Are Your 403(b) and 457(b) Plans Ready for an IRS Audit?

AASA National Conference
Friday, February 12, 2016
PlanConnect Disclosure

This information is provided for educational and information purposes and is not intended to be used to avoid tax penalties or render tax or legal advice. The taxpayer should seek advice from an independent tax and/or legal advisor.
Today’s Speaker and Agenda

**Speakers**
- Susan Alldredge – National Sales
- Renea Dumas – Assistant Vice President of Operations

**Agenda**
- Plan Administration – What’s Expected
- IRS Audit Questionnaire – First Steps
- Compliance and Common Errors
- Helping to Avoid Compliance Issues
Plan Administration – What’s Expected

Plan Administration for Section 403(b) and 457(b) Plans

- **Role of the Administrator**
  - Managing the benefit for your employees
  - Ensuring compliance with the IRS regulations around each plan
  - Confirming investment providers are qualified under IRC 457(b) and/or 403(b) and are complying with applicable tax laws

- **Functions of a Plan Administrator**
  - Plan and Compliance oversight
  - Payroll and Contribution Remittances
  - Employee Awareness

- **Administration Options**
  - Self Administration
  - Use a TPA
  - Jointly with Providers

- **Administration Capabilities**
  - Systems
  - Knowledge and expertise
IRS Audit Questionnaire – First Steps

If you Receive a Questionnaire
- Don’t ignore the questionnaire
- Complete the questionnaire on time
- Consider working with a tax professional, legal counsel, and/or a retirement plan professional

Who Should be Involved?
- Human resources
- Payroll
- Investment providers
- Third Party Administrator
# Plan Compliance and Common Errors

## Contributions

### Responsibilities

- **Plan Documents**
  - Types of contributions permitted

- **Knowing the Regulations**
  - Annual limits, including catch-ups
  - Applying years of service
  - Ordering rules
  - Excess contributions

- **Monitoring Procedures**
  - Roles
  - Process
  - Timing

- **Record Retention**
  - Maintaining copies of agreements
  - Payroll records

### Common Errors

- **Failure to Follow the Terms of the Plan**
- **Calculating Years of Service**
- **Excess Contributions**
  - Employee limit includes Roth
  - 15 year of service catch-up calculation
  - Ordering rules when using both catch-ups
  - Includible compensation – post retirement

- **Post-employment**
  - Exceeding Five Years

- **Distributing Excess Contributions**
  - Identifying and disbursing timely

- **Retaining Records**
Plan Compliance and Common Errors

Distributions & Loans

Responsibilities

- Plan Documents
  - Types of distributions permitted
  - Eligibility rules

- Knowing the Regulations
  - Loans
  - Hardships
  - Unforeseen emergency withdrawals

- Required Documentation

- Monitoring Procedures
  - Roles
  - Process

- Record Retention
  - Maintaining all supporting documents

Common Errors

- Failure to Follow the Terms of the Plan

- Excess Loans
  - Not aggregating outstanding loan balances across all plans and providers

- Not Obtaining Supporting Documents
  - Residential loan
  - Hardship
  - Unforeseen emergency

- Invalid Reason for Hardship and Unforeseen Emergency Withdrawals

- Failure to Suspend and Restart Contributions
Plan Compliance and Common Errors

403(b) Universal Availability

**Responsibilities**
- Eligibility to Participate (Elective Deferrals)
  - Follow plan document provisions
  - Recommend allowing all employees (keep it simple)
  - Only certain exclusions permitted under 403(b) regulations
- Effective Opportunity to Participate
  - Notify employees at least annually of their ability to participate and make changes
  - New employee welcome kit
  - Informational website
  - Group meetings or workshops
  - Periodic communications

**Common Errors**
- No Supporting Documentation
  - Who received the annual notice and copy of the notice delivered, date, etc.
  - Proof new employee received notice (IRS is suggesting within thirty days of hire and an additional thirty days to enroll)
- Exclusion of Certain Classifications of Employees
  - Substitutes
  - Lower paid employees – not making them aware of their ability to participate
- Entry and Election Changes
  - New employee entry (giving adequate time for new employees to enter)
  - Failure to process SRAs timely
Helping to Avoid Compliance Issues

What Can a TPA Do?

- **Provide and Maintain Plan Documents**
  - Compliance Oversight for Transactions
    - Compliance review and sign-off
    - Historical repository of supporting documents
  - Contribution Limit Testing
    - Standard limits & Catch-ups
  - Manage Salary Reduction Agreements
    - Retain SRA changes and track and report all salary reduction changes
  - Remittance Management and Tracking
    - Timely remittance of contributions
    - Provide common remitter services
    - Historical reporting
  - Help to Manage Investment Providers
    - Information sharing across all providers
- **Universal Availability**
  - Annual notice and tracking
  - New employee notification and tracking
  - Participant education
- **Technical Support**
  - Answer regulation questions
  - Inform on regulation changes
- **Employee and Advisor Services**
  - One-on-one customer service support (bilingual in some cases)
  - Regulation and plan education
  - Website and online tools/calculators
- **Audit Support**
  - Provide supporting documentation
  - Procedures and work with vendors
- **State-of-the-Art Systems**
Thanks and Questions
The IRS 2016 employer sponsored retirement plan limits for 403(b) and 457(b) Government plans remains the same as 2015. The maximum amount employees will be able to contribute on a pre-tax basis in 2016 will be $18,000. The catch-up pre-tax contribution limit available to employees over 50 remained unchanged at $6,000. Details are in the table below.

<table>
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<tr>
<th>Year</th>
<th>Contribution Limit</th>
<th>Maximum Employer Contribution</th>
<th>Max. for ALL Contributions (excl. Catch-up)</th>
<th>Additional Catch-up Amount (age &gt; 50)</th>
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