

**Mandatory Distributions Policy - Approved at the February 11, 2014 NHRS Board meeting**

## **I. Purpose and Intent**

This policy will establish rules requiring mandatory distribution and/or the forfeiture of Lump Sum Benefit Payments where NHRS has been unable to issue a payment because of (a) the failure of the beneficiary to elect a form of benefit in a timely manner; (b) the inability to identify or locate the Payee; or (c) a lack of information necessary to process the payment. The intent of this policy is to reduce the administrative burden associated with tracking unpaid Lump Sum Benefit Payments and sending periodic notices and reminders to Payees. This policy will also help to prevent technical violations of the RMD Rules under Code Section 401(a)(9).

This policy shall not apply to any benefit payments that are payable to a member or benefits that are payable to any person in the form of an annuity.

## **II. Definitions**

- A. *Board*. The New Hampshire Retirement System Board of Trustees.
- B. *Code*. The Internal Revenue Code of 1986, as amended.
- C. *Lump Sum Benefit Payment*. Any benefit payment or return of member contributions payable to a designated beneficiary or the estate of a deceased member in a single lump sum payment.
- D. *Payee*. The designated beneficiary or estate of a deceased member or retiree who is entitled to receive a Lump Sum Benefit Payment.
- E. *RMD Rules*. The Rules under Code Section 401(a)(9) providing that certain “required minimum distributions” of benefits be made by NHRS in a timely manner in order to preserve tax qualification of the NHRS trust.
- F. *RMDs*. Required minimum distributions that are, or must be, made to satisfy the RMD Rules.

## **III. Policy Details**

- A. *Governing Authority*. RSA 100-A:14, I and II provide that the Board shall establish such rules and regulations as it deems necessary for the proper administration of RSA 100-A. This Policy will improve the administration of Lump Sum Benefit Payments.
- B. *Explanation*. Upon the death of member or retiree, benefits are often payable in a lump sum amount to a Payee. If the Payee is an individual designated beneficiary, the Payee may have the right to elect to rollover the distribution to another qualified plan or IRA. NHRS staff often needs the Payee to provide payment instructions such as a legal name, address and a tax identification

number in order to process the Lump Sum Benefit Payment. In some cases, the Payee fails to make a rollover election or provide the necessary information due to neglect or reluctance. In other cases, the Payee cannot be located. These circumstances make it difficult or impossible for staff to issue a Lump Sum Benefit Payment in a timely manner and makes it necessary for NHRS to periodically attempt to notify the designated beneficiary(ies), next of kin or personal representative in order to obtain the information necessary to facilitate a payment.

In addition, the RMD rules require that, upon the death of a member/retiree, benefit payments must be made within a certain time frame. If the member/retiree had not begun to receive RMDs prior to his or her death, then the Lump Sum Benefit Payment must be made no later than the end of the calendar year which contains the fifth anniversary of the date of the employee's death. If the member/retiree had already begun to receive RMDs prior to his or her death, then the Lump Sum Benefit Payment must be made no later than December 31<sup>st</sup> of the calendar year following the year in which the member/retiree died. If NHRS is unable to make RMDs in a timely manner, then this would constitute an operational violation of the RMD Rules and could jeopardize the tax qualification of the NHRS trust.

### C. *Statement of Policy.*

1. *Name, Address and Tax Identification Number Known; Payee Fails to Make Payment Election.* If NHRS staff knows the name, last address and tax identification number of the Payee, staff shall notify the Payee of the payment options (i.e., rollover or not, if applicable) and include the appropriate benefit election form and any notices as required under Code Section 402(f) regarding eligible rollover distributions and income tax withholding. If the Payee does not respond within 90 days of the date of the notice, then staff shall issue a check payable directly to the Payee notwithstanding the fact that the beneficiary/personal representative has not expressly requested or consented to such distribution or made a rollover election. Income taxes should be withheld at the appropriate rate. The notice shall state that a Lump Sum Benefit Payment will be made if the Payee does not respond within 90 days.

The benefit payment must be made no later than December 31<sup>st</sup> of the calendar year following the year in which the member/retiree died. Therefore, the notice should be sent no later than September 15th of the calendar year following the year in which the member died so that there is sufficient time to process the Lump Sum Benefit Payment after the 90-day response period has expired.

Payments made by December 31st will satisfy the RMD Rules regardless of whether the Payee actually presents the check for payment. If the check is not presented for payment within 90 days of issuance, the benefit payment (net of withheld income taxes) shall be considered forfeited subject to the

right of the Payee to come forward in the future and request reissuance of the check. Absent such request, a check should not be reissued to the Payee and staff is not required to notify the Payee of such forfeiture or make any further efforts to make a benefit payment.

2. *Name and Address Known; Tax Identification Number Not Known.* If NHRS staff knows the name and last address of the Payee but not the tax identification number, staff shall send a letter to the beneficiary/personal representative requesting the tax identification number. If the beneficiary/personal representative provides the tax identification number, then staff shall follow the procedures in Section C.1 above. If the letter is returned as undeliverable or the Payee does not respond within 90 days, the benefit payment shall be considered forfeited subject to the right of the Payee to come forward in the future and request reissuance of the check.
3. *Payee Cannot Be Located or Identified.* Staff shall make reasonable efforts to locate an individual designated beneficiary or identify the personal representative of the estate, as the case may be. If the Payee cannot be located or identified by December 1<sup>st</sup> of the calendar year following the year in which the member/retiree died, then the benefit shall be considered forfeited subject to the right of the Payee to come forward in the future and request payment of the benefit.
4. *Forfeitures.* If a benefit payment is deemed forfeited as provided above, staff should not reissue a check unless the Payee comes forward and requests payment. Staff is not required to notify the designated beneficiary of such forfeiture or make any further efforts to obtain information necessary to make a benefit payment or locate a missing Payee. Staff shall provide information regarding forfeited benefits to Finance and Finance shall maintain a list of forfeited benefits and establish procedures that are sufficient to facilitate reissuance of a payment if the designated beneficiary comes forward in the future.