

The Most Common 401(k) Plan Violations

Understand your 401(k) processes to avoid losing your plan's tax-qualified status.





You take pride in going the extra mile to help your employees with their retirement planning by setting up your group as the 401(k) plan sponsor. You figure — what’s a little extra paperwork, administrative fees, and contribution matching to help make your workplace more attractive — and enjoy a little tax advantage.

Hold on, there! Despite all the work that goes into setting up a 401(k) plan, what many trustees don’t know is just **how little it takes to lose your plan’s tax-qualified status.**

Think about your 401(k) plan management process for a minute. If you’re like most employers, every pay period you generate information or a report with deductions, loans, demographic updates, and ultimately “push the button” to transfer the necessary data and funds to your retirement plan vendor.

This ultimately begs the question: What’s your back-up plan if your plan administrator happens to be unavailable on the day when your 401(k) contribution files are due? Who’s knowledgeable and qualified enough to fill in during that time? And if someone else cannot handle the process, what is the impact of not getting these updates to your 401(k) provider on time? You’d be surprised how many businesses find themselves in a situation like this, and how it can increase the risk of non-compliance.

In 2013, roughly 73% of Department of Labor (DOL) investigations resulted in monetary fines or corrective action. According to the DOL, the #1 most common 401(k) plan violation is the failure of the trustee to timely remit 401(k) contributions. If you know you don't have quite a firm grasp on your 401(k) management procedures, **are you going to run the risk of non-compliance?**

Even when you outsource this service, how much insight do you have into their processes to ensure they are helping you stay compliant at all times? After all, you still retain fiduciary responsibility over your plan.

Often enough, violations that cause plans to lose their tax-qualified status usually amount to little mistakes stemming from simple human error. There is, however, a silver lining.

Automating 401(k) provider connectivity can provide you with the means of collecting payroll data and securely delivering it to your provider on time, every time, no matter what changes are made. If you stop and think about it, the remittance of 401(k) contributions data should really be a no-brainer when you have the proper system in place. Being able to keep your payroll data consistent with your provider's records will ultimately prevent administration hiccups when calculating employee remittance data or when submitting annual paperwork to the IRS.

Remember, sponsoring your employee's 401(k) plan puts you in the same club along with the 79% percent of employers who offer a 401(k) or similar plan to their employees. Not offering one is almost not even an option. Thus, ensuring that your plan meets DOL regulations will go a long way to earning their respect and making your company and desirable place to work.

See how one of our clients improved their Retirement Plan administration process with EverythingBenefits' 401(K) and Financial Integrations solution.