FiduciaryAdvisors LLC
A Corporate Retirement Plan Advisory Firm

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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How and When to Pay Plan Expenses with Plan Assets

Some retirement plan expenses can be paid for with plan assets — but many can't. Which are the "reasonable and necessary" retirement plan expenses that can be paid out of plan assets?

Generally, services required to maintain the plan's compliance and administration can be paid from plan assets. Obvious examples include the annual nondiscrimination testing and preparation of the annual Form 5500. Another example is a plan amendment or restatement that is required because a legislative change.

Optional services generally cannot be paid out of plan assets. One clear example is costs for projections that are optional and benefit the company, not the plan participants.

Some service fees may not be easy to classify. Fees for resolving plan corrections — such as delinquent deferral remittances or contributions determined with a definition of compensation not supported in your plan document. In the event of an incorrect test result, regardless of who was at fault, the law ultimately holds the plan sponsor responsible for the proper maintenance of the plan. As a result, the plan sponsor cannot shift the financial burden for the corrections to the plan.

All in all, it's perfectly acceptable and common to charge reasonable and necessary transaction-based and recordkeeper administrative fees to participants. However, it is critical to ensure that similarly situated participants are treated the same. It would be discriminatory and, therefore not allowed, for non-highly compensated employees to pay administrative fees while highly compensated employees did not.

If you are unsure whether a specific fee can be paid from plan assets, please contact your advisor. We'll happily talk through the particulars of your situation to help you arrive at an appropriate decision.

Don't Let Your Retirement Plan Turn from Benefit to Liability

A retirement plan is important to your business — and to all the employees relying on it for income later in life. However, mistakes and confusion can turn retirement plans from an attractive benefit into a liability.

A properly administered retirement plan avoids unnecessary costs and administrative problems, and ultimately mitigates liabilities for plan fiduciaries. The IRS recommends periodic plan reviews as part of proper administration and recently released a short bulletin with helpful tips and information about how to create and implement a retirement plan checkup.

A plan checkup should include a review of your plan documents and communications. A comprehensive review will confirm that the plan's current terms are being administered correctly and that the current plan language still makes sense and isn't unnecessarily limiting based on practical administrative considerations. Unintentional fiduciary breaches typically involve administration issues like delinquent deferral remittances, a definition of compensation that's inconsistent with the definition expressed in the plan document, missed participant notifications or misinterpreted eligibility provisions (such as confusing "hours of service" with "elapsed time").

These errors can be time-consuming and costly to resolve — but when recognized early, it's easier and less costly to resolve them. The IRS and the DOL offer voluntary correction programs to help you. Under certain circumstances, a company may self-correct administrative errors internally without informing the IRS, based on their self-correction program.

There is no substitute for proper administration of your retirement plan, but some document language is cryptic. Accidents can go unnoticed, and most plans can benefit from assistance in interpretation to ensure proper administration of the provisions in their plan document. A second perspective can be invaluable. For assistance reviewing your plan, please contact Fiduciary Advisors, LLC.

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