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Keeping in Compliance: IRS Tips for Plan Sponsors

As an employer, you're responsible for keeping your company's retirement plan in compliance at all times. Additionally your plan document should be reviewed on an annual basis and administered accordingly. The IRS offers useful tips for plan sponsors, helping you to stay compliant, informed and prepared to provide the best possible retirement plan for your employees – here are some highlights.

It's very important to understand and verify your adoption agreement options. For pre-approved plans, you may have an adoption agreement that supplements the basic plan document and lists features that may be selected. Understanding this document is critical – and you should very specifically understand and comprehend what it says about plan eligibility, types and limits of contributions, how contributions are divided among plan participants, as well as vesting and paying benefits.

Learn everything you can about your service agreement. As a plan sponsor, it's important to understand what your service agreement does and does not cover. For administrative tasks, it's imperative to know who will perform these – and to make sure that person has the information they need in order to perform the following:

- Administer the terms for enrollment, contribution and distribution of funds.
- Give mandatory plan notices to participants.
- Determine any testing that's required and carry it out in a timely manner.
- Perform all required recordkeeping properly.
- Review the plan document for any legal changes and make updates as needed.
- Make all required filings to the IRS and Department of Labor

Communicate with your pre-approved plan provider. Notify your provider if you make any changes with respect to your business, employees or compensation – or if you need to make changes to your plan's terms. In addition, it's important that you:

- Understand all fees that will be charged by the plan provider.
- Retain the IRS issued opinion or advisory letter for your pre-approved plan.
- Promptly sign any plan amendments from your plan provider.

Maintain open communication with your plan service provider regarding the following. Advise your provider about any changes in employee status, new hires, terminations and compensation as well as:

- Accurate census data for determining plan eligibility and benefit payments.
- Terms for defining employee contributions, payments and loans.
- Any amendments to the plan (e.g., loan or hardship provisions, contributions or allocation formulas).

Stay on top of your plan maintenance requirements. Review all reports, including the allocation report for potential contribution errors and the distribution report to verify that participants have started their minimum required distributions and consented to these payments. Monitor that all loans are made in accordance with the terms of the plan, and that payments are made in a timely fashion. Document your actions with respect to defaulted loans and retain all documentation for hardship withdrawals. The IRS also recommends an independent review of your plan.

View the full IRS document at the link here (https://www.irs.gov/retirement-plans/plan-sponsor/a-plan-sponsors-responsibilities) – or for further questions relating to your specific plan, consult your plan advisor.

The Top Three Reasons to Outsource Fiduciary Services

Many companies are outsourcing more and more activities, mainly because outsourcing can provide cost savings and increase productivity. Outsourcing allows companies to focus more on their core businesses, rather than spending time on areas outside their expertise. For retirement plan sponsors, outsourcing services makes sense for these reasons as well as others.

Reduced Risks.

As a plan sponsor, you and your company are plan fiduciaries, and can be held legally responsible for the plan's administration and performance. Many sponsors outsource some or most responsibility. A 3(21) investment fiduciary assumes part of the risk, functioning as a co-fiduciary that provide prudent and objective advice. A 3(38) investment fiduciary accepts total responsibility and the lion's share of potential liability for selecting, monitoring and replacing investment options, which helps the plan sponsor manage the risk of legal action concerning investment decisions. A true 3(16) outsourcing of the plan administrator role means offloading not only the day-to-day mechanics of plan administration, but the ultimate fiduciary responsibilities attendant thereto. That said, when plan sponsors contemplate outsourced 3(16) services they need to dive in deep in contract review to understand what is actually being outsourced and what might remain in their hands.

Increased Objectivity.

Independent third-party plan administration and fiduciary services help your retirement plan by managing conflicts of interest, biases or self-interest. As set out in the Employee Retirement Income Security Act of 1974 (ERISA), both 3(21) and 3(38) investment fiduciaries, as well as 3(16) plan administrators, are required to act solely in the interest of plan participants and must act prudently when making decisions about, or administering, the plan. These actions provide plan sponsors and plan participants with a greater level of risk management and confidence in the retirement plan.

Increased Service Level.

Typically, a third-party plan administrator or fiduciary can devote much more time and attention to the support of your retirement plan than can employees. Employees often 'squeeze in' plan-related tasks around their regular duties, and may lack the skills, training and resources that an outsourced provider offers.

For information on outsourcing fiduciary services, contact your plan advisor.

Beat Rising Healthcare Costs with a Financial Wellness Program

Healthcare costs are on the rise, and employers expect double-digit growth in the next decade. As a result, there's a growing trend toward financial wellness programs included with employee benefits, as this both benefits employees and minimizes a company's fiduciary risk. In addition to these growing trends, workers are beginning to look for the during job searches.

If your business doesn't invest in financial wellness for your team, you may find it difficult to attract and retain the best employees. For fiduciaries, this is a great time to conduct in-depth research about financial wellness programs and recommend the best one to your employer. Considering starting a financial wellness program? Here are a few things to consider before starting a program of your own.

Financial Education. Financial education is nothing new in the business world. For decades employers have invested in seminars and workshops to assist employees with their financial health. The new era of financial wellness goes beyond traditional training classes for budgeting, paying off debt and amassing an emergency fund. It emphasizes the need for your employees to not only plan for retirement but enjoy financial health prior, thus developing happy, loyal and productive workers.

Wellness Assessment Check-Ups. Traditional financial workplace training typically lacks follow-up. Newer wellness programs include regular assessments, where participants review the progress they've made on each of their goals. Afterwards, employees possess the data needed to create a roadmap for future financial plans. It's important for employers to tailor educational programs to the unique needs of their employees, guaranteeing everyone receives appropriate advice and assistance.

For more information on financial wellness programs, contact your plan advisor.

Participant Corner: Three Tax Tips that Can Help as You Approach or Begin Retirement

Retirement is a whole new phase of life. You'll experience many new things, and you'll leave others behind – but what you won't avoid is taxes. If you've followed the advice of retirement plan consultants, you're probably saving in tax-advantaged retirement accounts. These types of accounts defer taxes until withdrawal, and you'll probably withdraw funds in retirement. Also, you may have to pay taxes on other types of income - Social Security, pension payments, or salary from a part-time job. With that in mind, it makes sense for you to develop a retirement income strategy.

Consider when to start taking Social Security. The longer you wait to begin your benefits (up to age 70), the greater your benefits will be. Remember, though, that currently up to 85 percent of your Social Security income is considered taxable if your income is over $34,000 each year.

Be cognizant of what tax bracket you fall into. You may be in a lower tax bracket in retirement, so you'll want to monitor your income levels (Social Security, pensions, annuity payments) and any withdrawals to make sure you don't take out so much that you get bumped into a higher bracket.

Think about your withdrawal sequence. Generally speaking, you should take withdrawals in the following order:

- Start with your required minimum distributions (RMDs) from retirement accounts. You're required to take these after all.
- Since you're paying taxes on taxable accounts, make this the second fund you withdraw from.
- Withdraw from tax-deferred retirement accounts like IRAs, 401(k)s, or 403(b)s third. You'll pay income tax on withdrawals, but do this before touching Roth accounts.
- Lastly, withdraw from tax-exempt retirement accounts like Roth IRAs or 401(k)s. Saving these accounts for last makes sense, as you can take withdrawals without tax penalties. These accounts can also be used for estate planning.

These factors are complex, and you may want to consult a tax professional to help you apply these tips to your own financial situation. You can test different strategies and see which ones can help you minimize the taxes you'll pay on your savings and benefits.

For more information on retirement tax tips, contact your plan advisor.

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Are you ready?

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