PENSION ANALYST
Important information—Distributions and withdrawals

Prudential

Defined benefit plans must make required payments

Who's affected

This information applies to sponsors of qualified defined benefit plans, including governmental plans and non-electing church plans.

Background and summary

All qualified plans must begin making payments, called Required Minimum Distributions (RMDs), by a participant's Required Beginning Date (RBD). Most defined benefit plans typically make these RMD payments beginning at a participant's RBD in the form of an annuity. For defined benefit plans (excluding governmental and church plans), a feature of the RMD rules that can have a notable impact is when a participant earns additional benefits generally after reaching age 70½. In that case, if the participant's benefit payments haven't started by April 1 following the calendar year in which the participant reaches age 70½, the plan must actuarially increase the participant's benefit to take into account the period after age 70½ in which he was not receiving benefits under the plan.

Action and next steps

Plan sponsors should carefully review the information in this publication to understand RMD rules and deadlines and how they apply to participants in your plan.

Special attention should be given to the "RMD payment deadlines" section, which outlines actions that may be required by plan sponsors to ensure RMDs are paid timely.

If you need additional information regarding these requirements, please contact your Prudential Retirement representative.

In this issue

RSMH080

Basic RMD rules for defined benefit plans

A participant must begin receiving his vested pension benefits once he reaches his RBD. Usually, these benefits are paid in the form of an annuity. To satisfy the RMD rules, the annuity must be paid periodically. Payment intervals cannot be more than one year in length, but may be shorter. Most plans make monthly payments.

Under the RMD rules, payments must be made
- Over the life (or lives) of the participant (and his designated beneficiary); or
- Over a period certain that is not longer than the life expectancy (or joint and last survivor expectancy) of the participant (and his designated beneficiary).

A single life annuity (which pays benefits for the life of the participant) and a qualified joint and survivor annuity with the participant's spouse designated as the beneficiary automatically satisfy these rules.

If a participant (for example, a "5% owner") begins to receive his pension benefits under the RMD rules while he is still employed, he will usually earn additional benefits while he remains employed. Each calendar year's additional accrued benefits must begin to be distributed in the first benefit payment made during the next calendar year.

If a participant who has reached his RBD takes a single sum cash settlement of his benefits, the RMD portion of the payment (which cannot be rolled over to an "eligible retirement plan" such as another qualified plan or Individual Retirement Account) is typically determined using the rules that apply to defined contribution plans. Alternatively, defined benefit plans may determine the RMD portion of a single sum cash settlement by applying the rules that apply to annuities. Plan documents must specify which approach will be used. These options were discussed in greater detail in a November 2005 Pension Analyst.

The RMD rules also specify the manner in which death benefits must be paid. When a participant dies after he has reached his RBD and benefit payments have begun, the remaining benefits must be paid out at least as rapidly as they were paid to the participant. Annuity payments generally meet these rules. When a participant dies before reaching his RBD, payments must be made according to either the five-year cash-out rule or the life expectancy rule. The standard Qualified Preretirement Spouse Annuity (QPSA) that is paid by most qualified defined benefit plans automatically meets these death payment requirements.

Required beginning dates

Different groups of participants have different Required Beginning Dates. The age used to determine a participant's RBD was changed by the Setting Every Community Up for Retirement Enhancement Act ("SECURE Act") from age 70½ to age 72. In general:

- For participants born before July 1, 1949, the RBD for a participant who is a *5% owner* of his employer is the April 1 following the calendar year in which the participant reaches age 70½, even if he is still employed. For participants born after June 30, 1949, the RBD is based on age 72 instead of age 70½.

  If an employer is a corporation, a "5% owner" is any employee who owns (or is considered to own under family attribution rules) *more than 5%* of the value of the corporation's outstanding stock or stock having *more than 5%* of the total combined voting power of all of the corporation's stock. If an employer is not a corporation, a *5% owner* is any employee who owns more than 5% of the capital or profits interest in the employer.

- In general, the RBD for a participant who is *not a 5% owner* born before July 1, 1949, is the April 1 following the later of the calendar year in which he reaches age 70½ or the calendar year in which he retires. For participants born after June 30, 1949, the RBD is April 1 following the later of the calendar year in which he reaches age 72 or the calendar year in which he retires.

RSMH080

However, this general rule for determining the RBD may affect participants differently according to their dates of birth and the way their plan was amended to comply with the Small Business Job Protection Act (SBJPA) rules. *For example, a plan sponsor could have chosen to keep the old rules, so that 5% and non-5% owners have the same RBD.*

- For participants born before July 1, 1949, the RBD for any participant in a *governmental plan* or a *church plan* is the April 1 following the later of the calendar year in which he reaches age 70½ or the calendar year in which he retires. For participants born after June 30, 1949, the RBD is April 1 following the later of the calendar year in which he reaches age 72 or the calendar year in which he retires.

Special exceptions to these standard RBDs may apply to certain groups of participants.

It is important to remember that a participant's RBD is determined by his or her date of birth, regardless of date of hire. As a result, an individual who is hired at age 72 may have an RBD before he has accrued any benefits.

Special rules

Some participants may have signed an election form before January 1, 1984, to remain under the *distribution rules in effect before the enactment of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).* This election is sometimes referred to as a "Section 242(b) election." If such an election was made, the participant must receive payments according to that election. A change in beneficiary does not revoke this election, unless it changes the period over which payments will be made.

RMD payment deadlines

Any participant who received RMD payments in 2020 must receive RMD payments in 2021. If a participant earned additional benefits in 2020, the additional benefit must be reflected by way of an adjustment to the RMD payment in 2021.

If we regularly calculate benefits for your plan, we will automatically calculate the additional payments due, which will be paid no later than December 31, 2020, to employees who took their RMDs as single sum cash settlements. Otherwise, these additional benefits will be reflected in retirement income payments made in 2021. Plan sponsors do not have to submit any paperwork to begin this process.

If we do not calculate your plan's benefits, you must provide us with any increased payment amounts *by January 15, 2021*. There is no need to complete new distribution paperwork for these participants.

The following participants need to receive their RMD payments for 2020 by December 31, 2020.

- *5% owners* who reached age 70½ before January 1, 2020. In addition, if these participants earned additional benefits in 2020, an appropriate adjusted benefit will need to be paid in 2021.

The following participants must receive RMD payments for 2020 by April 1, 2021:

- *Non-5% owners* who reached age 70½ in 2019 and leave employment in 2020.

- *Non-5% owners* who previously suspended or deferred required payments, as permitted by IRS rules and plan provisions, and leave employment in 2020.

- Participants in governmental plans and church plans who reached age 70½ in 2019 or earlier and leave employment in 2020.

If you have not already requested initial RMD payments for the participants that must receive RMD payments by April 1, 2021, please complete and return the "Required Minimum Distribution Payment Authorization" form no later than February 12, 2021. If we receive forms after this date, we will make our best efforts, but cannot guarantee, to make distributions in a timely manner.

Specific plan provisions may require other groups of participants to receive additional payments for 2020, or initial payments *by April 1, 2021*, or may provide other groups of participants with the option to begin taking payments.

Some plan sponsors may have decided to continue to apply the rules that were in place before the SECURE Act when determining the date payments must begin. These plan sponsors should substitute age 70½ for 72 when determining which participants may need to begin taking payments. For those plans, 5% owners who reach age 70½ in 2020 may be required to begin taking payments under the terms of the plan by April 1, 2021.

RMDs for 2019, payable in 2020, are discussed in an October 2019 Pension Analyst.

Pension Analyst by Prudential Retirement
The Pension Analyst is published by Prudential Retirement, a Prudential Financial business, to provide clients with information on current legislation and regulatory developments affecting retirement plans. This publication is distributed with the understanding that Prudential Retirement is not rendering legal advice. Plan sponsors should consult their attorneys about the application of any law to their retirement plans.

Editor: Julie Koos (563) 585-6811