



# DRS Update

RETIREMENT SOLUTIONS FOR THE DIGITAL AGE

APRIL 2018 | ISSUE 2, VOL. 18

## INSIDE THIS ISSUE:

- 1 Rollover Documentation Guidance
- 2 Sharing Retirement Plan Information Electronically
- 2-3 The Importance of Plan Compliance
- 3 Confused About Plan Fees? Here's a Glossary of Key Terms
- 4 IRS Limits for 2016, 2017 and 2018 Tax Years
- 4 DRS Compliance Calendar for Defined Contribution Plans\*
- 4 Contact Us

## ROLLOVER DOCUMENTATION GUIDANCE

When individuals roll retirement accounts into their current employer's plan, the plan administrator is generally responsible for determining whether the rollover contribution is valid and can be accepted. The IRS has issued guidance (Revenue Ruling 2014-9) to assist plan administrators with the task. Assuming that your plan already has a provision for allowing rollovers generally, here are two methods for verifying whether a particular rollover contribution might be valid.

**Verifying a qualified plan to qualified plan rollover.** A plan administrator of a profit sharing plan is attempting to determine if an incoming check representing an employee's direct rollover contribution from a prior employer is an acceptable rollover contribution. According to the IRS guidance, the plan administrator should access the prior plan sponsor's latest Form 5500 on the U.S. Department of Labor's publicly available Form 5500 database on the EFAST2 web page and look at line 8a to see if there is a Code 3C. Code 3C indicates the plan is not intended to be qualified under Code Section 401, 403, or 408. If there is no Code 3C, the plan administrator may reasonably conclude that the rollover is from a plan that is qualified. (On Form 5500-SF, the administrator must look on line 9a for Code 3C.)

In addition, the administrator must check the employee's date of birth to ensure the rollover does not include a required minimum distribution (RMD). RMDs may not be rolled over.

**Verifying an IRA to qualified plan rollover.** An individual requests his or her balance in a traditional individual retirement account (IRA) be transferred directly to a profit sharing

plan. If the administrator receives a check payable to the plan for the employee's benefit, and the check stub indicates the employee's traditional IRA is the check's source, the administrator can reasonably conclude it is an acceptable rollover. If the stub indicates a Roth IRA, then the sum cannot be rolled over to any employer-sponsored plan, only into another Roth IRA.

The administrator will also want the employee to certify that the IRA distribution does not include any after-tax amounts (only pretax IRA amounts may be rolled into a qualified plan) and that he or she will not reach age 70 1/2 (or older) by the end of the year in which the check is issued.

In cases where an employee is age 70 1/2 or older in the year the check is issued, the plan administrator cannot conclude that RMD requirements are satisfied without obtaining additional information, such as a statement providing details that an RMD, if required, was satisfied prior to the rollover contribution check being issued. Keep in mind that if an individual has more than one traditional IRA, the RMD amounts from each IRA may be combined and the aggregated RMD amount may be taken from one (or more) IRAs.

## SHARING RETIREMENT PLAN INFORMATION ELECTRONICALLY

Distributing information about your retirement plan electronically can be quick and cost effective. However, to comply with federal regulations, you must take care how you distribute the information. The method you choose must be reasonably calculated to ensure actual receipt of the material and to prevent individuals other than the intended recipient from receiving or gaining access to it.

### Types of Information

Basically, you can electronically distribute almost any plan information, including:

- ✓ Summary plan description (SPD), summary of material modifications (SMM), summary annual report (SAR)
- ✓ Benefit statements
- ✓ Section 404(c) investment information
- ✓ Plan loan information
- ✓ Qualified domestic relations order (QDRO) notifications

In addition, participants can give certain consents electronically.

### Format

Acceptable electronic media include Internet and intranet websites, email, computer disks, CD-ROMs, and DVDs. To ensure the actual receipt of the information, you can use return-receipt or notice of undelivered email feature, or conduct periodic reviews or surveys to confirm receipt. Safeguards such as personal identification numbers (PINs) can help protect the confidentiality of personal information. Avoid providing access at a

company kiosk or other common access point where someone else could potentially view the information. Bear in mind that kiosks are not an exclusively permissible method for distributing information.

The electronically delivered documents do not have to look exactly like the paper documents. But be sure to prepare and furnish them in a manner consistent with the style, format, and content requirements applicable to the particular document. Include a notice that informs the recipient of the importance of the document (for example, "The attached document describes changes in benefits offered by your plan") and of the right to request and receive a paper version. The notice can be part of the electronic transmission or it can be a paper notice distributed concurrently.

### Access and Consent

The type of electronic access a participant routinely has generally determines whether you need to secure the recipient's affirmative consent to provide plan documents and information electronically. Generally, if the employee has effective access to electronic media at work as part

of his or her regular duties, you don't need prior consent. However, you will have to provide paper documents if the participant or beneficiary requests them.

For employees who do not have routine electronic access at work, beneficiaries, and other nonemployee recipients, you must obtain their affirmative consent to receive documents electronically. The consent must contain a clear and conspicuous statement informing the person of the types of documents to be disclosed, the right to withhold or withdraw consent and how to do so, the right to request paper documents, and the hardware and software requirements for accessing and retaining the documents.

Generally, for disclosures using the Internet or other electronic communication network, the consent must reasonably demonstrate that the person has the ability to access the information. You also must communicate changes in hardware or software that could affect access and offer recipients the right to withdraw consent after such changes. And they must consent to receiving documents in the new way.

## THE IMPORTANCE OF PLAN COMPLIANCE

To preserve its tax-exempt status, a qualified retirement plan must comply with legal and regulatory requirements, both in form (the plan documentation) and in operation (how the plan is managed in accordance with the plan document). Plan sponsors must work with their service providers to ensure that plans are properly maintained and to limit plan defects.

### Plan Disqualification

When the IRS discovers that a plan is not in compliance with qualified plan requirements, disqualification (originally the IRS's only course of action) is a possible outcome. When a retirement plan is disqualified, the plan's trust loses its tax-exempt status and becomes nonexempt. As a result, employees, the employer, and the plan's trust are all negatively impacted. A retirement plan's trust is a separate legal entity that is tax exempt. If a plan is disqualified, the trust loses its tax-exempt status and must pay income taxes on trust earnings.

### Participants Lose Out

When a plan is disqualified, it means participants must include as taxable income any vested contributions the employer makes to the plan on their behalf in any calendar year for which the plan is deemed disqualified.

**IRS Example:** Pat is a participant in the XYZ Profit Sharing Plan. The plan has immediate vesting of all employer contributions.

- In calendar year one, the employer makes a \$3,000 contribution to the trust under the plan for Pat's benefit.

- In calendar year two, the employer contributes \$4,000 to the trust for Pat's benefit.
- In calendar year two, the IRS disqualifies the plan retroactively to the beginning of calendar year one. Pat would have to include \$3,000 in her income in calendar year one and \$4,000 in her income in calendar year two to reflect the employer contributions paid to the trust for her benefit in each of those calendar years.

**Note:** If the plan has a five-year graded vesting schedule and Pat is only 20% vested in her employer contributions in calendar

continued from page 2

year one, then she would include \$600 (20% x \$3,000) in her income for the year.

### Sponsors Lose Out, Too

Disqualification also impacts the plan sponsor. The sponsor's tax deduction for amounts it contributed to the trust may be delayed or restricted as a result of a plan disqualification based on the deduction rules that apply when the plan is deemed nonqualified. Generally, sponsors of qualified plans cannot deduct contributions as of the point at which the plan is considered to be disqualified.

### Fallout for Rollovers

Plan disqualification has an impact on rollovers, too. Plan distributions that were rolled over to other eligible retirement plans or individual retirement accounts (IRAs) are no longer considered eligible rollover distributions. As a result, all eligible rollover distributions that were

rolled into an IRA or other qualified plan after the point the plan was considered to be disqualified would not be eligible for rollover and would be subject to taxation at that point.

### Correction Programs

Because the consequences for innocent, non-highly compensated plan participants can be extremely negative, the IRS established a program to assist plan sponsors in correcting the most common operational and plan document errors and retaining the plan's tax-exempt status. The IRS Employee Plans Compliance Resolution System (EPCRS) encompasses three programs for correcting operational and plan document errors: the Self-Correction Program (SCP), the Voluntary Compliance Program (VCP), and the Closing Agreement Program (CAP). Through EPCRS, a plan sponsor can correct plan errors, pay a preset fee to regain its compliant status,

and avoid the negative consequences of disqualification.

More details on the tax consequences of plan disqualification may be found in an IRS publication: Employee Plans News, Issue 2012-1, March 20, 2012 ([www.irs.gov/pub/irs-tege/ePN\\_2012\\_1.pdf](http://www.irs.gov/pub/irs-tege/ePN_2012_1.pdf)).

### Make Compliance a Focus

Maintaining compliance is key to avoiding disqualification. A strong partnership between employer and service provider can help ensure that all the necessary steps are taken to make certain the plan is in compliance with the vast number of regulatory requirements that need to be satisfied. One of the best ways to assure proper compliance is to keep your service providers informed of any major changes in business circumstances that could impact the operation of your plan.

## CONFUSED ABOUT PLAN FEES? HERE'S A GLOSSARY OF KEY TERMS

Fee disclosure rules are supposed to make it easier for participants in employer-sponsored retirement plans to find out how much they are paying to participate in their plan. But the terminology can be confusing. Below is a handy glossary that can help you interpret all those items on your quarterly account statement, fund fact sheet, or fee disclosure statement.

**12b-1 Fee** -- A charge assessed to mutual fund shareholders to cover that fund's shareholder servicing, distribution, and marketing costs.

**Administration/Recordkeeping Fees** -- Costs for providing recordkeeping and other plan participant administrative-type services.

**Advisor Fees** -- Paid to an advisor for services provided to the plan, including selection of investment options and any participant advice or guidance.

**Basis Point (bps)** -- A unit of value that is equal to 1/100 of 1%. For example, 10 basis points is equal to 0.10%.

**Benchmark** -- A standard by which a particular security or mutual fund can be measured. For mutual funds, the benchmark is typically a broad market index, such as the S&P 500, for a fund that invests primarily in large U.S. equities.

**Brokerage Fees** -- Charges for the administration and maintenance of a self-directed brokerage account.

**Commission** -- A fee paid to a broker or other intermediary for executing a trade.

**Contract Administration Fee** -- A charge for costs of administering an insurance or annuity contract. This charge can include costs associated

with the maintenance of participant accounts and all investment-related transactions initiated by participants.

**Distribution Fees** -- The costs typically associated with processing paperwork and issuing a check for a separation-of-service distribution, retirement distribution, hardship withdrawal, or other in-service withdrawal.

**Expense Ratio** -- The cost of investing and administering assets, including management fees, in a mutual fund or other collective fund. This fee is expressed as a percentage of total assets.

**Loan Fees** -- Separate fees may be assessed for the origination, processing, and maintenance of a loan.

**Management Fee** -- Fee charged for the management of pooled investments such as collective investment funds, insurance/annuity products, mutual funds, and individually managed accounts.

**NAV (net asset value)** -- The per-share value of an investment, such as a mutual fund or exchange-traded fund.

**QDRO (qualified domestic relations order)** -- A legally binding order that creates or recognizes an alternate payee's (such as a former spouse's or a

dependent child's) right to receive all or a portion of a participant's retirement plan benefits.

**Sales (Load) Charge** -- A front-end load is a charge assessed when an investment in a mutual fund is made. A back-end load is a charge that is due upon the sale or transfer of the investment. A back-end load may be reduced and/or eliminated over time.

**Separate Account** -- An asset account established by a life insurance company, separate from other funds of the life insurance company, offering investment funding options for pension plans.

**Surrender/Transfer Charges** -- Fees an insurance company may charge when either an employer terminates a contract (in other words, withdraws the plan's investment) before the term of the contract expires or a participant withdraws an amount from the contract.

**Wrap Fee** -- An inclusive fee generally based on the percentage of assets in an investment program, which typically provides asset allocation, execution of transactions, and other administrative services.

# DRSUpdate

## IRS LIMITS FOR 2016, 2017 AND 2018 TAX YEARS

**Annual Compensation Limit** – The maximum compensation which may be used to calculate benefits and contributions under a qualified retirement plan for the 2018 Plan Year. **\$275,000**

**Annual Defined Contribution Limit** - Generally includes employer contributions, employee contributions, and forfeitures allocated to a participant's account under a defined contribution plan. **\$55,000**

**Highly Compensated Employee Threshold** - An individual is considered highly compensated for IRS non-discrimination testing if the employee owned more 5% of the company in the current or prior year or if in the prior year the employee's compensation was more than the HCE threshold for that year. For example, to be considered an HCE in 2018, a participant must have made more than \$120,000.00 in 2017. To be considered an HCE for 2019, a participant will have to make more than **\$120,000** in 2018.

**Annual Deferral Limit** – The maximum any one participant may defer for the 2018 Plan Year. **\$18,500**

**Catch-Up Deferral Limit** – For participants turning age 50 or older during the Plan Year, the maximum additional "catch-up" deferrals allowed for the 2018 Plan Year. **\$6,000**

Annual Limits:	2016	2017	2018
Annual Compensation Limit [401(a)(17)/404(l)] :	\$265,000	\$270,000	<b>\$275,000</b>
Annual Contribution Limit [415(c)(1)(A)] :	\$53,000	\$54,000	<b>\$55,000</b>
HCE Threshold [414(q)(1)(B)] :	\$120,000	\$120,000	<b>\$120,000</b>
Annual Deferral Limit [402(g)(1)] :	\$18,000	\$18,000	<b>\$18,500</b>
Catch-Up Contributions [414(v)(2)(B)(i)] :	\$6,000	\$6,000	<b>\$6,000</b>

**Income Subject to Social Security** - The maximum amount of earnings subject to social security taxes in 2018. **\$128,400**

If you have not already done so, please update this information with your payroll department. If you have any questions regarding these limits or how they affect your plan, please feel free to contact our Helpdesk at 303-485-9000 or helpdesk@drs401k.com for assistance.

## DRS COMPLIANCE CALENDAR FOR DEFINED CONTRIBUTION PLANS\*

**April, 13, 2018** – Deadline to process corrective distributions for excess deferrals

**May 28, 2018** – DRS closed for Memorial Day Holiday

**June 30th, 2018** – Deadline to process corrective distributions for failed ADP/ACP test from EACA plans without incurring 10% excise tax

**July 4, 2018** – DRS closed for Independence Day Holiday

**July 31, 2018** – Initial 2017 Form 5500 and 8955-SSA filing deadline or deadline for filing extension (5558)

**July 31, 2018** – Deadline to file Form 5330 to report prohibited transactions and excess 401(k) contributions for 2017

**July 31, 2018** – Deadline to distribute Summary of Material Modification (SMM) for plans with amendments effective in 2018

**September 3, 2018** – DRS closed for Labor Day Holiday

**September 30, 2018** – Distribute Summary

Annual Report (SAR) for plans that did not extend their 5500 filing deadline

**October 15, 2018** – Final filing deadline for 2017 Form 5500 if extension was filed prior to July 31, 2018

**November 22, 2018** – DRS closed for Thanksgiving Holiday

**December 1, 2018** – Deadline to distribute Safe-Harbor Notice, Qualified Default Investment Alternative Notice and Annual Automatic Contribution Arrangement Notice

**December 15, 2018** – Extended deadline for distribution of SAR to participants

**December 25, 2018** – DRS closed for Christmas Holiday

**December 31, 2018** – Final deadline to correct failed ADP/ACP test via distributions or qualified nonelective contributions

**December 31, 2018** – Required minimum distributions due under IRC Section 401(a)(9)

**January 1, 2019** – DRS closed for New Year's Holiday

**January 21, 2019** – DRS closed for Martin Luther King Jr. Holiday

**January 31, 2019** – Mailing deadline for participant copies of 2018 1099-R's

**January 31, 2019** – DRS Year-End Information Packet and Census Data Due

**February 18, 2019** – DRS closed for President's Day Holiday

**February 28, 2019** – Filing deadline for 2018 1099-R's and 1096

**March 15, 2019** – Deadline to correct excess deferral and match for 2018 plan year testing failures without IRS penalties

**April 1, 2019** – Required minimum distribution (RMD) begin date for participants attaining age 70 1/2 or retiring after age 70 1/2 in 2019

**April 19, 2019** – DRS closed for Good Friday Holiday\*assumes 12/31 Plan Year End

\*assumes 12/31 Plan Year End

### Corporate Office

2420 Trade Centre Avenue  
Suite B  
Longmont, CO 80503  
Tel. (303) 485-9000  
Fax. (303) 485-9009

### For general questions:

[helpdesk@drs401k.com](mailto:helpdesk@drs401k.com)

### To submit your payroll files:

[files@drs401k.com](mailto:files@drs401k.com)

### To submit your year-end census data:

[yearend@drs401k.com](mailto:yearend@drs401k.com)

### For audit support, tax forms, and testing inquiries:

[compliance@drs401k.com](mailto:compliance@drs401k.com)

### For quotes for new retirement plan services:

[proposals@drs401k.com](mailto:proposals@drs401k.com)

