



Do We Have to Provide New Paperwork When a Participant Requests a Second Distribution?

Facts

When a participant requests a distribution from our plan, I provide them with a package that includes an election form and a bunch of other information. A participant who terminated and took a distribution last year received an additional company contribution and, as a result, has additional money in her account and is asking for a payout.

Question

Does this participant have to fill out another request form and do I have to provide all that information again? By the way, I've never really paid attention to what all that other information is. What's included in that distribution package anyway?

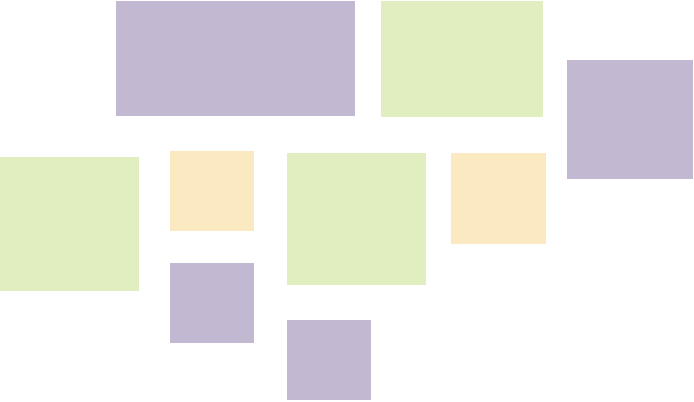
Answer

Let's start with your second question, as that one is a little easier to answer. That other information is a Special Tax Notice (sometimes referred to as the 402(f) notice), and it provides participants with information on the federal tax ramifications of taking a cash withdrawal versus rolling the balance to another qualified plan or IRA. For that reason, the notice is only required for distributions that are eligible to be rolled over. For example, when a participant takes a [required minimum distribution](#), that RMD is not allowed to be rolled over, so no Special Tax Notice is required for that type of distribution. Granted, the notice also addresses things like early withdrawal penalties as well, but we'll spare you that level of nitty gritty detail. If you're interested in reading the IRS model notice, you can find it [here](#).

Let's get a little more specific about who must receive this notice and when. The reference to the participant above includes beneficiaries (if the participant is deceased) as well as alternate payees who have plan balances due to a [QDRO](#). As noted above, any one of those types of individuals who requests a distribution that is eligible to be rolled over must receive the notice.

In addition, any participant who is subject to a [mandatory cash-out distribution](#), generally those with vested balances between \$200 and \$5,000, must also receive a copy of the notice as part of the involuntary distribution process. Remember, the point of this notice is to provide the individual taking a withdrawal from the plan with basic information related to the options for rollover or cash-out and the tax consequences of each. Whether the individual is voluntarily choosing to withdraw his or her account or is being forced to do so, this information is relevant and required.

Similar to most plan related notices, the 402(f) notice must be provided to plan participants within a reasonable time before the distribution can be paid. "Reasonable" here is defined as no fewer than 30 days and no more than 180 days before the distribution is paid. Even though there is a 30-day advance-disclosure requirement,



participants may waive the 30-day wait by signing off and submitting their distribution election form as soon as they are ready after receiving the Special Tax Notice.

This brings us to the first part of your question about whether you are required to provide the notice a second time when a participant requests a second distribution. As long as the second distribution request is being made fewer than 180 days after the first Special Tax Notice was provided, you are not required to provide the notice a second time. In fact, if you are still within that 180-day window, you actually have the ability to automatically process the second distribution using the directions the participant provided on the first request without asking them to complete a new form. However, if it has been more than 180 days since the participant first received the notice, he or she must be provided with a new notice and must complete a new request form.

Where do you find a copy of this required tax notice? If your plan is on a daily-valued recordkeeping platform, the Special Tax Notice is likely included as part of the recordkeeper's standard participant distribution package. That is certainly helpful in making sure the most up to date version is being used. That is important, because as the rules relating to distributions change, the special tax notice must be updated to reflect those changes. Examples include the Tax Cuts and Jobs Act (signed into law in December 2017), which allows participants who terminate with outstanding plan loans to repay them loan to an IRA or other qualified plan by the due date of their tax return to avoid taxation and penalty on that loan. More recently, the SECURE and CARES Acts made additional changes to the distribution rules that will eventually have to be incorporated into the Special Tax Notice.

Plan sponsors are able to customize the Special Tax Notice with respect to their plans, however, using a customized notice essentially puts more burden on the plan sponsor to ensure that custom version is timely updated as the rules change. For plans that do not utilize a recordkeeping platform (think defined benefit plans as well as defined contribution plans that are trustee-directed or that exclusively use self-directed brokerage accounts), the firm that assists with the distribution process more than likely has a compliant special tax notice that can be used.

How can you make sure you're providing your participants with the most up-to-date 402(f) notice? You can always reach out to the [DWC team](#) and we'll be glad to take a look. Another best practice is to make sure that when you're providing copies of distribution forms to your participants, you always download a fresh version from your recordkeeper platform. If you avoid using the version saved to your computer desktop, you'll ensure the form you provide to your participant reflects any updates the recordkeeper has made to the notice or the form since the last withdrawal request you processed.

For additional information on RMDs, QDROs, and distributions, please visit our Knowledge Center [here](#), [here](#), and [here](#).



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