SECURE ACT 2.0

SMALL BALANCE FORCE OUTS

WHAT & HOW

Small balance force outs are a plan design option by which plan sponsors can automatically distribute separated participant accounts with balances of $5,000 or less without participant consent. **With the passing of SECURE Act 2.0, the allowed threshold increases to $7,000 after December 31, 2023.**

To implement automatic distributions, the following rules apply:

- The plan document must be amended to allow small balances to be forced out.
- An updated summary plan description (SPD) must be provided to notify all participants of the change.
- The sponsor must select a rollover IRA provider. This is a fiduciary decision under ERISA. As a best practice, follow the safe harbor conditions provided by the DOL.
- If the amount of the distribution is less than $5,000 (or $7,000 starting January 1, 2024) but more than $1,000, the account must be rolled over into an automatic rollover IRA.
- If the amount is $1,000 or less, sponsors have the option of sending a check directly to the participant or rolling over the account to a qualified IRA (provider permitting).

BENEFITS

Small balance force outs can be a valuable tool to the plan and plan sponsor. Some potential benefits include the following:

- **Reduced Fiduciary Responsibility:** Small balance force outs eliminate fiduciary responsibility for separated participant accounts that are removed from the plan.
- **Reduced Tracking Needs:** These force outs can eliminate or substantially reduce the need to track and find missing participants to furnish required notices and statements. This can reduce fiduciary liability and plan expenses.
- **Reduced Recordkeeping Costs:** Small balance force outs also can increase the average account balance of the plan and positively impact recordkeeping costs.
- **Reduced Audit Expenses:** Audit expenses can be avoided if the removal of small balances of separated participants keeps the participant count below audit thresholds.

CONSIDERATIONS

Whenever implementing plan design changes, it is important to consider the impact to the plan. Some additional considerations are:

- **SECURE Act 2.0:** If your plan already utilizes mandatory distributions and would like to increase to the new amount, contact your recordkeeper to discuss the implementation process.
- **Distribution Frequency:** Mandatory distributions are typically implemented annually. For plans with high employee turnover or auto-enrollment, it may be helpful to ask the recordkeeper if it can administer mandatory distributions more frequently.
- **Reducing Rollover Minimums:** Rollover IRA providers may not accept small balance force out amounts below $1,000, but some will. Inquire with your rollover IRA provider about options for account totals below this threshold. This can help reduce administrative duties and the need for paper distribution checks.

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