Something Wrong With Your 401(k) Plan?

IRS shares common 401(k) mistakes.

The Internal Revenue Service (IRS) has released a list of the 11 most common mistakes made in the administration of 401(k) Plans and how to correct or avoid those errors. As a plan fiduciary, it is your responsibility to ensure that your company's 401(k) plan is in compliance with numerous federal laws and regulations. Plans that are found to be in violation can risk expensive penalties and disqualification.

The IRS uses a table to summarize the potential mistakes, how to identify a mistake, how to correct the mistake, and how to avoid the mistake altogether.

The 11 potential mistakes include:

1. Has the plan document been updated within the past few years to reflect recent law changes?
2. Are the plan's operations based on terms of the plan document?
3. Is the plan's definition of compensation for all deferrals and allocations used correctly?
4. Were employer matching contributions made to all appropriate employees under the terms of the plan?
5. Has the plan satisfied the nondiscrimination tests?
6. Were all eligible employees identified and given the opportunity to make an elective deferral election?
7. Are elective deferrals limited to the amounts under Internal Revenue Code section 402(g) for the calendar year and have any excess deferrals been distributed?
8. Have employee elective deferrals been deposited in a timely manner?
9. If the plan was top-heavy, were the required minimum contributions made to the plan?
10. Were hardship distributions made properly?
11. Has a Form 5500 series return been filed and a Summary Annual Report been distributed to all plan participants this year?

The full 43-page checklist and explanation from the IRS is available at: http://www.irs.ustreas.gov/pub/irs-tege/401k_mistakes.pdf

The good news is that 401(k) plan errors can be voluntarily corrected. If you need assistance, contact your benefit consultant.

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