Are There Plan Design Options We Should Consider as Part of the Mandatory Cycle 3 Plan Document Restatement?

Facts

We've been following your recent posts about how making even small changes to certain plan provisions can make managing the plan easier without sacrificing our objectives. Making life easier, while minimizing chances for errors…you've really been speaking our language.

Question

You mentioned the upcoming IRS-mandated plan document restatements. Are there any other items we ought to consider as we review our current plan provisions in preparation?

Answer

We're big advocates of taking a provision-by-provision review of the plan's current document to identify opportunities to enhance your retirement program, whether it is to simplify administration or adapt the plan to your current business situation. Even without taking a look at your specific plan document and knowing your plan goals, there are at least a few items that are generally worth consideration. This is a perfect excuse for a grab-bag style post, enjoy!

Employer Matching Contributions

If the plan does not already allow for employer matching contributions on a discretionary basis, it may make sense to add this provision. Building in this option gives you greater flexibility without backing yourself into a corner or requiring extra contributions you don't already intend to make.

You may be wondering why you would bother if you don't ever intend to make a match. Consider a couple of fairly common situations. First, let's say your plan is top heavy, but you get a free pass on the associated requirements because you have a safe harbor feature in your plan. Let's also assume that your plan's forfeiture account has a balance that needs to be used up, but there are no more expenses to pay and no other contributions to offset. That means your only remaining option is to allocate that forfeiture balance to plan participants as an additional contribution. If your plan doesn't have a discretionary match feature built in, you must allocate the forfeitures as a profit sharing contribution. That, in turn, blows your top-heavy exemption and can trigger a top heavy minimum contribution. Add the discretionary match, and you can allocate the forfeitures as a match and preserve the free pass on being top heavy.

Even if you aren't concerned about the safe harbor/top heavy issue, being able to allocate forfeitures as a match can help in another way. Oftentimes, this comes up when a plan has a really small forfeiture balance and/or a number of employees who are eligible for the plan but not actively contributing. Allocating forfeitures as a profit sharing contribution means that all of those employees will now have account balances that are likely to be relatively small (we've seen some result in allocations of less than one dollar). Since many plan-related fees are based on the number of participants with balances, this can result in an unexpected fee increase. Being able to allocate as a match means that only those who are contributing for themselves (and who already have account balances) share in the forfeiture allocation, eliminating the creation of all those new small accounts.

Forfeiture Account Options

Speaking of forfeiture accounts, this is always a hot topic. Our suggestion, and you've heard it from us before, is to give yourself as much flexibility as you possibly can. As we alluded to above, there are generally three options available – pay plan expenses, offset other company contributions, and/or allocate as additional contributions. Some plan documents get even more granular and give the option to limit it so that match forfeitures can only be used to offset/allocate as a match, while profit sharing forfeitures can only be used to offset or allocate as additional profit sharing. To this point, we'd suggest you take an "all of the above" approach. By doing so, you leave yourself the maximum flexibility to choose between any of these options (or a combination of options) each plan year.

Profit Sharing Contributions

We talked about the benefits of switching to a new comparability allocation method previously, but here we want to mention a few reasons to include a profit sharing provision in your plan if you don't already have one. Similar to the match discussion above, adding a profit sharing provision affords you additional flexibility in how you deal with your forfeiture or suspense account balances. Second, its' usually after the close of the year when a plan sponsor discovers that they need (for tax purposes) or want (because of cash flow) to make a profit sharing contribution. And, more often than not, the goal with the profit sharing allocation is to maximize contributions being made to the owners or other highly compensated employees. In order to do that, however, the plan must have a profit sharing provision in place before year-end. Making sure the provision is in place means you'll have the option available when you want or need it. And, if you never use it, no harm no foul!

Roth Conversions and Transfers

When Roth conversions and in-plan transfers first came on the scene a few years ago, very few recordkeeping platforms had the capabilities to handle these elections. As a result, many plan documents have been written to exclude this option. Fast forward a few years and it's now second nature for most recordkeeping platforms to handle these types of transactions. So why not make this option available to your participants with the upcoming restatement?

Sticking true to our normal tune, our grab bag focuses on ways the restatement can increase flexibility for your retirement plan. It's nearly impossible for any plan sponsor to anticipate all the different needs that might arise from year to year. Your best bet is to build in as many options as possible so that the tools are there when you need them. Increased options that don't increase fees or hassle? Sounds like a win in our book!