Top 10 401(k) compliance mistakes auditors catch

| November 10, 2014

There are a number of emerging Department of Labor issues that employers should be aware of in order to ensure their benefit plans are compliant and being properly administered. Knowing the DOL is going to be vigilant in these areas means that now is a good time to review benefit plan documentation and administrative practices to ensure compliance.

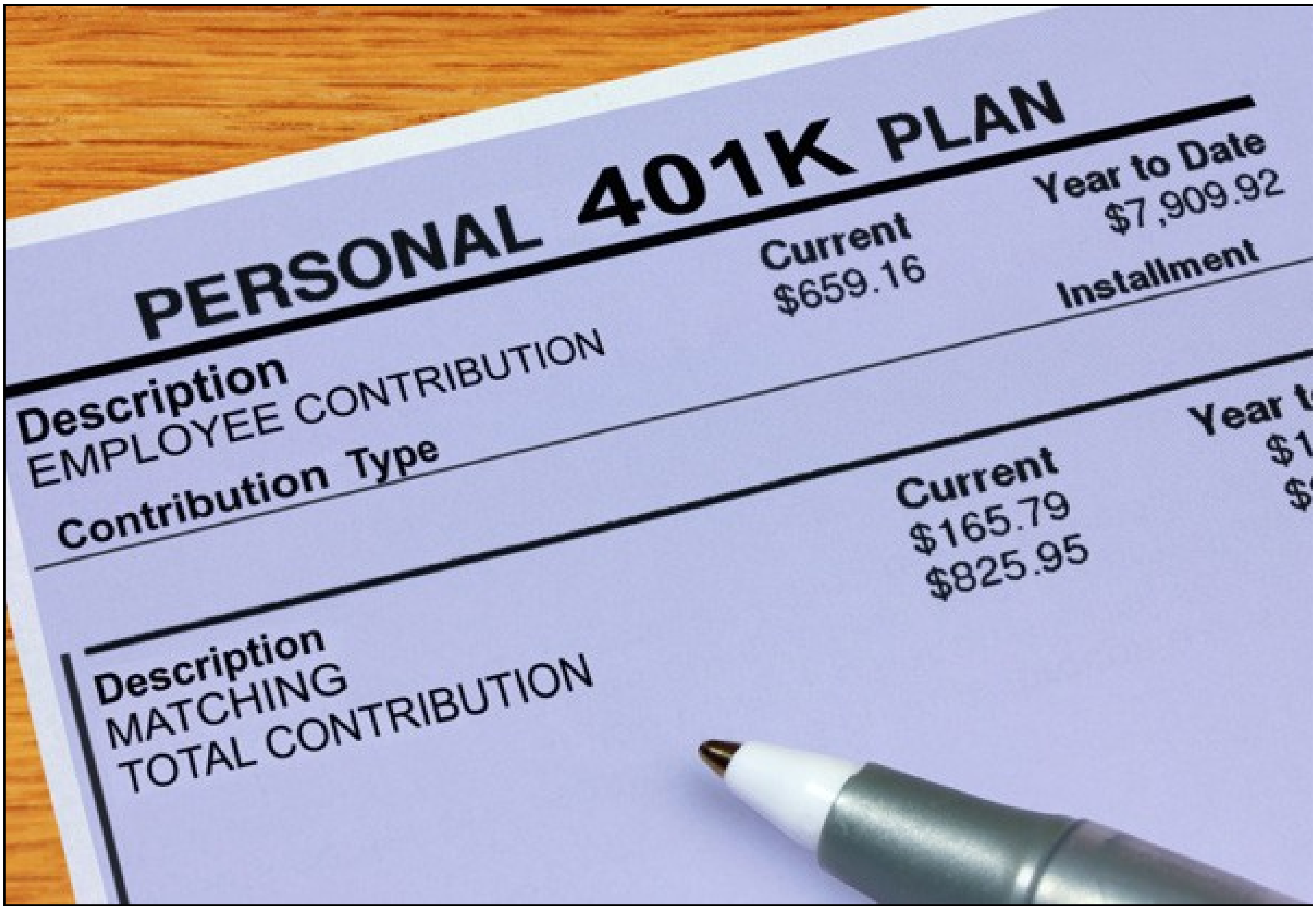
Here are the top-10 mistakes auditors catch:

1. Late or erratic payment of employee deferrals. According to the DOL, contributions must be paid as soon as administratively feasible, but no later than the 15th business day of the following month (when deferrals are withheld). Employee contributions should be within this time frame, but also consistently remitted among all payrolls and pay periods.

2. Oversights in calculating employee contributions. 401(k) contributions should be determined in accordance with the plan document (which should include the definition of compensation) andin accordance with employees' instructions.

3. Misunderstanding of the vesting period. Each plan defines when employees reach one year of service. HR and other departments may calculate it differently.

4. Disregard for break-in service rules. Usually, plans state that when employees leave and are rehired within a certain time frame, that they're automatically eligible to participate in a 401(k) plan. This rule is sometimes overlooked.



5. A growing number of forfeiture accounts. When employees leave and forfeit their 401(k) balances, those funds aren't always used as outlined in the plan, such as for paying employer-plan fees or in the time frame required by the Internal Revenue Service.

6. Incorrect tax witholdings when employees take distributions. People can take distributions from employer-sponsored plans prior to age 59½, but these early-withdrawals must be made in accordance with IRS rules in terms of penalties and any income taxes due.

7. Mistakes with profit-sharing contributions. Errors occur most often when annual calculations are performed manually vs. being automatically tallied through payroll software.

8. Mishandling employee requests. When employee requests, such as changes in deferral percentages, are handled manually, they are sometimes coded incorrectly or simply not entered at all.

9. Disconnect with service-provider contracts. Sometimes, there's a disconnect between the company and its service provider. Responsibilities should be crystal clear, especially in the areas of hardship withdrawals and informing employees of eligibility.

10 Overlooking the plan's eligibility requirements. Some employees may be enrolled too early or too late — or forgotten altogether, which can be the case with employees working at another corporate affiliate or division.

Heidi L. LaMarca is a principal and leads the employee benefit plans practice at the Atlanta-based CPA firm of Windham Brannon. She can be reached at hlamarca@windhambrannon.com.

Comments

Related Articles

- Court addresses disclosure of investment guidelines, sort of
- Alt, multi-asset fund launches up 15% since 2010
- Hope for greater fee transparency
- Plumbing the end of presumption of prudence
- ‘Augmented reality’ to promote retirement savings

More from BenefitsPro