

De Minimis Withdrawal Service

De Minimis Distribution

Internal Revenue Code (IRC) Section 411 permits plans to distribute vested account balances without the consent of the participant if the total account balance at the time of distribution does not exceed the plan's automatic cash-out threshold. The De Minimis service automatically:

- Identifies eligible participant accounts*
- Sends a warning letter and 402(f) notice
- Imposes a plan-defined notification period
- Distributes participant balances at the appropriate time

*Eligible participants are identified on a scheduled basis as defined by the plan. The plan sponsor is responsible for providing timely and accurate participant information.

De Minimis Eligibility Threshold

If the cash-out provision is selected under Fidelity Pre-approved plan, the document defaults to a \$1,000 cash-out threshold. This allows plans to entirely avoid the automatic rollover rules since they do not apply to automatic cash-outs of \$1,000 or less. If a participant's account is \$1,000 or less, the plan can distribute the account balance without the participant's consent.

Employers may adopt the automatic rollover provisions

Employers, however, may increase the \$1,000 cash-out limit to \$7,000 for distributions beginning in 2024 by amending the plan's Adoption Agreement and Service Agreement. Upon adopting the automatic rollover provision, the plan fiduciary must arrange for an IRA provider to receive automatic rollover distributions from the plan for distributed amounts between \$1,000 and \$7,000. The employer must also disclose the plan's adoption of the automatic rollover provisions to participants in a summary of material modifications or a revised Summary Plan Description. An additional notice must also be distributed in advance of each distribution subject to the automatic rollover rules. Please contact your Managing Director if you are interested in changing the plan's automatic cash-out threshold.

- \$1,000 or less: Lump sum involuntary payout from separated/terminated participants' accounts (taxable event). The vested balance does not include self-directed brokerage (SDB).
- \$1,000-\$7,000: Distributions made without participant consent of accounts valued between \$1,000 and \$7,000 must be rolled over to an IRA selected by the plan fiduciary, unless the participant elects otherwise.

** Pretax and Roth amounts will be considered and distributed separately. For example, a participant with a vested balance of \$2,000 pretax and \$500 Roth will see an automatic rollover of the pretax amount and a check for the Roth amount.*

Service Set-Up

The annual deadline for establishing the Automated Cash-out Service is September 1st to be effective for that given plan year. Please contact your Fidelity Managing Director if you are interested in this service.

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