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Wealth Management

# Partial Plan Terminations, 2020 and COVID-19

COVID-19's impact on employers has caused a massive amount of reductions in force and layoffs nationwide. A consequence of these reductions is the potential for an employer's qualified plan to experience a partial plan termination. If a partial plan termination requires the full vesting of affected participants.

Whether or not a partial plan termination has occurred is determined by a facts and circumstances test, but the IRS has provided a presumptive threshold of reductions that meet or exceed 20%. One crucial question that has been weighing on plan sponsor's minds is whether any relief will be granted from the partial plan termination rules for reductions due to COVID-19.

Recently the IRS provided relief on its website. In a Q&A format the IRS provided the following:

**Q:** "Are employees who participated in a business's qualified retirement plan, then laid off because of COVID-19 and rehired by the end of 2020, treated as having an employer-initiated severance from employment for purposes of determining whether a partial termination of the plan occurred?"

**A:** "Generally, no. Subject to the facts and circumstances of each case, participating employees generally are not treated as having an employer-initiated severance from employment for purposes of calculating the turnover rate (defined in Revenue Ruling 2007-43, 2007-28 IRB) used to help determine whether a partial termination has occurred during an applicable period, if they're rehired by the end of that period. That means participating employees terminated due to the COVID-19 pandemic and rehired by the end of 2020 generally would not be treated as having an employer-initiated severance from employment for purposes of determining whether a partial termination of the retirement plan occurred during the 2020 plan year."

In summation, if employees were terminated due to COVID-19, but rehired by the end of 2020, they are not to be counted in determining the turnover rate. Hopefully this good news will help some plans in avoiding partial plan terminations. If you have questions regarding this update or the rules regarding partial plan terminations, please contact one of experts at Schneider Downs Wealth Management Advisors. ■