Financial Management Network, Inc.

OPTIMIZING 401(k) PLAN ADMINISTRATION

News and Information for Employers

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WRAPPING UP 2023: A COMPREHENSIVE GUIDE TO END-OF-YEAR 401(K) TASKS

As the end of 2023 draws near, those responsible for their company 401(k) plan have much to consider.

With a combination of standard annual tasks and new SECURE Act provisions on your plate, we are here to help you.

This article is a helpful guide for wrapping up 2023 smoothly! We will dive into those end-of-year 401(k) tasks that require your attention including plan design review, SECURE Act preparation, Required Minimum Distributions (RMDs), employee deferrals and more.

Annual Review

An annual review is a great time to kick the tires and make sure your plan is still working well. Assessing key demographics such as participation, deferral rates, asset allocation and loan activity can help shine light on opportunities for the plan. Updates could be necessary to keep your plan in compliance, boost performance and/or better suit your organizational needs.

Safe Harbor Considerations

If you are considering adding or changing your company match formula, now is a good time to discuss it before December 1st. Both new and existing plans need to finalize any decisions on safe harbor match changes before the deadline. This will allow sufficient time to distribute the required notices.

Long-Term, Part-Time Employees

Starting January 1st, 2024, new rules go into effect for long-term, part-time employees. The SECURE Act requires 401(k) plans to allow employees who have worked 500 hours or more in the past three consecutive 12-month periods to contribute to the plan. It's important that you track and record the correct hours.

Required Minimum Distributions

The annual deadline for paying out RMDs is December 31st, so now is the time to get ahead. Take this time to review the list of affected participants. This includes current and terminated participants over the age of 72 (73 if the person reached age 72 after Dec. 31st, 2022).

Bonuses

If paying year-end bonuses, you might consider checking the definition of compensation in your document. If bonuses aren't included in this definition, there won't be any deductions for 401(k) or 403(b) contributions from the bonus. However, if the plan counts all types of pay as compensation, contributions should be taken from the bonuses.

Opt-Out Records

While the decision to participate in the retirement plan rests solely with each employee, it is your responsibility to keep accurate documentation. It's essential to keep clear records, indicating that employees were given the choice to defer their participation. Furthermore, any instances where an employee has chosen to defer 0% of their earnings must be meticulously recorded.

Expense Account

If you have an ERISA spending account, also known as an ERISA bucket or plan expense reimbursement account, review it before the year ends. This account is typically used to cover plan-related costs. However, if there is leftover money in the account, it is often distributed back to the participants. Your plan document should provide details on how this surplus revenue is distributed. Some plans distribute the excess to all participants, while others only disburse it to those who invest in funds with revenue-sharing agreements.

Required Notices

Remember, December 1st is the deadline for annual participant notices. These notices inform employees about their 401(k) plan's operations, investment options and fees. Ensuring timely distribution helps avoid penalties and maintains your plan's tax benefits.

Lean on Your Advisor

The end of the year is an exciting time, but it can also be stressful. That is why we work closely with our clients to tackle these end-of-year tasks. Whether it's questions about required notices, compliance deadlines, plan design review or anything else, we're here to help.

6 COMMON ADMINISTRATIVE TASKS THAT CAN MORPH INTO 401(k) PLAN HEADACHES

Managing a 401(k) plan can leave even the most seasoned administrators feeling overwhelmed. With proper support, you can simplify the complex task of retirement plan management.

Navigating the labyrinth of retirement plan management can seem like a daunting challenge for any plan sponsor, employer or 401(k) plan administrator. The various administrative tasks, ranging from uploading payroll to handling investment changes, can often turn into 401(k) plan headaches.

Top 401(k) Plan Headaches

The first step is to understand the potential problems. Here are some common issues that can cause headaches for plan sponsors:

- UPLOADING PAYROLL
- DETERMINING ELIGIBILITY
- OVER CONTRIBUTIONS
- INVESTMENT CHANGES
- DISTRIBUTING NOTICES
- REGULATORY AND LEGISLATIVE UPDATES

1. Uploading Payroll

A seemingly straightforward process can quickly turn into a minefield of errors. Incorrect data entry could lead to improper contributions, which could potentially result in legal and financial complications. One area of particular focus is the plan's definition of compensation. When a special payroll cycle includes different types of compensation such as bonuses, commissions, or overtime, it's important to know whether that compensation should be included or excluded from the 401(k) plan. This specific issue ranks #2 on the IRS' Top Ten Failures Found in Voluntary Correction Program.

2. Determining Eligibility

When an employee may enter your 401(k) plan is different for each employer. Common eligibility requirements include 21 years old and 1,000 hours of service. Then the employee is eligible to enter the plan on the next entry date: for example, January 1st and July 1st.

However, effective January 1st, 2024, there are new eligibility rules for long-term, part-time employees. Under the SECURE Act, employees that have worked 500 hours for three consecutive years are eligible to participate in the 401(k) plan on January 1st, 2024.

3. Over-Contribution Quandary

An employee might max out their savings, then end up getting money back due to annual contribution limits. This creates extra administrative work and potential confusion for both parties. Get ahead of this now by running a report to learn if any employees are close to – or have – maxed out their 401(k) plan.

4. Investment Changes

Moving from one investment option to another can be a complex process, requiring professional guidance from a 3(21) or 3(38) investment fiduciary. Plan sponsors should work with a 401(k) advisor, like us, to evaluate watch list funds and then implement recommendations based on your plan's Investment Policy Statement. Additionally, it's critical to communicate these changes to plan participants.

5. Distributing Notices

Ensuring that all employees receive timely and accurate information about their 401(k) plan can be a daunting task, especially for large companies. One idea is to work with your recordkeeper and instruct them to send out notices. Another idea is to hire a 3(16) plan administrator who will send out and track required plan notices.

6. Regulatory and Legislative Updates

Staying informed and compliant with the ever-changing landscape of retirement plan regulations is a significant challenge. For example, the SECURE Acts are two long and lengthy pieces of legislation that greatly impact 401(k) plans.

401(k) Plan Headache Relief

This is where a 401(k) advisor can give a helping hand. We can offer valuable support and guidance across several key areas:

- third party administrator (TPA) communication
- recordkeeper collaboration
- investment strategy
- plan design support
- employee education
- fiduciary and regulatory guidance

> **While the role of managing a 401(k) plan can be fraught with potential pitfalls and headaches, the support of a specialized retirement plan advisor can significantly lighten the load. We can help streamline processes, establish compliance best practices, educate employees and foster an efficient retirement plan.**

BOOSTING PROFITS AND SAVINGS: 5 TAX STRATEGIES FOR BUSINESS OWNERS

For business owners, striking a balance between operating costs and profit is the cornerstone of success.

Operating costs include everyday expenses like salaries, rent and supplies. Profit, on the other hand, is what remains after all these operating costs have been paid. It's the reward for the risks taken and the value created by your business. Often, savvy business owners will look to tax strategies to help find the sweet spot, where operating costs are managed efficiently while maximizing profit.

By utilizing tax-friendly strategies, owners can reduce their tax liability, effectively boosting profits without increasing sales or cutting costs. Let's delve into some of these strategies and explore how they could potentially bolster your business's financial health, reduce taxes and help you save for retirement.

5 Tax Strategies to Consider

- Max out 401(k) contributions
- Profit sharing contributions
- Cash balance plan
- Health Savings Account (HSA)
- Hiring family members

1. Max Out 401(k) Contributions

Maximizing contributions to your 401(k) account reduces taxable income. If you are not maxing out your 401(k) plan each year, you're missing out on a significant tax advantage. For 2024, the employee contribution limit is $23,000. Individuals aged 50 or above can contribute an additional $7,500, making their total tax-deferral limit $30,500.[1]

2. Profit Sharing Contributions

A profit sharing plan allows employers to make contributions to retirement savings accounts based on the company's profits. This incentivizes employees and provides tax benefits for the business.

1 Internal Revenue Service. "401(k) and Profit-Sharing Plan Contribution Limits." 2023.

Example

Murphy's Motors is a small business with two owners, both aged 57, and a diverse team of 20 employees. Murphy's Motors had a profitable year and wants to fund $110,000 into the profit sharing plan. After talking with their Third-Party Administrator (TPA), the owners learn they can allocate $43,500 into one of the owners' accounts, $43,500 into the other owners' and $23,000 into eligible employees' accounts.

3. Cash Balance Plan

These are types of defined benefit retirement plans. They offer an advantage to business owners by allowing them to contribute substantially larger annual amounts in comparison to other retirement plans, such as 401(k)s.

Example

The owners of Murphy's Motors are eager to accelerate their retirement savings. They each anticipate compensation of $250,000 for the current year. After maximizing their 401(k), catch-up and profit sharing contributions, they aim to each contribute and deduct an additional $100,000 toward their retirement savings. Upon consulting with their TPA, they discover that to achieve their combined savings goal of $200,000, they will need to contribute $50,000 toward their employees' retirement plans. This results in a substantial $250,000 tax deduction for their business.

4. Health Savings Account (HSA)

An HSA is a tax-advantaged medical savings account for individuals enrolled in a high-deductible health plan (HDHP). Contributions to an HSA reduce taxable income. The funds grow tax-free and withdrawals for qualified medical expenses are tax-free. For 2024, the contribution limits are $4,150 for individual coverage and $8,300 for family coverage. At age 55, individuals can contribute an additional $1,000.[2]

5. Hiring Family Members

While this may sound odd, hiring family members can be an effective tax strategy for business owners. By employing family members, you can transfer income from a higher to a lower tax bracket, potentially reducing your overall tax liability. The wages paid for legitimate work are deductible business expenses.

Example

Consider Joan Murphy, co-owner of Murphy's Motors. She employs her teenage son, Alex, for daily operations at the shop. Alex's wages are now a deductible business expense. If his earnings stay under the standard deduction of $13,850, they remain tax-free. Consult your tax professional for detailed advice.

Every business is unique, with its own specific challenges, opportunities and goals. That's why we're here to help you explore these potential strategies, understand their implications and implement the ones that are right for you.

Our experience and expertise can guide you through this process. Let us assist you in building a robust, tax-efficient retirement savings plan that not only meets your current needs but may also set the stage for a prosperous future.

2 Internal Revenue Service. "Rev. Proc. 2023-23." May 2023.

At Financial Management Network, we provide services that span every facet of employee benefits from benefits consulting and implementation to employee communication.

We work every day with small to mid-size employers to design, implement, communicate, and administer benefit plans with a focus on reducing dollars spent with creative ideas.

For more information on our retirement plan services and how we strive to reduce employer fiduciary risk, while working to increase financial wellness and retirement outcomes, **contact us today.**

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FT FINANCIAL TIMES | Top Financial Advisers 2020

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The Top DC Advisor Firms is an independent listing produced annually (2022) by The National Association of Plan Advisors (NAPA). The NAPA Top DC Advisor Firms is a compilation of leading individual advisor firms, or teams, ranked by DC assets under advisement. This award does not evaluate the quality of services provided to clients and is not indicative of this advisor's future performance. Neither the advisors nor their parent firms pay a fee to NAPA in exchange for inclusion on this list.

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This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.