

5 Things Plan Sponsors Need To Do

1. Announce Profit Sharing Contributions.

Profit sharing allocations should be something to celebrate; yet some plan sponsors overlook the value of announcing the contribution. They just let the contribution sneak into participant accounts with little fanfare. In order to be appreciated, it must be noticed. Make it an event. Announce it at the quarterly employee meeting, send a well-worded announcement, or even have individual employee conferences. You paid for it, get some mileage out of it.

2. Keep Minutes Of Committee Meetings.

This can be as simple as recording

- ◆ The date of the meeting
- ◆ Who was there
- ◆ What was discussed
- ◆ Any actions that were decided upon and who is supposed to execute them.
- ◆ Date of next meeting

The first set of minutes is the hardest, the next will be easier—we promise.

3. Collect Zero 401(k) Deferral Elections.

This is especially important when the plan has a match. The last thing you want is an employee making a claim for a match that they “would have” gotten if only they knew the plan was in place or that payroll had acted on their “misplaced” election. The best guard against this is to have possession of the employee’s election NOT to participate.

4. Start And End Loan Payments On Time.

This is a particular problem when plan participants are allowed to initiate loans on-line without plan sponsor or employer approval, or if the approving party does not effectively communicate the need to start loan payments to the payroll department.

- ◆ Even though you might think that a participant would notify payroll when they DON’T see the payments deducted from their paychecks, they

sometimes don’t. And, when payroll IS notified of missed payments, participants are never pleased to have to double up on their loan payments to catch up.

- ◆ On the back end, payroll services have different mechanisms for tracking and ending payments. Make sure these procedures are understood, and that the end date mechanism is properly set up when loan payments are started. Even then, things can get missed—especially if there is any change in payroll service. Nothing is quite as “fun” as sorting out loan overpayments.
- ◆ As a reminder, payments are not tax deductible. Make sure this is properly coded in payroll.

5. Clear Out Terminated Participants

Some terminated participants hang around the plan far too long. You would think that they would want access to their funds right away. However, unless they need funds to tide them over to the next job and use the 401(k) as their severance package, participants can be rather slow in responding to distribution election forms. Balances that linger can create problems:

- ◆ Many record keepers, administrators, and other plan management firms charge fees by the head; so there’s no reason to pay for an employee who is no longer with your company.
- ◆ Unpaid Balances are reported to the Government on a completely separate IRS form than the Form 5500. This starts a cycle of reporting that should not be necessary.
- ◆ If the plan’s participant count was low enough so that the plan did not need a CPA audit, an increase to 120 or more will trigger the CPA audit requirement. Do you really want to incur this expense, particularly if the reason for going over 120 was a number of unpaid and inactive participants?

Check out “Low Cost Ways To Improve 401(k) Participation” for additional ways to encourage employees to open 401(k) plans.

Contact:

Current Clients

650-692-2043

webinfo@primarkbenefits.com

New Accounts

833-987-2315

retirewell@primarkbenefits.com

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