



FREQUENTLY ASKED QUESTIONS EMPLOYER FAQs

Q. Who is M2 Rollover Services?

M2 Rollover Services, LLC (“M2”) is a retirement plan administration firm, located in Denver, Colorado and serves as the named Administrator and agent for Solera National Bank, the custodian of the accounts. If you have any questions regarding your account, please contact M2, as we handle the daily administration of the accounts.

Contact Information:

M2 Rollover Services

Phone: (914) 676-6270

Email: Clientservices@M2rolloverservices.com

Q. Who is Solera National Bank?

Solera National Bank is the named custodian and maintains control of participant funds until the participant is located. Solera National Bank is a community bank, located in Colorado, serving individuals and emerging businesses.

Q. What is an automatic rollover?

Automatic rollovers involve the transition of funds from an employer’s retirement plan to an IRA on behalf of former employees, without their involvement or consent. The automatic rollover rules apply only to terminated employees who are plan participants with a vested balance of \$5,000 or less. These so called “mandatory distributions,” or “cash-out provisions” apply to terminated participants who have not authorized a distribution or rollover option for their plan balances. Generally, mandatory distributions must be automatically rolled over if the participant’s vested balance is greater than \$1,000 but not greater than \$5,000. However, vested balances of \$1,000 or less may also be automatically rolled over pursuant to *Treas. Reg. 2550.404a-2*.

Q. Can a Plan Sponsor legally force a distribution to an IRA rollover account?

Yes. Generally speaking, a Plan Sponsor cannot distribute (without consent) retirement benefits prior to the participant’s normal retirement age. However, Internal Revenue Code (“Code”) section 411(a)(11) allows an employer to incorporate a provision in their retirement plan document that requires an immediate distribution to a separating participant if their vested benefit has a present value equal to or less than \$5,000. This rule was modified after the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”) amended the Code to provide, absent an election by the participant, certain mandatory distributions be transferred directly to an Automatic Rollover IRA. The modification became effective for distributions made on or after March 28, 2005, after the Department of Labor drafted safe harbor provisions that protect plan fiduciaries from liability.

Q. Should a Plan Sponsor force distribution on terminated plan participants?

There are a number of reasons why a Plan Sponsor would want to distribute small account balances of former employees from the plan, including:

1. It will reduce administrative costs for plans paying fees based on the number of Participants in the Plan.
2. It may eliminate the need to file as a large plan, avoiding expense of Plan audits.
3. It will reduce the Plan Sponsor’s fiduciary responsibilities.
4. It will eliminate disclosure/communication requirements with former employees.
5. It will accelerate access to forfeiture dollars, i.e., there is no need to wait for the occurrence of 5 breaks in service before forfeiting.

Q. Can a Plan Sponsor choose not to adopt the automatic rollover provision?

Yes. A Plan Sponsor can amend their plan to remove mandatory distributions (cash-out) provisions. This will enable their plan to comply with the new regulations without processing automatic rollover IRAs. If the plan does not currently have a mandatory cash-out provision no amendment is necessary.

Q. What if the vested account balance is \$5,000 or more?

Vested account balances larger than \$5,000 must remain in the plan until the participant makes a distribution election. However, if an employer’s retirement plan document provides that *rollovers* from non-related plans are excluded, the amount of the mandatory cash-out could exceed \$5,000 (see question below).

Q. Do rollover amounts count in determining the \$5,000 threshold?

The plan document and the EGTRRA amendment determine whether or not a rollover account in the plan should be included in determining whether or not the size of the vested account exceeds \$5,000. If the rollover account is not included in calculating the size of the vested account for purposes of the automatic rollover of forced distribution requirements, the actual automatic rollover may include the rollover account and may exceed \$5,000.

Q. What happens if the vested account balance is less than \$1,000?

For vested account balances of less than \$1,000, the plan may force out the distribution by issuing a check and mailing it to the participant's last known address. As an alternative, a Plan Sponsor may modify their plan document to extend the automatic rollover IRA feature to balances of less than \$1,000, in which case the employer would set up an Automatic Rollover IRA for these accounts.

Note: For Plan Sponsors who elect to continue to distribute checks (for balances under \$1,000) to missing or non-responsive participants, such individuals will continue to be participants in the plan until such time as they cash their checks.

Q. What is the fiduciary liability with regard to the Automatic Rollover IRAs?

As long as the Department of Labor's (DOL) Fiduciary Safe Harbor is satisfied, the fiduciary's obligations with respect to the participant's benefit end immediately upon the transfer of the benefit to the IRA.

Note: The plan fiduciary does have an ongoing responsibility to provide oversight of the named IRA Administrator and custodian. M2 maintains a secure data vault containing information about M2 and Solera National Bank. This information can be accessed by the plan fiduciary or their administrative agent for purposes of providing oversight of M2 and Solera National Bank.

Q. What is the DOL Fiduciary Safe Harbor?

The Fiduciary Safe Harbor provides guidelines under which a Plan Sponsor can implement the automatic rollover provisions with the knowledge that his or her fiduciary responsibilities are being satisfied. The Safe Harbor has five conditions. These conditions are:

- 1.) The amount of the rollover does not exceed \$5,000.
- 2.) The IRA must be either a trust or custodial individual retirement account or an individual retirement annuity. If the IRA is a custodial account, the custodian must be a bank, an insured credit union, or other corporation subject to supervision by the Commissioner of Banking.
- 3.) There must be a written agreement between the fiduciary and the IRA Provider.
- 4.) In advance of an automatic rollover, participants must be provided with a Summary Plan Description (SPD) or a Summary of Material Modifications (SMM) that includes information concerning procedures for automatic rollovers, an explanation of the nature of the investment product, an explanation of the fees and expenses attendant to the safe harbor IRA, and the names, addresses and phone numbers of the contacts for the plan and the IRA provider.
- 5.) The Plan Sponsors may not engage in prohibited transactions (e.g., self-dealing) when selecting an IRA provider or choosing the initial investment funds for the IRA.

Q. Does M2 comply with the Department of Labor Safe Harbor requirements?

Yes. Our Automatic Rollover IRA Program fully complies with the Safe Harbor regulations of the Economic Growth and Tax Relief Reconciliation Act of 2001.

Q. What are the Plan Sponsor's responsibilities once the participant's account is rolled into a Safe Harbor IRA?

Once the IRA custodian establishes the participant's account and the account is funded, under the DOL's safe harbor rules, the Plan Sponsor will no longer be responsible for the account.

Q. Will the Plan Sponsor have problems under the USA PATRIOT Act of 2001 in establishing an IRA since the participant will not be available to verify his or her identity?

No. The customer identification and verification requirements of the USA PATRIOT Act are not required at the time the automatic rollover IRA is established, nor when the assets are transferred. However, as soon as the former employee first contacts M2 to assert ownership or exercise control over the account, identification and verification must be implemented. Notice 2005-5, Q&A -10.

Q. What does a Plan Sponsor need to do to establish M2 as its Automatic Rollover IRA provider?

There are four simple steps:

- a. Sign and return M2's Plan Services Agreement.
- b. Provide M2 with participant information, i.e., employer name, name of the plan, name of TPA or Record Keeper, Participant name, last known address, social security number, date of birth, and dollar amount (including a breakdown of pre- and after-tax funds, if applicable). We provide an Excel template for your convenience.
- c. Transfer participant funds to Solera National Bank. Funds may be sent by wire, ACH, or by check.

Q. Can a financial organization charge fees for accepting automatic rollover IRAs?

Yes. Financial organizations are permitted to charge fees for accepting and administering automatic rollover IRAs as long as the fees charged are comparable to the fees charged for rollover IRAs that are not established for automatic rollovers. *Treas. Reg. 2550.404a-2(c)(3)(iv)*.

Q. How much does M2's Automatic Rollover IRA Program cost?

There are no fees charged to the Plan Sponsor, TPA or Record Keeper. Fees associated with administering the IRA are deducted from the balance of the rollover account. For more information regarding applicable fees, please refer to M2's Fee Schedule.

Q. Does M2 charge fees to participants with small account balances?

Newly established accounts for plan participants with a balance of \$200 or less will be deemed de minimis and will not be subject to any M2 fees for a minimum period of four months. During this time period M2 will attempt to locate the missing participant by sending certified letters and using the services of a nationwide search firm. If M2 is able to make contact within the initial four-month period, the participant will be allowed to withdraw their funds without any fees being assessed. If contact is not made at the end of the four-month period M2's normal fees shall apply.

Q. What is the default investment?

The initial automatic rollover investment is an interest-bearing federally insured bank or savings association account at Custodian or a third-party banking institution selected by M2. Deposits are insured by the FDIC, an independent agency of the U.S. government, up to a maximum amount of \$250,000. The interest rate paid on participant balances is tied to the national average rate for a bank savings accounts, as reported on the FDIC's website. The excess of the interest earned from the bank account over the amount paid on participant accounts will be retained by M2.

Q. Does M2 handle Roth balances held in missing or non-responsive participant accounts?

Yes. Automatic rollovers are available for Roth 401(k) rollovers. For participants with both pre-tax and Roth 401(k) balances, a traditional IRA and a Roth IRA will be required to hold each type of money.

Q. What documents are provided to the IRA accountholder when the account is opened?

We send each participant a welcome letter, adoption agreement, IRA custodial agreement, disclosure statement, and fee schedule when the IRA is established.

Q. Do you attempt to locate a missing or non-responsive participant once the IRA has been established?

Yes. Once the IRA has been established, we send a letter to the last known mailing address of the participant. In the event the mail is returned to us as undeliverable or no response is received, we will search for the participant through a commercial search firm.

Q. What happens if the rollover remains unclaimed?

Each year we submit our automatic rollover IRA database to a commercial search firm, in an attempt to reconnect participants with their IRA accounts. M2 will continue attempting to reunite participants with their funds indefinitely or until either the account balance is less than our administrative fees or we are required to distribute the account pursuant to applicable unclaimed property statutes.

Questions?

If you have any questions concerning M2's Automatic Rollover IRA or Uncashed Check Program, please contact us.

M2 Rollover Services, LLC
2000 S Colorado Blvd.
Tower One, Suite 2000-1092
Denver, CO 80222

Phone: (914) 676-6270

Email: Clientservices@M2rolloverservices.com

