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**FILED**

MAR 20 2014

RICHARD W. WIEKING  
CLERK, U.S. DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

8 Attorneys for Plaintiff, United States Department of Labor

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 10 UNITED STATES DISTRICT COURT  
 11 NORTHERN DISTRICT OF CALIFORNIA  
 12 SAN FRANCISCO DIVISION

13 THOMAS E. PEREZ,<sup>1</sup> SECRETARY OF )  
 14 LABOR, UNITED STATES DEPARTMENT ) Case No 3:12-CV-01770-JST  
 OF LABOR, )  
 15 )  
 Plaintiff, ) **MOTION FOR APPROVAL OF**  
 16 ) **CONSENT JUDGMENT**  
 vs. )  
 17 )  
 18 LOUIS & RIPARETTI, INC., a corporation; )  
 DARREL LOUIS, an individual; and the ) **Hon. Jon S. Tigar**  
 19 LOUIS & RIPARETTI RETIREMENT PLAN, )  
 an employee benefit plan; )  
 20 )  
 Defendants. )  
 21 )  
 22 )

23  
 24  
 25 <sup>1</sup> Thomas E. Perez was sworn in as Secretary of Labor on July 23, 2013. Pursuant to F.R.C.P.  
 26 25(d) the caption has been changed to reflect his appointment.

1 Plaintiff, THOMAS E. PEREZ, Secretary of Labor, United States Department of Labor,  
2 hereby moves the Court for approval of the concurrently filed Consent Judgment.

3  
4 Respectfully submitted,

5 Dated: March 20, 2014

M. PATRICIA SMITH  
Solicitor of Labor

JANET M. HEROLD  
Regional Solicitor

DANIELLE L. JABERG  
Counsel for ERISA

11 /s/ Benjamin Botts  
12 BENJAMIN R. BOTTS  
13 Trial Attorney

14 Attorneys for the Plaintiff  
15 U.S. Secretary of Labor

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13 Attorneys for Plaintiff, United States Department of Labor

14 UNITED STATES DISTRICT COURT  
 15 NORTHERN DISTRICT OF CALIFORNIA  
 16 SAN FRANCISCO DIVISION

17 THOMAS E. PEREZ, <sup>1</sup> SECRETARY OF	)	
18 LABOR, UNITED STATES DEPARTMENT	)	Case No 3:12-CV-01770-JST
19 OF LABOR,	)	
20	)	
21 Plaintiff,	)	<b>CONSENT JUDGMENT &amp; ORDER</b>
22	)	
23 vs.	)	
24	)	
25 LOUIS & RIPARETTI, INC., a corporation;	)	
26 DARREL LOUIS, an individual; and the	)	
27 LOUIS & RIPARETTI RETIREMENT PLAN,	)	
28 an employee benefit plan;	)	
	)	
Defendants.	)	
	)	
	)	

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25 <sup>1</sup> Thomas E. Perez was sworn in as Secretary of Labor on July 23, 2013. Pursuant to F.R.C.P.  
 26 25(d) the caption has been changed to reflect his appointment.

1 Plaintiff THOMAS E. PEREZ, Secretary of Labor, United States Department of Labor  
2 (“Secretary”) pursuant to his authority under Sections 502(a)(2) and (5) of the Employee  
3 Retirement Income Security Act of 1974 (“ERISA”), 29 U.S.C. §§ 1132(a)(2) and (5), has filed a  
4 Complaint against Defendants LOUIS & RIPARETTI, INC., a corporation (the “Company”);  
5 DARREL LOUIS, an individual (“Louis”); and the LOUIS & RIPARETTI RETIREMENT  
6 PLAN, an employee benefit plan (“Plan”);

7 A. The Secretary, the Company, Louis, and the Plan (collectively, “the parties”) admit  
8 that the Court has jurisdiction over this action pursuant to ERISA Section 502(e)(1), 29 U.S.C. §  
9 1132(e)(1), and that venue lies in the United States District Court, Northern District of  
10 California, pursuant to ERISA Section 502(e)(2), 29 U.S.C. § 1132(e)(2).

11 B. The parties agree to the entry of this Consent Judgment & Order. The parties further  
12 agree that this Consent Judgment & Order shall fully settle all claims of the Secretary asserted in  
13 the Complaint.

14 C. Defendants Company and Louis neither admit nor deny the allegations made in the  
15 Secretary’s Complaint.

16 IT IS HEREBY ORDERED, ADJUDGED, and DECREED that:

17 1. Defendant Louis is liable for restoring \$163,676.25 in losses and lost-opportunity  
18 costs (“Amount Due”) to the Plan, plus simple interest at four per cent (4%) per annum (“Simple  
19 Interest”) on the Amount Due until the Amount Due and Simple Interest are paid in full.

20 2. Defendant Louis shall restore the Amount Due plus all accrued Simple Interest as  
21 set forth in this Paragraph:

- 22 a. Upon entry of judgment, Defendant Louis shall instruct his counsel to create  
23 an escrow account in the Plan’s name. Defendant Louis shall provide proof of  
24 his counsel’s creation of an escrow account in the Plan’s name within 15 days  
25 of entry of the judgment; and  
26 b. Defendant Louis shall, on the first calendar day of each month after entry of  
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1 the judgment, deposit \$300.00 (or more, at his discretion) in the escrow  
2 account described in Paragraph 2.a. Such payments shall continue until the  
3 Amount Due plus all accrued Simple Interest is completely paid. Defendant  
4 Louis shall provide to the Secretary, on or before the 15th calendar day of  
5 each third month after entry of the judgment, proof of the three preceding  
6 \$300.00 escrow account deposits described in this Paragraph.

7 3. Within 30 days of completion of all payments and duties required by Paragraph 2  
8 above, Defendants Company and Louis shall direct termination of the Plan and provide proof of  
9 the termination to the Secretary.

10 4. Defendants Company and Louis are permanently enjoined and restrained from  
11 violating the provisions of Title I of ERISA, 29 U.S.C. §§ 1001-1191c.

12 5. Upon completion of all payments and duties required by this Consent Judgment &  
13 Order, Defendants Company and Louis are removed as the Plan Administrator and Trustee to the  
14 Plan, respectively, and Louis is permanently enjoined and restrained from future service as a  
15 fiduciary of, or service provider to, any ERISA-covered employee benefit plan.

16 6. During the period of repayment of the Amount Due and Simple Interest,  
17 Defendants Company and Louis shall remain fiduciaries to the Plan solely to the extent  
18 necessary to make distributions of the assets of the Plan and to wind down and terminate the  
19 Plan. Only to the extent necessary to carry out those duties, Defendants Company and Louis  
20 shall continue have the rights, duties, discretion, and responsibilities of trustees, fiduciaries, and  
21 Plan Administrators under ERISA, and shall have authority to amend the Plan.

22 7. Should Defendants Company or Louis fail to timely comply with any  
23 requirements set forth in Paragraph 2 above, the remaining balance of the Amount Due plus  
24 accrued Simple Interest at the time of non-compliance shall become immediately due and  
25 payable to the Plan.

26 8. All restorations of the Amount Due plus all accrued Simple Interest, shall be paid  
27 to Plan participants as follows:

- 1 a. The Amount Due plus all accrued Simple Interest shall be allocated to Plan  
2 participants as listed in the attached Exhibit A;
- 3 b. Distributions from the escrow account described in Paragraph 2.a above shall  
4 be made annually to participants with accrued balances of \$100.00 or more.  
5 Such distributions shall be made directly to locatable participants, or for those  
6 participants who are unlocatable, in accordance with Paragraph 8.d.  
7 Distributions required under this Paragraph shall be made on or before the  
8 anniversary of the first payment to the escrow fund described in Paragraph 2.
- 9 c. Defendants Company and Louis shall provide to the Secretary, within 15  
10 calendar days of each anniversary of the entry of the judgment, proof of the  
11 annual participant distributions described in Paragraph 8.b.
- 12 d. Defendants Company and Louis shall follow the procedures outlined in the  
13 Employee Benefits Security Administration's Field Assistance Bulletin 2004-  
14 02 to locate each participant listed in the attached Exhibit A. A true and  
15 correct copy of Field Assistance Bulletin 2004-02 is attached as Exhibit B to  
16 this Consent Judgment & Order. Since issuance of Field Assistance Bulletin  
17 2004-02, the Internal Revenue Service has discontinued the referenced to  
18 letter-forwarding program; see Rev. Proc. 2012-35.

19 9. Within 15 days of entry of the judgment, Louis shall complete and submit to U.S.  
20 Financial Life Insurance Company an Assignment of Policy as Collateral Security, naming the  
21 Plan as Assignee of his \$1 million term life insurance policy with U.S. Financial Life Insurance  
22 Company, Policy Number 0000365201. The assignment shall be for the Amount Due plus  
23 Simple Interest remaining to be paid at the time of payment of the life insurance policy. All  
24 remaining proceeds shall be paid to Louis' original beneficiary. Louis shall provide the  
25 Secretary with proof of the Assignment of Policy as Collateral Security within 30 days of entry  
26 of the judgment. Within 15 days of each anniversary of the entry of judgment (until expiration  
27 of the insurance policy), Louis shall provide to the Secretary current proof of the Plan's  
28

1 continued Assignment of Policy as Collateral Security. Louis shall also name the Plan as the  
2 primary beneficiary of any additional life insurance policy he acquires after entry of the  
3 judgment.

4 10. Louis shall submit an annual financial declaration to the Secretary on a form  
5 designated by the Secretary on or before the anniversary date of the entry of the judgment every  
6 year for the remainder of his life, or the completion of repayment, whichever is earlier. If in any  
7 financial declaration Louis's declared yearly income is equal to or greater than \$50,000, the  
8 monthly payment amount shall be the income amount in excess of \$50,000 divided by 12 plus  
9 \$300.00.

10 11. The Secretary shall have the right to require sale of real property owned by Louis  
11 and direct proceeds of such a sale to the Plan as follows:

- 12 a. Every two years after entry of the judgment, the Secretary shall have the right  
13 to reassess the current market value of any or all real property owned jointly  
14 by Louis and his spouse, Janet Romanowski ("Romanowski"), any jointly-  
15 held trust, or separately by Louis, other than their primary residence;
- 16 b. If the Secretary determines that Louis and Romanowski or any jointly held  
17 trust hold positive equity in any of the real property described in Paragraph  
18 7.a, the Secretary may in his sole discretion require sale of the real property.  
19 In requiring such a sale, the Secretary may consider any superior lien,  
20 applicable realtor's costs, capital gains, and Romanowski's share of the  
21 community property. The Secretary agrees to limit forced property sales to a  
22 maximum of three properties every five years. The Secretary also agrees not  
23 to require sale of Louis and Romanowski's primary residence;
- 24 c. Louis and Romanowski may at their option avoid sale of any real property  
25 upon Louis and the Company's agreement to (1) increase the monthly  
26 payment described in Paragraph 2.b to \$7,000 per month; or (2) pay the full  
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1 Amount Due within 90 days of the Secretary's notifying Louis and  
2 Romanowski that they must sell the property.

3 12. Defendants Company and Louis shall collect, marshal, pay out and administer all  
4 of the assets of the Plan and take further action with respect to the Plan as appropriate, including  
5 terminating the Plan when all of its assets have been distributed to all eligible participants and  
6 beneficiaries.

7 13. Defendants Company and Louis are authorized to delegate or assign fiduciary  
8 duties as appropriate and allowed under the law and may retain such assistance as required,  
9 including attorneys, accountants, actuaries, and other service providers.

10 14. Defendant Louis shall maintain a fidelity bond pursuant to ERISA Section 412,  
11 29 U.S.C. §1112.

12 15. Defendants Company and Louis shall file an annual Form 5500 for the Plan with  
13 the Employee Benefits Security Administration, United States Department of Labor until all  
14 distributions required by this Consent Judgment & Order have been made;

15 16. Defendants Company and Louis shall comply with all applicable rules and laws.

16 17. Upon request, Defendants Company and Louis shall provide the Secretary with  
17 appropriate evidence of the restoration or other actions taken pursuant to this Consent Judgment  
18 & Order.

19 18. Upon request, Defendants Company and Louis shall provide any information  
20 regarding the Plan requested by the Secretary, including any documents or records requested  
21 regarding the administration of the Plan.

22 19. Upon restoration of the Amount Due and all accrued Simple Interest to the Plan  
23 by Defendants Company and Louis as outlined above, Defendants Company and Louis shall be  
24 assessed a penalty under ERISA Section 502(1), 29 U.S.C. § 1132(1), in the amount of  
25 \$32,735.25 ("Penalty Amount"), which is twenty percent (20%) of the Amount Due.  
26 Defendants Company and Louis waive the notice of assessment and service requirement of 29  
27 C.F.R. § 2570.83 and, within sixty (60) days following the final payment of the Amount Due,  
28

1 Defendants Company and Louis shall pay the Penalty Amount to the United States Department  
2 of Labor, by sending a certified or cashier's check payable to the United States Department of  
3 Labor (please write EBSA Case No. 72-031158 (48) on the check) to:

4  
5 For Regular Mail:  
6 U.S. Department of Labor  
7 ERISA Civil Penalty  
8 P.O. Box 70942  
9 Charlotte, NC 28272-0942

10  
11 For Overnight Courier (e.g., FedEx):  
12 U.S. Department of Labor  
13 QLP Wholesale Lockbox NC0810  
14 Lockbox #70942  
15 1525 West WT Harris Blvd.  
16 Charlotte, NC 28262

17  
18 20. Wherever submission to the Secretary is required under the terms of this Consent  
19 Judgment & Order, such submission shall be made to:

20  
21 Regional Director  
22 San Francisco Regional Office  
23 Employee Benefits Security Administration  
24 U.S. Department of Labor  
25 90 7th St., Suite 11-300  
26 San Francisco, CA 94103

27  
28 21. Defendant Louis agrees that, in the event that he files for bankruptcy protection  
under any chapter of the United States Bankruptcy Code, he will execute a stipulation with the  
Secretary and consent to the entry of an Order that the Amount Due is a nondischargeable debt  
pursuant to section 523(a)(4) of the Bankruptcy Code, 11 U.S.C. § 523(a)(4);

29  
30 22. The parties shall each bear their own costs, expenses, and attorneys' fees incurred  
31 in connection with any stage of this proceeding, including but not limited to attorneys' fees  
32 which may be available under the Equal Access to Justice Act, as amended.

1           23. Defendants expressly waive any and all claims of any nature which they have or  
2 may have against the Secretary, the United States Department of Labor, or any of its officers,  
3 agents, attorneys, employees or representatives, arising out of or in connection with the  
4 allegations contained in the Complaint on file in this action, any other proceedings or  
5 investigation incident thereto or based on the Equal Access to Justice Act, as amended.

6           24. Nothing in this Consent Judgment & Order is binding on any governmental  
7 agency other than the United States Department of Labor, Employee Benefits Security  
8 Administration.

9           25. This Court retains jurisdiction of this action for purposes of enforcing compliance  
10 with the terms of this Consent Judgment & Order.

11           26. By signing their names to this Consent Judgment & Order, the parties represent  
12 that they are informed and understand the effect and purpose of this Consent Judgment & Order.

13           The Court directs the entry of this Consent Judgment & Order as a final order.

14           IT IS SO ORDERED, ADJUDGED, and DECREED.

15  
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17           Dated: 3/20/14

18             
19           United States District Judge

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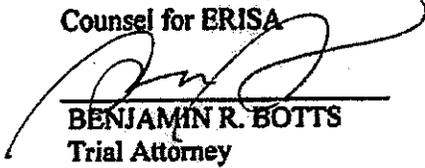
Entry of this Consent Judgment is hereby consented to:

Dated: 3/19/2014

M. PATRICIA SMITH  
Solicitor of Labor

JANET M. HEROLD  
Regional Solicitor

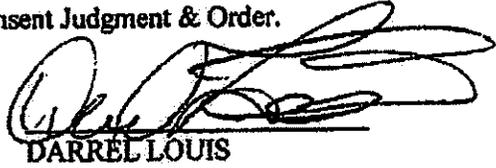
DANIELLE L. JABERG  
Counsel for ERISA

  
BENJAMIN R. BOTTS  
Trial Attorney

Attorneys for the Plaintiff  
U.S. Secretary of Labor

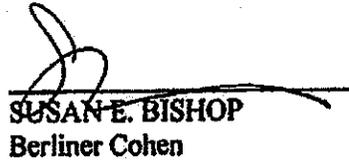
Defendants consent to the entry of this Consent Judgment & Order.

Dated: 3/19/14

  
DARREL LOUIS

Approved as to Form

Dated: 3/19/14

  
SUSAN E. BISHOP  
Berliner Cohen

Attorneys for Louis & Riparetti, Inc. and  
Darrel Louis

## Louis Riparetti, Inc. Retirement Plan

EXHIBIT A

## Amount Due to Plan Participants

<u>Participant</u>	<u>\$ Total Due</u>
Alvarez, Carlos	\$ 278.76
Barrutia, Amilcar	\$ 5,711.25
Bejarano, Jose	\$ 4,786.22
Bernal, Luis	\$ 1.27
Cano, Ruben	\$ 7,432.73
Carillo, Jose Luis	\$ 4,776.75
Castaneda, Hector	\$ 730.64
Chagolla-Saldana, Gerardo	\$ 796.69
Chavez, Anthony	\$ 252.31
Corona, Abel	\$ 884.32
Craven, Debby	\$ 5,551.33
Creel, Lanning	\$ 1,159.96
Delgado, Alejandro	\$ 1,469.74
Duran, Francisco	\$ 2,348.18
Escamilla, Jose Olivo	\$ 6,239.34
Escamilla, Noe	\$ 2,835.72
Flores, Rickey	\$ 3,106.19
Galindez, Ruben	\$ 1,489.21
Garcia, Juan Yopez	\$ 2,197.18
Garza, James	\$ 925.22
Giardini, Roger	\$ 3,232.08
Gomez, Saul	\$ 202.44
Gonzalez, Fernando	\$ 3,707.26
Gross, Robert	\$ 1,508.53
Guerrero, Dolores J	\$ 2,419.57
Hernandez, Ismael	\$ 4,956.78
Hernandez-Mejia, Daniel	\$ 342.46
Humero, Felix	\$ 34.14
Isaias, Olivo	\$ 4,510.16
Kelfliotis, Bryon	\$ 696.57
Lopez, Daniel	\$ 124.72
Martinez, Sergio	\$ 1,576.17
McFarland, Aaron	\$ 363.13
Medel, Jose	\$ 735.59
Medina, Jose Trinidad	\$ 2,820.74
Meraz, Andres	\$ 693.92
Munoz Hernandez, Jorge	\$ 3,426.90
Negrete, Ernesto	\$ 634.31
Noll, Kyle	\$ 1,221.26
Olivas, Jose	\$ 215.29
Olvera, Jorge Andrade	\$ 211.58
Parra, Joel	\$ 489.00

Louis Riparetti, Inc. Retirement Plan

EXHIBIT A

## Amount Due to Plan Participants

<u>Participant</u>	<u>\$ Total Due</u>
Parra, Victor	\$ 476.43
Perez, Abraham	\$ 6,983.37
Perez, Bernardo	\$ 1,842.26
Perez Medina, Mario	\$ 2,258.07
Phelps, Jason	\$ 102.83
Picazo, Abraham	\$ 673.25
Poli, Gina	\$ 28.91
Quintanilla, Noe	\$ 68.12
Ramirez, Arnaldo	\$ 2,822.01
Ramirez, Gregorio	\$ 6,542.03
Ramirez, Roberto	\$ 2,068.33
Ramirez, Mauro	\$ 64.33
Reyes, Francisco	\$ 704.71
Rios, Juan Carlos	\$ 4,596.53
Rodriguez, Juan	\$ 4,467.78
Ruiz, Fabian	\$ 92.21
Ruiz, Jose Luis	\$ 236.69
Russel, Seth	\$ 2,154.76
Salgado, Arturo	\$ 2,142.07
Samano, Juan Martin	\$ 273.16
Samano, Julio	\$ 310.08
Samano, Eduardo	\$ 209.79
Sanchez, Joel	\$ 2,916.58
Sanchez, Mariano	\$ 6,390.99
Sanchez, Miguel	\$ 1,903.84
Seely, Don	\$ 1,529.06
Sierra, Narcizo	\$ 1,292.06
Simplicio, Mata	\$ 255.05
Torres, Robert	\$ 866.38
Truillo, Jose	\$ 6,173.50
Vasquez, Teodulo	\$ 3,481.02
Yanez, Rogelio	\$ 7,574.75
Yepez, Julio	\$ 3,793.92
Zavala, Mario	\$ 1,285.77
Total	\$ 163,676.25

## EXHIBIT B

### Field Assistance Bulletin 2004-02

 [Printer Friendly Version](#)

September 30, 2004

Memorandum For: Virginia C. Smith  
Director of Enforcement, Regional Directors

From: Robert J. Doyle  
Director of Regulations and Interpretations

Subject: Fiduciary Duties and Missing Participants in Terminated Defined Contribution Plans

### Issue

What does a plan fiduciary need to do in order to fulfill its fiduciary obligations under ERISA with respect to: (1) locating a missing participant of a terminated defined contribution plan; and (2) distributing an account balance when efforts to communicate with a missing participant fail to secure a distribution election?

### Background

All plan assets must be distributed as soon as administratively feasible after the date of a plan termination in order to effectively complete a plan termination under Internal Revenue Code requirements.<sup>(1)</sup> Prior to any distribution, the Code requires a plan administrator to contact all participants for affirmative directions regarding distribution of their account balances.<sup>(2)</sup> This notice requirement extends to all participants, regardless of their length of service or the size of their account balances, because all participants vest in their account balances upon termination of the plan.<sup>(3)</sup>

In the context of terminated defined contribution plans, some participants may be unresponsive to written notices from plan administrators asking for direction regarding the distribution of their account balances: these participants are commonly referred to as missing participants.<sup>(4)</sup> As a result of participants' unresponsiveness, plan administrators often are unable to effectively wind-up the plans' financial affairs and are confronted with an array of issues related to their duties under the fiduciary responsibility provisions of ERISA to search for missing participants and distribute their benefits.

The Department has previously issued guidance to fiduciaries of terminated defined contribution plans on the handling of certain missing participant issues. However, Field Offices have, in the course of their investigations, found that plan fiduciaries use a variety of methods in searching for missing participants and distributing account balances when a search proves unsuccessful. Additional guidance, therefore, has been requested concerning the obligations of plan fiduciaries that are confronted with missing participant issues in terminated defined contribution plans.<sup>(5)</sup>

### Analysis

Consistent with the requirements of section 404(a) of ERISA, a fiduciary must act prudently and solely in the interest of the plan's participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable expenses of administering the plan. Also, under section 404(a)(1)(D) of ERISA, fiduciaries are required to act in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of Title I and IV. Section 402(b)(4) of ERISA provides that every employee benefit plan shall specify the basis on which payments are made to and from the plan. Section 403(a) of ERISA generally requires that the assets of a plan be held in trust by a trustee. In the case of plan terminations, fiduciaries must also ensure that the allocation of any previously unallocated funds is made in accordance with the provisions of section 403(d) of ERISA.

Under Title I of ERISA, the decision to terminate a plan is generally viewed as a "settlor" decision rather than a fiduciary decision relating to the administration of the plan. However, the steps taken to implement this decision, including steps to locate missing participants, are governed by the fiduciary responsibility provisions of ERISA.<sup>(6)</sup> Further, in our view, while the distribution of the entire benefit to which a participant is entitled ends his or her status as a plan participant and the distributed assets cease to be plan assets under ERISA, a plan fiduciary's choice of a distribution option is a fiduciary decision subject to the general fiduciary responsibility provisions of ERISA.<sup>(7)</sup>

It is our view that a plan fiduciary must take certain steps in an effort to locate a missing participant or beneficiary before the plan fiduciary determines that the participant cannot be found and distributes his or her benefits in accordance with this Bulletin. These steps are identified below under the heading "Search Methods." It also is our view that, in determining any additional steps that may be appropriate with regard to a particular participant, a plan fiduciary must consider the size of the participant's account balance and the expenses involved in attempting to locate the missing participant. Accordingly, the specific steps that a plan fiduciary takes to locate a missing participant may vary depending on the facts and circumstances. This consideration of additional steps is discussed below under the heading "Other Search Options." Reasonable expenses attendant to locating a missing participant may be charged to a participant's account, provided that the amount of the expenses allocated to the participant's account is reasonable and the method of allocation is consistent with the terms of the plan and the plan fiduciary's duties under ERISA.<sup>(8)</sup> Whatever decisions are made in connection with locating of missing participants or the distribution of assets on their behalf, plan fiduciaries must be able to

demonstrate compliance with ERISA's fiduciary standards.

## Search Methods

In the context of a defined contribution plan termination, one of the most important functions of the plan's fiduciaries is to notify participants of the termination and of the plan's intention to distribute benefits. In most instances, routine methods of delivering notice to participants, such as first class mail or electronic notification, will be adequate. In the event that such methods fail to obtain from the participant the information necessary for the distribution, or the plan fiduciary has reason to believe that a participant has failed to inform the plan of a change in address, plan fiduciaries need to take other steps to locate the participant or a beneficiary. In our view, some search methods involve such nominal expense and such potential for effectiveness that a plan fiduciary must always use them, regardless of the size of the participant's account balance. A plan fiduciary cannot distribute a missing participant's benefits in accordance with the distribution options discussed below unless each of these methods proves ineffective in locating the missing participant. However, a plan fiduciary is not obligated to take each of these steps if one or more of them are successful in locating the missing participant. These methods are:

1. **Use Certified Mail.** Certified mail can be used to easily ascertain, at little cost, whether the participant can be located in order to distribute benefits.
2. **Check Related Plan Records.** While the records of the terminated plan may not have current address information, it is possible that the employer or another plan of the employer, such as a group health plan, may have more up-to-date information with respect to a given participant or beneficiary. For this reason, plan fiduciaries of the terminated plan must ask both the employer and administrator(s) of related plans to search their records for a more current address for the missing participant. If there are privacy concerns, the plan fiduciary that is engaged in the search can request the employer or other plan fiduciary to contact or forward a letter on behalf of the terminated plan to the participant or beneficiary, requesting the participant or beneficiary to contact the plan fiduciary.
3. **Check With Designated Plan Beneficiary.** In connection with a search of the terminated plan's records or the records of related plans, plan fiduciaries must attempt to identify and contact any individual that the missing participant has designated as a beneficiary (e.g., spouse, children, etc.) for updated information concerning the location of the missing participant. Again, if there are privacy concerns, the plan fiduciary can request the designated beneficiary to contact or forward a letter on behalf of the terminated plan to the participant, requesting the participant or beneficiary to contact the plan fiduciary.
4. **Use A Letter-Forwarding Service.** Both the Internal Revenue Service (IRS) and the Social Security Administration (SSA) offer letter-forwarding services. Plan fiduciaries must choose one service and use it in attempting to locate a missing participant or beneficiary. The IRS has published guidelines under which it will forward letters for third parties for certain "humane purposes," including a qualified plan administrator's attempt to locate and pay a benefit to a plan participant.<sup>(9)</sup> The SSA's letter forwarding service may be used for similar purposes, and is described on the SSA's Web site.<sup>(10)</sup> It is our understanding that to use either the IRS or SSA program, the plan fiduciary/requestor must submit a written request for letter forwarding to the agency, and must provide the missing participant's social security number or certain other identifying information. Both the IRS and SSA will search their records for the most recent address of the missing participant and will forward a letter from the plan fiduciary/requestor to the missing participant if appropriate. In using these letter-forwarding services to notify a missing participant that he or she is entitled to a benefit, the plan fiduciary's letter should provide contact information for claiming the benefit. This notice may also suggest a date by which the participant must respond, as neither the IRS nor the SSA will notify the plan fiduciary as to whether the participant was located.

## Other Search Options

In addition to using the search methods discussed above, a plan fiduciary should consider the use of Internet search tools, commercial locator services, and credit reporting agencies to locate a missing participant. Depending on the facts and circumstances concerning a particular missing participant, it may be prudent for the plan fiduciary to use one or more of these other search options. If the cost of using these services will be charged to the missing participant's account, plan fiduciaries will need to consider the size of the participant's account balance in relation to the cost of the services when deciding whether the use of such services is appropriate.

## Distribution Options

There will be circumstances when, despite their use of the search methods described above, plan fiduciaries will be unable to locate participants or otherwise obtain directions concerning the distribution of their benefits from terminated defined contribution plans. In these circumstances, plan fiduciaries will nonetheless have to consider distribution options in order to effectuate the termination of the plan.<sup>(11)</sup> We have set forth below the fiduciary considerations that are relevant to the various options available to plan fiduciaries in the context of missing participants of terminated defined contribution plans.

**Individual Retirement Plan Rollovers** - In our view, plan fiduciaries must always consider distributing missing participant benefits into individual retirement plans (i.e., an individual retirement account or annuity).<sup>(12)</sup> Establishing an individual retirement

plan is the preferred distribution option because it is more likely to preserve assets for retirement purposes than any of the other identified options.

Distribution to an individual retirement plan preserves retirement assets because it results in a deferral of income tax consequences for missing participants. A distribution that qualifies as an eligible rollover distribution<sup>(13)</sup> from a qualified plan, which is handled by a trustee to trustee transfer into an individual retirement plan, will not be subject to immediate income taxation, the 20 percent mandatory income tax withholding requirement, or the 10 percent additional tax for premature distributions that may be required based on the participant's age and related facts.<sup>(14)</sup>

As we have noted in other contexts, the choice of an individual retirement plan also raises fiduciary issues as to the particular choice of an individual retirement plan trustee, custodian or issuer as well as the selection of an initial individual retirement plan investment to receive the distribution.<sup>(15)</sup> By regulation, the Department established a safe harbor for plan fiduciaries to satisfy their fiduciary responsibility under section 404(a) of ERISA when selecting individual retirement plan providers and initial investments in connection with the rollover of certain mandatory distributions to individual retirement plans.<sup>(16)</sup> In general, this regulation applies to distributions of \$5,000 or less for separating participants who leave an employer's workforce without making an election to either receive a taxable cash distribution or directly roll over assets into an individual retirement plan or another qualified plan.

In our view, the circumstances giving rise to relief under this safe harbor regulation are similar to those confronting fiduciaries of terminated defined contribution plans. Therefore, in the context of making distributions from terminated defined contribution plans on behalf of participants who are determined to be missing or otherwise fail to elect a method of distribution in connection with the termination, fiduciaries who choose investment products that are designed to preserve principal should, as an enforcement matter, be treated as satisfying their fiduciary duties in connection with such distributions, when the fiduciary complies with the relevant requirements of the automatic rollover safe harbor regulation, without regard to the amount involved in the rollover distribution.<sup>(17)</sup>

**Alternative Arrangements** - If a plan fiduciary is unable to locate an individual retirement plan provider that is willing to accept a rollover distribution on behalf of a missing participant, plan fiduciaries may consider either establishing an interest-bearing federally insured bank account in the name of a missing participant or transferring missing participants' account balances to state unclaimed property funds. In this regard, fiduciaries should be aware that transferring a participant's benefits to either a bank account or state unclaimed property fund will subject the deposited amounts to income taxation, mandatory income tax withholding and a possible additional tax for premature distributions. Moreover, interest accrued would also be subject to income taxation. Plan fiduciaries should not use 100% income tax withholding as a means to distribute plan benefits to missing participants.

**Federally Insured Bank Accounts** - Plan fiduciaries may consider establishing an interest bearing federally insured bank account in the name of a missing participant, provided the participant would have an unconditional right to withdraw funds from the account. In selecting a bank and accepting an initial interest rate, with or without a guarantee period, a plan fiduciary must give appropriate consideration to all available information relevant to such selection and interest rate, including associated bank charges.

**Escheat To State Unclaimed Property Funds** - As an alternative, plan fiduciaries may also consider transferring missing participants' account balances to state unclaimed property funds in the state of each participant's last known residence or work location. We understand that some states accept such distributions on behalf of missing participants. We also understand that states often provide searchable Internet databases that list the names of property owners and, in some instances, award minimal interest on unclaimed property funds.

In prior guidance, the Department concluded that, if a state unclaimed property statute were applied to require an ongoing plan to pay to the state amounts held by the plan on behalf of terminated employees, the application of that statute would be preempted by section 514(a) of ERISA.<sup>(18)</sup> However, we do not believe that the principles set forth in Advisory Opinion 94-41A, which dealt with a plan fiduciary's duty to preserve plan assets held in trust for an ongoing plan, prevent a plan fiduciary from voluntarily deciding to escheat missing participants' account balances under a state's unclaimed property statute in order to complete the plan termination process.

Additionally, we believe that a plan fiduciary's transfer of a missing participant's account balance from a terminated defined contribution plan to a state's unclaimed property fund would constitute a plan distribution, which ends both the property owner's status as a plan participant and the property's status as plan assets under ERISA.<sup>(19)</sup>

In deciding between distribution into a state unclaimed property fund and distribution into a federally insured bank account, we believe that a plan fiduciary should evaluate any interest accrual and fees associated with a bank account against the availability of the state unclaimed property fund's searchable database that may facilitate the potential for recovery. In any event, transfer to state unclaimed property funds must comply with state law requirements.

**100% Income Tax Withholding** - We are aware that some plan fiduciaries believe that imposing 100% income tax withholding on missing participant benefits, in effect transferring the benefits to the IRS, is an acceptable means by which to deal with the benefits of missing participants. After reviewing this option with the staff of the Internal Revenue Service, we have concluded that the use of this option would not be in the interest of participants and beneficiaries and, therefore, would violate ERISA's fiduciary requirements. Based on discussions with the IRS staff and our understanding of the IRS's current data processing, the 100% withholding distribution option would not necessarily result in the withheld amounts being matched or applied to the missing participants'/taxpayers' income tax liabilities resulting in a refund of the amount in excess of such tax liabilities.<sup>(20)</sup> This option, therefore, should not be used by plan fiduciaries as a means to distribute benefits to plan participants and beneficiaries.

#### **Miscellaneous Issues**

Fiduciaries have expressed concerns about legal impediments that might hinder the establishment of individual retirement plans or bank accounts on behalf of missing participants. These impediments include perceived conflicts with the customer identification and verification provisions of the USA PATRIOT Act (Act).<sup>(21)</sup> With regard to this problem, we note that Treasury staff, along with the staff of the other Federal functional regulators,<sup>(22)</sup> has issued helpful guidance for fiduciaries that are establishing an individual retirement plan or federally insured bank account in the name of a missing participant. This guidance was published in a set of questions and answers on the customer identification and verification provision (CIP) of the Act, "FAQs: Final CIP Rule," on the regulators' Web sites.<sup>(23)</sup>

The Federal functional regulators advised the Department that they interpret the CIP requirements of section 326 of the Act and implementing regulations to require that banks and other financial institutions implement their CIP compliance program with respect to an account (including an individual retirement plan or federally insured bank account) established by an employee benefit plan in the name of a former participant (or beneficiary) of such plan, only at the time the former participant or beneficiary first contacts such institution to assert ownership or exercise control over the account. CIP compliance will not be required at the time an employee benefit plan establishes an account and transfers the funds to a bank or other financial institution for purposes of a distribution of benefits from the plan to a separated employee.

With regard to the application of state laws, including those governing signature requirements and escheat, we note that such issues are beyond the Department's jurisdiction.

## Conclusion

Actions taken to implement the decision to terminate a plan, including the search for missing participants, and if search efforts fail, the selection of a distribution option for the benefits of missing participants, are governed by the fiduciary responsibility provisions of ERISA. In fulfilling their duties of prudence and loyalty to missing participants, we believe there are certain search methods which involve such nominal expense and potential for effectiveness that fiduciaries must always use them, regardless of the size of the account balance, as discussed in detail above.

We also believe that these duties require that fiduciaries consider establishing individual retirement plans as the preferred method of distribution for the benefits of missing participants. In this regard, the selection of an individual retirement plan provider and the initial investment for an individual retirement plan also constitute fiduciary decisions. If plan fiduciaries are unable to locate an individual retirement plan provider that is willing to accept a rollover distribution, fiduciaries may consider distributing a missing participant's benefits into a federally insured bank account or transferring a missing participant's benefit to a state unclaimed property fund; the factors to be considered in choosing between these options are discussed more fully above.

Questions concerning the information contained in this Bulletin may be directed to the Division of Fiduciary Interpretations, Office of Regulations and Interpretations, 202.693.8510.

## Footnotes

1. See Rev. Rul. 89-87, 1989-2 C.B. 81.
2. Under Internal Revenue Code (Code) §402(f), a plan administrator is required, prior to making an eligible rollover distribution, to provide the participant with a written explanation of the Code provisions under which the participant may elect to have the distribution transferred directly to an IRA or another qualified plan, the provision requiring tax withholding if the distribution is not directly transferred and the provisions under which the distribution will not be taxed if the participant transfers the distribution to an IRA or another qualified plan within 60 days of receipt.
3. Under Code §411(d)(3), a plan must provide that, upon its termination or complete discontinuance of contributions, benefits accrued to the date of termination or discontinuance of contributions become vested to the extent funded on such date.
4. The Department notes that this guidance applies only in the context of terminated defined contribution plans. For rules governing the Pension Benefit Guaranty Corporation's missing participants program, which applies to terminated defined benefit plans covered by Title IV of ERISA, see ERISA § 4050 and 29 CFR § 4050.
5. This guidance assumes that the terminated plan does not provide an annuity option and that no other appropriate defined contribution plans are maintained within the sponsoring employer's corporate group to which account balances from the terminated plan could be transferred..
6. See Advisory Opinion 2001-01A (Jan. 18, 2001); see also Letter to John N. Erlenborn from Dennis M. Kass (Mar. 13, 1986).
7. See Rev. Rul. 2000-36 where the Department stated that the selection of an IRA trustee, custodian or issuer and of an IRA investment for purposes of a default rollover pursuant to a plan provision would constitute a fiduciary act under ERISA.

8. See generally Field Assistance Bulletin 2003-3 (May 19, 2003) for the Department's views with respect to expense allocations in defined contribution plans. See also Rev. Rul. 2004-10, 2004-7 I.R.B. (Jan. 29, 2004).
9. See Rev. Proc. 94-22, 1994-1 C.B. 608; IRS Policy Statement P-1-187.
10. The Social Security Administration's Web site is found at [www.ssa.gov](http://www.ssa.gov).
11. See supra footnote 1.
12. Code §7701(a)(37) defines an "individual retirement plan" to mean an individual retirement account described in Code §408(a) and an individual retirement annuity described in Code §408(b).
13. An "eligible rollover distribution" is, subject to certain limited exceptions, any distribution to an employee of all or any portion of the balance to the credit of the employee in a qualified trust. See Code §402(c) and (f)(2)(A).
14. Code §402(a), §3405(c), and §72(t).
15. See supra footnote 6.
16. See 29 C.F.R. §2550.404a-2.
17. It should be noted that Class Exemption (PTE No. 2004-16) generally provides relief from ERISA's prohibited transaction provisions for a plan fiduciary's selection of itself as the provider of an individual retirement plan and/or issuer of an investment in connection with rollovers of missing participant accounts for amounts up to \$5,000.
18. Advisory Opinion 94-41A (Dec. 7, 1994).
19. Prior Departmental Advisory Opinions addressed distributions from ongoing plans. See, e.g., Advisory Opinion 94-41A (Dec. 7, 1994); Advisory Opinion 79-30A (May 14, 1979); Advisory Opinion 78-32A (Dec. 22, 1978). We note, however, that this memorandum addresses only distributions that complete the termination of defined contribution plans.
20. See, e.g., Code section 6511 (regarding the time limitations for taxpayer refunds).
21. Pub. L. No. 107-56, Oct. 26, 2001, 115 Stat. 272.
22. The term "other Federal functional regulators" refers to the other agencies responsible for administration and regulations under the Act.
23. See "FAQs: Final CIP Rule" at:  
[www.occ.treas.gov/10.pdf](http://www.occ.treas.gov/10.pdf)  
[www.fincen.gov/finalciprule.pdf](http://www.fincen.gov/finalciprule.pdf)  
[www.fdic.gov/news/news/financial/2004/FIL0404a.html](http://www.fdic.gov/news/news/financial/2004/FIL0404a.html)