

IRS PROVIDES SOME CLARIFICATION ON PARTIAL PLAN TERMINATION RELIEF

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The Consolidated Appropriations Act of 2021 ("CAA") provided several COVID-related relief provisions for employee benefit plans. One item included in the CAA was relief from the partial termination rules for qualified retirement plans. There had been a concern that workforce reductions in connection with the COVID pandemic would trigger partial terminations for qualified retirement plans, which would require full vesting for affected participants. The CAA included provisions that offered temporary relief for the period from March 13, 2020 through March 31, 2021, where the number of active plan participants on March 31, 2021 is not less than 80% of the number of active plan participants on March 13, 2020. In order to allow plan sponsors to better apply the relief granted by the CAA, the IRS has provided a piece of informal guidance as to how these rules will work.

First, the IRS has stated that relief is not limited to reductions in workforce related to the COVID pandemic. The measurement of an 80% reduction applies whether or not the reductions were related to the pandemic.

Second, the IRS has provided that if any part of the plan year falls within the period beginning on March 13, 2020 through March 31, 2021, then the relief applies to the entire plan year. For example, for calendar year plans, the relief would apply to the entire 2020 and 2021 plan years.

Third, the guidance indicates that a reasonable good faith interpretation of the term "active participant covered by the plan" may be used in determining whether or not a reduction occurred and is not less than 80% of the number of active plan participants on March 13, 2020 had occurred. In making this determination, the same good faith interpretation should be applied both at the beginning measurement date and on the ending measurement date.

While this answers some of the questions that will be faced when applying the CAA relief, additional questions may arise and we look forward to the IRS providing additional guidance to employers in the future.

Coronavirus-related relief for retirement plans and IRAs questions and answers <https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

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