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IRS gives tips on rehiring retirees, in-service distributions during pandemic

By Brian J. Kearney and Matthew Calloway
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A recent IRS [news release](#) reminds pension plan sponsors short-staffed due to the pandemic that they may be able to fill vacant positions by rehiring retirees and retain older employees by offering in-service benefit distributions. IRS has also added two new Q&As addressing rehired retirees and in-service distributions to its [Q&A webpage](#) on COVID-19 relief for retirement plans and IRAs.

Rehiring retirees who have commenced distributions. Pension plans can distribute benefits to participants on retirement, but the retirement must be bona fide. This generally means the employer and employee share an expectation at the time of retirement that the employee won't be returning to work. A new Q&A explains that rehiring a retiree due to unforeseen circumstances — such as a labor shortage due to the COVID-19 pandemic — won't cause the prior retirement to no longer be considered bona fide, as long as a prearrangement to rehire the retiree didn't exist. But employers still must abide by their plans' terms regarding rehires, including restrictions on rehiring former employees within a certain period after benefits begin and provisions requiring benefit suspension on rehire. Plan sponsors may need to amend their plans to allow rehired retirees to participate.

In-service distributions for employee retention. The new guidance also notes that in-service distributions could help employers retain employees who are eligible for retirement. A second new Q&A confirms that employees can take in-service distributions starting at age 59-1/2 or the plan's normal retirement age (NRA), if plan terms allow. In some cases, a plan's NRA can be earlier than age 59-1/2. The Q&A notes that in-service distributions made before age 59-1/2 can trigger the 10% additional tax on early withdrawals unless an exception applies.

Related resources

Non-Mercer resources

- [COVID relief: IRS helps employers wanting to rehire retirees or retain employees after retirement age](#) (IRS, Oct. 22, 2021)

- [Coronavirus-related relief for retirement plans and IRAs Q&As](#) (IRS, Oct. 22, 2021)

Mercer Law & Policy resources

- [Tracking federal COVID-19 laws affecting employee benefits, jobs](#) (March 30, 2021)
- [Delving into CARES Act relief for retirement plan participants \(revised\)](#) (June 22, 2020)
- [IRS releases FAQs on CARES Act distributions and loans](#) (May 5, 2020)

Other Mercer resources

- [Navigating coronavirus](#) (regularly updated)

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