

May 13, 2013



# The 401(k) Questionnaire The Final Report

**Tax Exempt &  
Government Entities**



# 401(k) Facts

- Section 401(k) plans are the most popular plans in the United States
  - More than 500,000 401(k) plans
  - Cover about 60 million participants
  - Average account balance = over \$58,000



# Questionnaire Objectives

- Look at plan form and operation issues
- Learn how our outreach & compliance programs are working
- Optimize EP outreach & compliance efforts



# Background

- Compliance Check performed by EP Compliance Unit (EPCU)
- First TEGE on-line compliance check
- Statistical sample of 1,200 randomly selected plan sponsors
  - Stratified based on plan size
    - Number of participants



# Four Strata - Participants

**0-5**

**6-100**

**101-2500**

**2501 +**

**SMALL**

**MEDIUM**

**LARGE**

**VERY  
LARGE**



# Background

- 98% of the plan sponsors responded
  - Initiated examinations on the 2% non-responders
- Questionnaire data analyzed to
  - Identify potential compliance problems
  - Design future compliance efforts
  - Improve case selection models
- Published interim report on Feb. 3, 2012



# Questionnaire Categories

- Demographics
- Plan Participation
- Contributions
- Nondiscrimination
- Distributions/Plan Loans
- Automatic Contributions
- Other operations
- Roth features
- Voluntary Compliance
- Plan Administration



# Final Report Highlight

## EPCRS

65%

Aware of EPCRS

41%

Aware of Fix-It Guide

**Very Large  
Plans**

more likely to be aware of  
EPCRS





# 401(k) Self-Audit Tool - Current

## 401(k) Compliance Check Questionnaire Final Report - Next Steps and Web Resources



We'll use the Questionnaire's findings to:

- enhance our 401(k) plan administration compliance tools,
- produce outreach materials,
- improve voluntary compliance programs,
- assess the need for additional guidance, and
- define upcoming projects and enforcement activities.



401(k) plan sponsors can use the [Questionnaire](#), along with these findings, to strengthen internal controls over plan operations.

### Web Resources

[401\(k\) Plans](#)

[401\(k\) Plan Overview](#)



# 401(k) Self-Audit Tool - Future

- We are repackaging it as the **Questionnaire Self-Audit Tool (QSAT)**.
  - Adding new internal control questions
- The QSAT is scheduled to be launched later in 2013.
- Will help plan sponsors find, fix and avoid costly mistakes.



# Final Report - Issues of Concern

## Defaulted loans

- **60%** of plans saw an **increase** in the number of defaulted loans from 2006 to 2008.
- **47%** of plans saw an **increase** in the number of outstanding loans from 2006 to 2008.
- There was a **decrease** in the number loans originated during the same time period.
  - This may be an indication that older loans are not being timely repaid.





# Final Report - Issues of Concern

## Top Heavy plan issue

- Failure to provide 3% minimum contribution
- Responses from over **20%** of plans that are top-heavy indicate the possibility they provided some lesser level of top-heavy contribution.





# Final Report - Issues of Concern

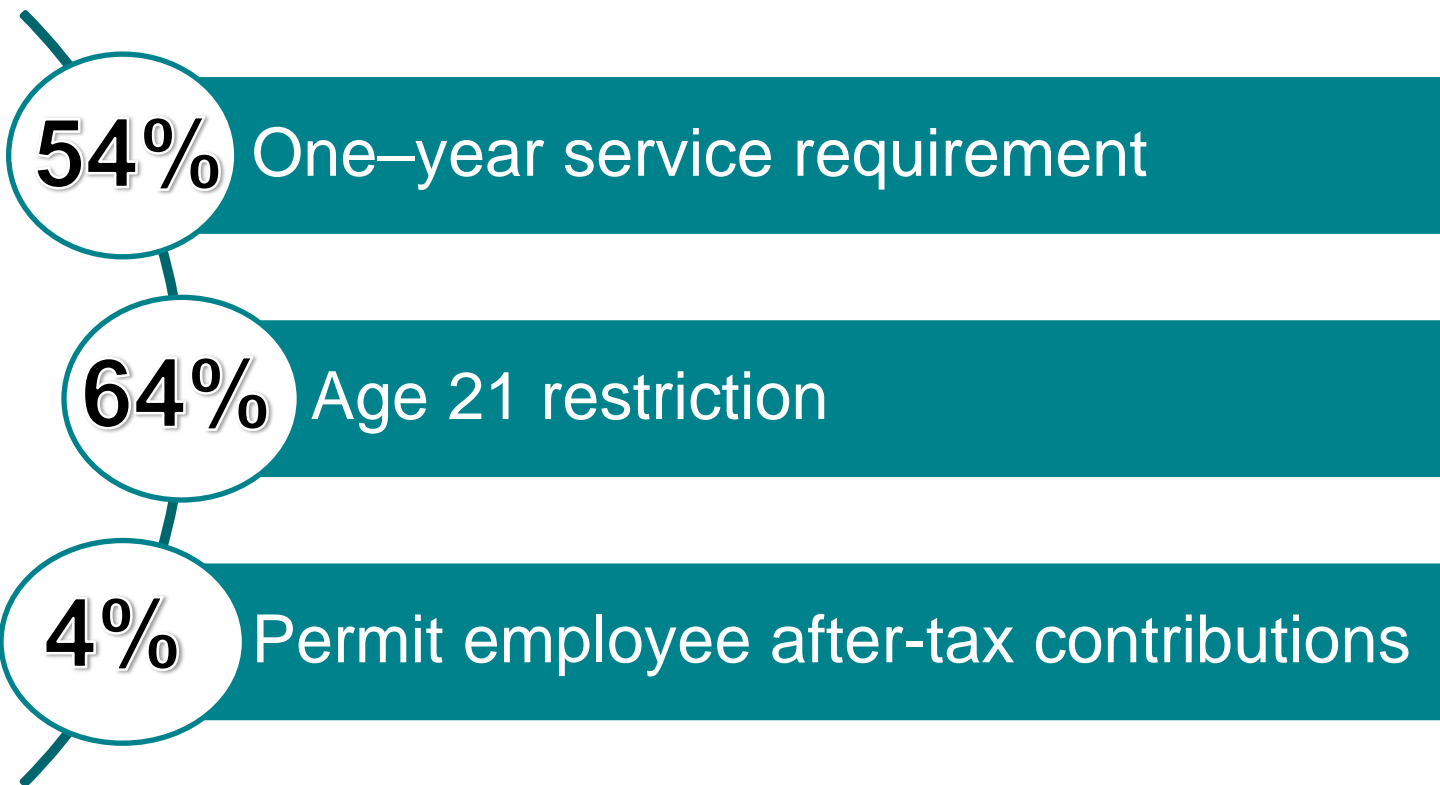
## Small Employers with Multiple Plans

- Approximately 79,000 out of the 396,000 plan sponsors with less than 100 participants (**about 20%**) had more than one plan.





## Participation in Elective Deferral Contributions



**Very Large  
Plans**

more likely to have no  
age requirement



# Employer Contributions

## Suspended/Discontinued Matching

- 2006 – 1%
- 2008 – 4%

## Suspended/Discontinued Non-Elective

- 2006 – 2%
- 2008 – 5%

★ 15% reported suspension, reduction or discontinuance of matching or non-elective contributions in the 4 years preceding the questionnaire.



# Employer Contributions

Provide Matching Contributions



68%



## Top Heavy

**20%**



- Top heavy plans

**25%**



- Top heavy N/A to their plan

**79%**



- Provide minimum contributions

**19%**



- Do not provide a minimum contribution

**Small &  
Medium Plans**

more likely to be top  
heavy



## Plan Type

43%

Safe Harbor

5%

SIMPLE

**Small Plans**

more likely to be a  
safe harbor plan



## Automatic Contributions (ACA)

Plans that include an ACA

5%

Defer at the default rate

43%

Elected < the default rate

7%

Elected > the default rate

29%



# Automatic Contributions (ACA)

## Very Large & Large Plans

more likely to have an ACA



Less than 20% of plans with an ACA satisfy both the QACA and EACA requirements.

## Distributions

72%

Permit involuntary cash-outs

62%

Allow in-service distributions

**Very Large  
Plans**

more likely to permit  
involuntary cash-outs

**Very Large &  
Large Plans**

more likely to permit in-  
service withdrawals

## Determinations

86%

Pre-approved plan document

23%

Requested IRS determination letter

**Very Large  
Plans**

less likely to use a  
pre-approved plan

**Very Large  
Plans**

more likely to request the  
IRS determination letter



## Defined Benefit Plans

**6%**

Also maintained a defined benefit plan

**7%**

Terminated a defined benefit plan (1995-2010)



# Customer Education & Outreach

**57%**

Used the IRS website to obtain information

**41%**

Aware of the Fix-It Guide

**Very Large Plans**

more likely than small, medium or large plans to be aware of & use the Fix-It Guide





## Plan Administration

Third-party administrators used for

**53%** Plan administration

**73%** Making plan amendments

**83%** Form 5500 preparation



# More Information

Starting at [www.irs.gov/Retirement-Plans...](http://www.irs.gov/Retirement-Plans...)



Use the search engine

Info

401(k) Final Report



Forms & Pubs



Help & Resources

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# More Information

## 401(k) Compliance Check Questionnaire Final Report



The [Final Report](#) (p  91 pages) summarizes the results from the 401(k) Compliance Check Questionnaire. The s are both:


- generalized to the 401(k) plan population that files Form 5500, and
- stratified to highlight the differences in the results by plan size.

The 401(k) Questionnaire requested information in the following areas: demographics, plan participation, contributions, designated Roth features, distributions, top-heavy and nondiscrimination testing, IRS correction programs and plan administration.

Learn more:

- [FAQs](#) regarding the Final Report
- [Next Steps and Web Resources](#)



The following **chart**  highlights of the findings from the Questionnaire. Unless otherwise indicated, all findings are for the 2008 plan year.



# Next Steps

We will use the Questionnaire's findings to:

- modify and improve our 401(k) plan compliance tools
- produce outreach materials
- improve voluntary compliance programs
- assess the need for additional guidance and
- define upcoming projects and enforcement activities