Articles + Publications | November 2, 2020

Has Your Retirement Plan Experienced a Partial Plan Termination?

Labor & Employment Workforce Watch

WRITTEN BY

Edward A. Razim III | Lori A. Basilico

The economic uncertainty of the COVID-19 pandemic has forced many employers to furlough or layoff a significant percentage of their workforce. Among the issues an employer should consider in a furlough or layoff context is whether its workforce reductions may have inadvertently caused a “partial termination” of its qualified retirement plan, triggering a requirement that all affected participants become 100% vested and, depending on when the partial termination is identified, require additional funding to restore “forfeited” accounts. Under IRS guidance, a partial plan termination occurs if 20% or more of the total plan participants experience an employer-initiated severance from employment in a plan year. Until recently, it was uncertain how employees who are rehired during a plan year would impact the partial termination calculation. The IRS recently updated its Q&As to clarify that plan participants who were laid off because of COVID-19 and rehired by the end of 2020 are not treated as having an employer-initiated severance from employment for purposes of determining whether a partial termination of the plan occurred during the 2020 plan year. We recently wrote a post on partial plan terminations on our Locke Lord Employee Benefits Blog. Please feel free to visit and subscribe to our blog for more information about these issues and other benefits-related matters.

RELATED INDUSTRIES + PRACTICES

- Labor + Employment

©2025 Troutman Pepper Locke