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IRS Updates Retirement Plan Tax Notice for Participants

The IRS recently updated the tax notice, "Your Rollover Options," which 401(k) and other qualified retirement plans must provide to participants receiving a distribution that is eligible for rollover. The updated notice was published in IRS Notice 2020-62 and has two versions, one for participants with Roth contribution accounts and one for all other types of contributions. Participants with both Roth accounts and other accounts get both versions of the notice.

Internal Revenue Code (IRC) Section 402(f) requires that participants be given a tax notice of rollover options. Using the IRS-published Your Rollover Options notice is considered to be in compliance with the requirements, and most plans use the IRS notice. The notice must be provided within a reasonable period prior to any distribution that is eligible to be rolled over. IRS guidance states that a reasonable period is at least 30 and no more than 180 days before a distribution, but a participant can waive the 30 days.

For most plans, a retirement plan administrative service provider provides the rollover options notice to participants, but employers should check to be sure the provider has begun using the new notice. Any employer that provides distribution forms to employees should begin using the new notice now. The notice can be customized to remove sections that are not relevant to the plan, such as if a plan doesn't have loans, after-tax contributions or employer stock.

The IRS updates to the notice:

- Reflect the change in the Required Beginning Date for distributions from age 70½ to Age 72 for individuals born after June 30, 1949, made by the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act)
- Include the exception from the 10% early distribution penalty added under Internal Revenue Code Section 72(t)(2)(H) for

qualified birth and adoption expenses and the ability to recontribute a qualified birth or adoption distribution, both added by the SECURE Act, and

- Make minor changes to make a few sections of the notice more understandable.