MEMORANDUM

Date: May 2019
To: State of Delaware Office of the State Treasurer
From: Cammack Retirement Group
Re: Deferred Compensation Plans: De Minimis Distributions

I. Background

De minimis distributions (also known as small balance cash-outs) relate to accounts of former (terminated) employees with vested account balances of $5,000 or less. IRS Code permits de minimis distributions if the plan provides. Plan sponsors can elect to cash out accounts with balances less than $1,000, and automatically roll out accounts with balances between $1,000 and $5,000 (into an IRA). By distributing the small account balances, these terminated participants would no longer be a part of the Plan.

II. Considerations

In general, plan sponsors must maintain records on terminated participants with account balances to ensure that they receive required plan communications and, ultimately, their retirement plan benefits. Participants with small account balances are more likely to become "lost," as they are less likely to provide updated residential address information to the recordkeeper and/or their former employer. Lost participants are an administrative challenge and can become a fiduciary concern. The distribution of small account balances reduces the number of participants who may become lost in the future.

In addition, distributing small account balances increases the average account balance per participant. This is a key factor as recordkeepers determine pricing for a plan. Thus, distributing these de minimis balances may enable Voya, and/or any future recordkeeper, to charge a lower fee to the plan participants.

As the de minimis distribution process occurs, participants receive advance notification, providing them with a window of time to take action with the account. If they take no action and receive a distribution, it is a taxable event to the participant; this would not be the case if their assets were rolled over into an IRA. The selection of the IRA provider for accounts between $1,000-$5,000 is a fiduciary decision.

III. Conclusion

In following best practice, it is generally recommended that a plan regularly cash out terminated participants' accounts with balances less than $5,000. If the State were interested in pursuing this plan design change incrementally fashion, the plans could be updated to simply address de minimis distributions for accounts with vested balances below $1,000, with the potential to re-visit the decision regarding balances between $1,000-$5,000 at a future time.