EMPLOYER SPONSORED RETIREMENT PLANS

Administrative Pitfalls & How to Avoid Them

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Agenda

Review of common issues we see in retirement plan administration and what to look for as a Plan Sponsor

Employee Plan Compliance Resolution System (EPCRS)

- Self Correction Program (SCP)
- Voluntary Correction Program (VCP)
- Audit CAP (Closing Agreement Program)

What does the plan document say???

While there are IRS rules we need to be aware of, much of what goes wrong is simply not following the terms of the Plan

Eligibility

- Plans can have an age requirement (max 21) and a waiting period
- Waiting periods can be length of service (1 year max on 401k) or length of service with an hours requirement
- Max hours requirement is 1,000 hours per year
- Must have an Entry Date into Plan

Eligibility

- Must treat all employees the same per the plan document – can’t make individual exceptions (don’t put retirement benefits in an employment offer or employment contract)
- “Part time” employees
- Watch out for Entry Dates

Eligibility

- Plan design item – dual eligibility
- Be careful using dual eligibility in a Top Heavy Plan

Eligibility – Long Time Part Time Employees (LTPT)

- Even if you have eligibility of 1,000 hours, if an employee works 500-999 hours in 2 consecutive years they become an LTPT
- LTPTs must be offered the plan to contribute but do not need to be included in the employer contribution or testing

Who is the Employer?

- If the owner(s) of the business sponsoring the retirement plan own any other businesses, careful analysis is needed to determine potential related employer issues
- Controlled Groups & Affiliated Service Groups
- Impact

Key Limits for Defined Contribution Plans

The following are important limits for 2026:

▪ 401(k) contribution limit	$ 24,500
▪ Catch up contribution limit (age 50-59/64+)	$ 8,000
▪ Catch up contribution limit (age 60-63)	$ 11,250
▪ Annual compensation limit	$360,000
▪ Individual defined contribution limit	$ 72,000*
▪ Maximum deductible company contribution	25%

* Not to exceed 100% of compensation (+ catch up)

401(k)/Roth Deferrals

- Excess deferrals – watch limits per age
- Roth withholding s/b on gross not net
- Match calc on gross not net (check plan doc)
- Excluding bonuses from withholding & match (check plan doc)
- Timing of deferrals & loan payments – small plan 7 business day rule

401(k)/Roth Deferrals

- New Catch up as Roth rule
- If your W-2 was > $150,000 in 2025 and you make catch up contributions in 2026, they must be Roth
- Amount is indexed annually
- Self Employed Indivdiuals not subject to new rule

401(k)/Roth Deferrals

- If your plan has Auto Enrollment make sure you have a good process to implement
- Make sure you have a good process for deferral changes – if leveraging the recordkeeper make sure the payroll system gets updated

Loan Payments

- If your plan allows for loans, make sure you have a process to be notified and get the amortization schedule set up in payroll for the loan payments
- Make sure payroll is noted for the last repayment date for the loan

Employer Contributions

- Timing of match deposits – important if a SH Match & check plan doc
- Timing of Profit Sharing deposits – make sure plan allows for deposit before year end; confirm deposit with Administrator

Qualified Retirement Plans

Important Terms

- Highly Compensated Employee (HCE) – anyone who owns more than 5% of the company in either the current or prior year, OR anyone earning more than $160,000 (as adjusted) in the prior year

Non-Discrimination testing – a variety of tests designed to ensure that contributions are not discriminatory in favor of HCEs

Who is an owner for HCE purposes?

- Family Attribution – ownership attributes to spouse, lineal ascendants and descendants

Distributions

- If the plan has a vesting schedule, make sure vesting is being reviewed prior to processing
- Make sure participant is eligible for distribution (termed) or plan allows for in-service (plan doc restrictions, IRS restrictions)

Distributions

- If your plan has Individually Directed Brokerage Accounts, make sure there is a process to prevent unauthorized distributions
- Pooled accounts and large distributions

Distributions

- RMDs (generally age 73); can be delayed until retirement if not >5% owner

Reporting

- Annual Form 5500 due 7 months after PYE (can extend 2 ½ months)
- Some years require Form 8955-SSA – make sure to “Delete” employees when benefits are distributed

Plan Documents

- Docment all changes
- Plan restatements required every 6 years (next one 2027-2028)
- ERISA Fidelity Bond requirement

Disclosures for Employees

- Summary Plan Description (SPD) – once and then upon changes
- Summary Annual Report – Annually
- Fee disclosure – Annually
- QDIA Notice - Annually
- Safe Harbor Notice and/or Auto Enrollment Notice (if applicable) - Annually

Plan Audits

- Plans with > 100 balances require an audit (exception for plan growing to 120)
- Timing of deferrals still #1 issue
- If large plan client demonstrates ability to do in x days they are held to that standard
- Deferral elections on irregular pay (bonus/incentive/shift pay)

Audit issues

- IRS & DOL audits
- We’ve had an average of 1-2 of each last 3-4 years
- DOL usually has 5500 triggers – late deferrals, alternative investments
- Issues for real estate – proper valuations, use of property, plan checking accounts (any IDAs)

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