Advisor Connect | Paying Fees from Plan Assets

A COVID-19 UPDATE FOR YOU

COVID-19 is obviously causing financial stress and when it comes to your clients' qualified retirement plan, they may be looking for ways to reduce expenses. In this short piece, we'll detail options they have to use plan assets to pay some plan expenses as long as they follow Department of Labor and IRS rules.

Using Plan Assets to Pay for Administrative Expenses

A plan sponsor can generally use plan assets to pay for administrative expenses. This includes:

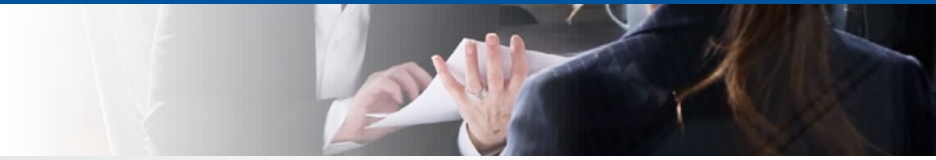
- Annual administration
- Recordkeeping
- Compliance testing
- Preparing Form 5500
- Distribution and loan processing fees that are paid by the company
- Plan amendments that are mandated by the IRS
- CPA audits for larger plans

There are some expenses that ***cannot*** be paid for with plan assets. These include:

- Business costs for designing and drafting a plan document
- Cost of installing a new plan
- Fees associated with drafting discretionary amendments
- IRS correction program fees
- Fees associated with a plan termination

ACTIONS TO TAKE NOW

When it comes to paying fees from plan assets, sponsors have the choice to draw funds from **participant accounts**, from the plan's **forfeiture account**, or from an **ERISA fee account**. Review the following quick summary of all three options.



1 Paying Plan Expenses from Participant Accounts

The rules say that if a plan sponsor chooses to pay plan expenses from participant accounts, it needs to do so in a way that doesn’t discriminate and with a formula that’s uniform. That means a fee must be charged against all participants to whom it applies, and the fee must not favor highly compensated employees.

Two common uniform allocation formulas are the “**pro rata**” method and the “**per capita**” method.

A pro rata—or proportionate—method allocates the fee based on the percentage each participant should share based on their account balance.

EXAMPLE:

Sue’s account balance is $100,000. Sue’s retirement plan has a total balance of $1,000,000. Since her account balance is 10% of the total, her proportionate—or “pro rata”—share of a $500 fee is $50.

A per capita method divides the fee by the number of applicable participants in the plan and divides the total fee.

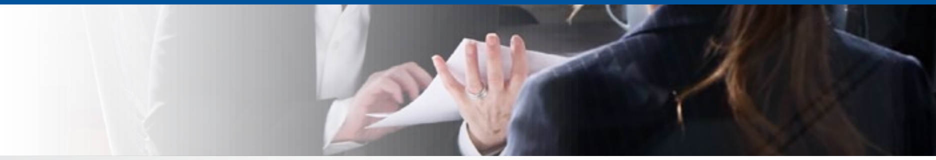
EXAMPLE:

Sue’s plan has 20 participants. Each participant’s share of a $500 fee is $25.

2 Paying Plan Expenses from a Forfeiture Account

A qualified retirement plan may make some employer contributions subject to a vesting schedule. If an employee terminates before being fully vested in such contributions, they forfeit the non-vested portion of their balance back to the plan. That amount is held in the plan’s forfeiture account.

Forfeiture accounts can be set up to reallocate money to other participants, to reduce employer contributions, or to pay administrative expenses. The plan document spells out how forfeitures are to be handled each year.



3 Paying Plan Expenses from an ERISA Budget Account

In a 401(k) or a similar plan, a client may have an ERISA Budget Account for revenue sharing fees paid by mutual funds. 12b-1 and sub-transfer agent fees are tracked in this separate account within the plan. The balance in this account may be distributed to plan participants or it may be used to pay plan expenses.

Reach out to us to talk about communicating to plan sponsors best options and guidance for managing retirement plan costs. We're here to help!