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a. Does the plan identify what part of an account balance is attributable to employer and employee contributions under Code section 411(c)(2)? [0241]				
b. Are all account balances resulting from employee contributions fully vested? [0242]				
c. Does vesting in accordance with statutory minimums apply separately to benefits that resulted from employer contributions? [0243]				
d. Is a forfeiture because of withdrawal of employee contributions precluded when the employee is at least 50 percent vested in the account balances that resulted from employer contributions? [0244]				
e. If a plan permits a forfeiture on withdrawal of mandatory employee contributions when an employee is less than 50 percent vested in employer contributions, does the plan provide for restoration of forfeited amounts on repayment of withdrawn employee contributions? [0245]				

V. Cash-Outs and Other Distributions of Benefits That Result From Employer Contributions	Plan Reference	Yes	No	N/A
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a. Distributions that cash-out an accrued benefit:				
(i) In an involuntary cash-out, must the employee receive a distribution of the present value of the entire nonforfeitable benefit that resulted from employer contributions? [0252]				
(ii) Are such distributions made because of the termination of the employee's participation in the plan? [0253]				
(iii) Is the value of the employee's account balance restored when the employee repays the full amount of the distribution as provided by regulations? [0254]				
(iv) Does the plan disregard service only for which an employee receives payment? [0255]				
b. Distributions that do not cash-out an accrued benefit:				
(i) If the plan allows a distribution of a participant's vested interest on separation from service (but before a break in service), are separate accounts or an equivalent method established for the undistributed part of the pre-break account balance and any post-break account balance? [0261]				

V. Cash-Outs and Other Distributions of Benefits That Result From Employer Contributions – Continued	Plan Reference	Yes	No	N/A
(ii) Is the participant's vested interest in the account containing the undistributed part of the pre-separation account balance (described in b(i)) determined under one of the formulas prescribed by regulations? [0261]				
c. Immediate distributions:				
(i) Are immediate distributions, where the vested account balance exceeds \$5,000, precluded unless the participant (and spouse, if the qualified joint and survivor rules apply) consents? [0264]				
d. Normal retirement age in a pension plan:				
(i) If the plan is a pension plan and the plan's NRA is less than age 62, ask sponsor to demonstrate that NRA satisfies ITR section 1.401(a)-1(b)(2). [0270]				
e. If the plan is a pension plan and permits "in-service" distributions, are distributions permitted only to participants who have attained age 62? [0271]				
VI. Vesting Schedule	Plan Reference	Yes	No	N/A
a. At all times does the plan's vesting schedule satisfy the requirements of a particular one of the two minimum vesting schedules described in Code section 411(a)(2)(B)? [0272]				
b. If a plan's vesting schedule is changed by a plan amendment, does the new vesting schedule satisfy any particular one of the vesting schedules described in Code section 411(a)(2)(B) for all years of service? [0272]				
VII. Amendments Affecting Accrued Benefits and Vesting	Plan Reference	Yes	No	N/A
a. If the vesting schedule is being amended, is the nonforfeitable percentage of every participant not less than the percentage figured under the plan before amendment? [0281]				
b. If the vesting schedule is being amended, does the plan provide for election of the former schedule by certain participants? [0282]				
c. If the plan is being amended, is each participant's accrued benefit after the amendment not less than the accrued benefit before the amendment? [0283]				
d. If the early retirement benefits or other optional retirement benefits are changed by an amendment, are the benefits with respect to the benefits accrued to the date of the amendment not reduced for any employee who at any time on or after the amendment satisfied the pre-amendment conditions for the benefit except as provided under the regulations? [0283]				
e. If "section 411(d)(6) protected benefits" are eliminated by a plan amendment, are such protected benefits preserved with respect to benefits accrued as of the later of the adoption or effective date of the amendment except as provided under the regulations? [0283]				
f. No restrictions have been added to previously unrestricted benefits amendment except as provided under the regulations? [0283]				
g. If a plan amendment eliminates a preretirement age 70½ distribution option, is it eliminated only for benefits with respect to employees who attain age 70½ in or after the later of (1) the calendar year specified in the amendment, (2) the calendar year that begins after December 31, 1998, or (3) the calendar year that begins after the adoption date of the amendment? [0285]				
VIII. Miscellaneous	Plan Reference	Yes	No	N/A
a. Does the plan satisfy the requirement that allocations of employer contributions and forfeitures may not be discontinued or decreased because of the attainment of any age? [0287]				
b. Are "section 411(d)(6) protected benefits" available to employees without regard to employer consent or discretion? [0289]				

Employee Plan Deficiency Checklist

Attachment Number 2

Minimum Vesting Standards

For IRS Use	Please furnish the amendment(s) requested in the section(s) checked below.
202 I.a.	Section _____ of the plan should be amended to specify the 12-consecutive month period used to determine whether an employee has completed a year of service for vesting purposes. DOL Regs. sections 2530.200b-1(a) and 2530.203-2.
203 I.b.	Section _____ of the plan should be amended to specify the completion of no more than 1,000 (870 or 750) hours of service in a vesting computation period to entitle an employee to credit for a year of service. IRC section 411(a)(5)(A) and DOL Regs. sections 2530.200b-1(a), 2530.200b-3(e), 2530.200b-3(d)(1), 2530.200b-3(f)(1), 2530.200(b)-3(d)(2), and 2530.200b-3(f)(2).
204 I.c.	Section _____ of the plan should be amended to credit hours of service in accordance with the applicable DOL regulations. DOL Regs. sections 2530.200b-2(a), 2530.200b-3(e), 2530.200b-3(d)(3)(i), 2530.200b-3(d)(3)(ii), 2530.200b-3(f)(1)(i) and 2530.200b-3(f)(2).
205 I.d.	Section _____ of the plan should be amended to provide, either in its own words or by reference to appropriate DOL regulations, the method of determining the number of hours of service to be credited and the method of crediting the hours to the computation periods for periods during which no duties are performed. DOL Regs. sections 2530.200b-2(b), (c) and (f).
206 I.e.	For purposes of vesting, section _____ of the plan should be amended to define a break in service as a vesting computation period during which the employee does not complete more than 500 (435 or 375) hours of service. DOL Regs. sections 2530.200b-3 and 4 and 2530.203-2(d).
207 I.f.	Section _____ of the plan should be amended to provide that certain hours of service shall be credited to the appropriate computation period in order to avoid a break in service for employees on maternity or paternity leave. IRC section 411(a)(6)(E).
208 I.g.	Section _____ of the plan should be amended to credit an employee with a period of service, commencing no later than the employee's employment commencement date and ending no earlier than the severance from service date. Regs. section 1.410(a)-7(b).
209 I.h.	Section _____ of the plan should be amended to provide that an employee's total period of service shall be determined by aggregating all individual periods of service, unless such service may be disregarded due to the rule of parity. Regs. section 1.410(a)-7(b)(6)(ii).
210 I.i.	Section _____ of the plan should be amended to provide that in determining an employee's period of service, the service spanning rules should be taken into account. Regs. section 1.410(a)-7(c)(2)(iii).
211 I.j.	Section _____ of the plan should be amended to define a one year period of severance as a 12 consecutive month period, beginning on the severance from service date, during which the employee does not perform an hour of service for the employer. Regs. section 1.410(a)-7(d)(4).
219 I.k.	Section _____ of the plan should be amended to provide that the first period of severance shall be ignored to the extent that such period of severance is attributable to maternity or paternity leave. IRC section 411(a)(6)(E)(iii).
213 I.l.	Section _____ of the plan should be amended to provide that all years of service are counted for vesting purposes, except as provided in Internal Revenue Code section 411(a)(4). IRC section 411(a)(4).
214 I.m.	Section _____ of the plan should be amended to provide that years of service with the employer before a participant entered the plan, including years of service in noncovered employment, will be counted for vesting purposes, unless one of the exceptions noted in 411(a)(4) applies. IRC section 411(a)(4).
215 I.n.	For vesting purposes, service with an employer must include the service for certain related employers for the period in which the employers are related. These related employers include members of a controlled group of corporations (within the meaning of section 1563(a), determined without regard to subsections (a)(4) and (e)(3)(C) thereof) and trades or businesses (whether or not incorporated) which are under common control. Service must also be counted for organizations that are a part of an affiliated service group under section 414(m). Section _____ of the plan should be amended accordingly. IRC sections 414(b), (c) and (m) and Regs. section 1.411(a)-5(b)(3)(iv)(B).
216 I.o.	Section _____ of the plan should be amended to give credit for service with the predecessor employer. IRC section 414(a)(1).

217 I.p.	Service of any employee who is a leased employee to any employer aggregated under section 414(b), (c), or (m) must be credited for vesting purposes whether or not such individual is eligible to participate in the plan. Section _____ of the plan should be amended accordingly. IRC section 414(m), Regs. Section 1.411(a)-5(b)(3)(iv) and Rev. Rul. 81-105, 1981-2 C.B. 256.
221 II.a.	Section _____ of the plan should be amended to provide that an employee who separates from service and is reemployed prior to incurring a break in service will continue to vest, starting at the point in the vesting schedule where he or she left employment, in both his or her pre-separation and post-separation accrued benefit. Regs. section 1.411(a)-6.
290 II.b.	The plan may not forfeit nonvested amounts prior to the occurrence of five consecutive one-year breaks in service unless the forfeiture results from a distribution on termination of covered employment and an employee who resumes covered employment is given the opportunity to repay the distribution and restore the forfeited amount, within the period described in section 411(a)(7)(C) of the Code. Section _____ of the plan should be amended accordingly. IRC section 411(a)(7)(C) and Regs. section 1.411(a)-7(d)(4)
231 III.a.	The plan should provide that if a participant separates from service, has a one-year break in service and returns to service, after such participant has one year of service after returning to service, if such participant does not have five consecutive one-year breaks in service, both the pre-break and post-break service will count in vesting both the pre-break and post-break account balances. Section _____ of the plan should be amended accordingly. IRC sections 411(a)(6)(B), (C), and (D) and Regs. sections 1.411(a)-6(c)(1) and 1.410(a)-7(d)(7).
232, 233 III.b.	The plan should provide that if a participant separates from service, has a one year break in service and returns to service, after such participant has one year of service after returning to service, if such participant has five or more consecutive breaks in service, both the pre-break and post-break service will count in vesting the post-break account balances if either (1) such participant has a nonforfeitable interest in the accrued benefit attributable to employer contributions at the time of such separation from service or (2) upon returning to service the number of consecutive breaks in service is less than the number of years of service. Section _____ of the plan should be amended accordingly. IRC sections 411(a)(6)(B), (C), and (D) and Regs. sections 1.411(a)-6(c)(1) and 1.410(a)-7(d)(7).
241 IV.a.	Section _____ of the plan should be amended to provide a method by which the portion of any account balance attributable to employee contributions can be identified and distinguished from the portion attributable to employer contributions. IRC section 411(c)(2) and Regs. section 1.411(c)-1.
242 IV.b.	An employee's account balance that resulted from the employee's own contribution must be nonforfeitable. Section _____ of the plan should be amended accordingly. IRC section 411(a)(1).
243 IV.c.	Section _____ of the plan should be amended to provide that vesting in employer contributions conforms to statutory required minimums and may not be offset by nonforfeitable rights to account balances that resulted from employee contributions (which are always fully vested). TIR 1334(V-1).
244 IV.d.	Section _____ of the plan should be amended to preclude forfeitures on account of withdrawal of employee contributions when the employee is 50 percent or more vested in employer derived amounts. Regs. section 1.401(a)-(19).
245 IV.e.	Section _____ of the plan should be amended to provide for the restoration of amounts forfeited on account of withdrawal of mandatory employee contributions if the participant has less than a 50 percent vested interest in employer derived amounts and the employee repays the full amount of the withdrawal. Regs. sections 1.411(a)-7(d)(2) and (3).
252 V.a.(i)	An involuntary cash-out may not be an amount less than the present value of an employee's entire employer-derived nonforfeitable benefit at the time of the distribution. Section _____ of the plan should be amended accordingly. IRC section 411(a)(7)(B)(i) and Regs. section 1.411(a)-7(d)(4)(i).
253 V.a.(ii)	All cash-outs (voluntary or involuntary) must be made, or, in accordance with regulations, deemed to be made, due to an employee's termination of participation in the plan. Section _____ of the plan should be amended accordingly. IRC section 411(a)(7)(B) and Regs. sections 1.411(a)-7(d)(4)(i), (ii) and (vi).
254 V.a.(iii)	A plan that provides for voluntary or involuntary cash-outs must contain a repayment provision if the employee may receive a distribution that is less than the present value of the employee's account balance and the employee resumes employment covered by the plan. Upon repayment, the employer-derived benefit required to be restored by the employer must not be less than the amount of the account balance of the employee, both the amount distributed and the amount forfeited unadjusted by any later gains or losses. Section _____ of the plan should be amended accordingly. Regs. sections 1.411(a)-7(d)(4)(iv) and (v).
255 V.a.(iv)	Years of service for which a participant received a cash-out may not be disregarded for purposes of eligibility or position on the plan's vesting schedule. Section _____ of the plan should be amended accordingly. IRC sections 411(a)(7)(B) and (C) and Regs. section 1.411(a)-7(d)(4)(iii).

261 V.b.(i), (ii)	Section _____ of the plan should be amended to provide a method of computing account balances with respect to which vesting may increase in accordance with the provisions of Regs. section 1.411(a)-7(d)(5).
264 V.c.	Section _____ of the plan should be amended to preclude the immediate distribution of any benefit where the present value of the nonforfeitable accrued benefit (taking into account benefits derived from both employer and employee contributions) is in excess of \$5,000, without the consent of the participant and when applicable, the participant's spouse. An immediate distribution means the distribution of any part of the benefit prior to the later of age 62 or normal retirement age (the \$5,000 threshold is determined without taking into account employee rollover contributions into the employer's plan).
270 V.d.	Submit a demonstration that the plan's definition of normal retirement age satisfies Reg. Section 1.401(a)-1(b)(2), or amend section _____ of the plan to provide a definition of normal retirement age that satisfies the regulation.
271 V.e.	"In-service" distributions by a pension plan are limited to participants who have attained age 62. Section _____ of the plan should be amended accordingly. IRC section 401(a)(36).
272 VI.a., b.	The vesting schedule should be amended to satisfy the requirements, at every point in time, of a particular one of the minimum vesting schedules described by IRC 411(a)(2)(B) for all employees' years of service.
281 VII.a.	Where the vesting schedule is being amended, for every employee who is a participant on the amendment adoption date or the amendment effective date, whichever is later, the nonforfeitable percentage (determined as of that date) of the participant's right to the employer-derived accrued benefit may not be less than the participant's percentage figured under the plan without regard to the amendment. Section _____ of the plan should be amended accordingly. Regs. section 1.411(a)-8(a).
282 VII.b.	Section _____ of the plan should be amended to provide that each participant who has completed 3 years of service with the employer and whose nonforfeitable percentage is determined under the new vesting schedule may elect to have the nonforfeitable percentage determined under the old vesting schedule. Regs. section 1.411(a)-8T(b).
283 VII.c., d., e. and f.	Section _____ of the plan should be amended so that it does not reduce or restrict, either directly or indirectly, the benefit provided any plan participant prior to the amendment except as provided under the regulations. IRC section 411(d)(6) and Regs. sections 1.411(d)-3(b) and 1.411(d)-4.
285 VII.g.	Section _____ of the plan should be amended so that it retains a preretirement age 70½ distribution option for employees who reach age 70½ in a calendar year prior to the later of the calendar year that begins after December 31, 1998, or the calendar year that begins after the adoption date of the amendment.
287 VIII.a.	Section _____ of the plan should be amended so that allocations of employer contributions and forfeitures will not be discontinued or decreased because of the participant's attainment of any age. IRC section 411(b)(2) and Proposed Regs. section 1.411(b)-2(c).
289 VIII.b.	A plan may not permit an employer, through the exercise of discretion, to deny a participant a section 411(d)(6) protected benefit for which the participant is otherwise eligible. Section _____ of the plan should therefore be amended. See Q&As 8 and 9 of Regs. section 1.411(d)-4 regarding acceptable alternatives for amending the plan without violating section 411(d)(6).