

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

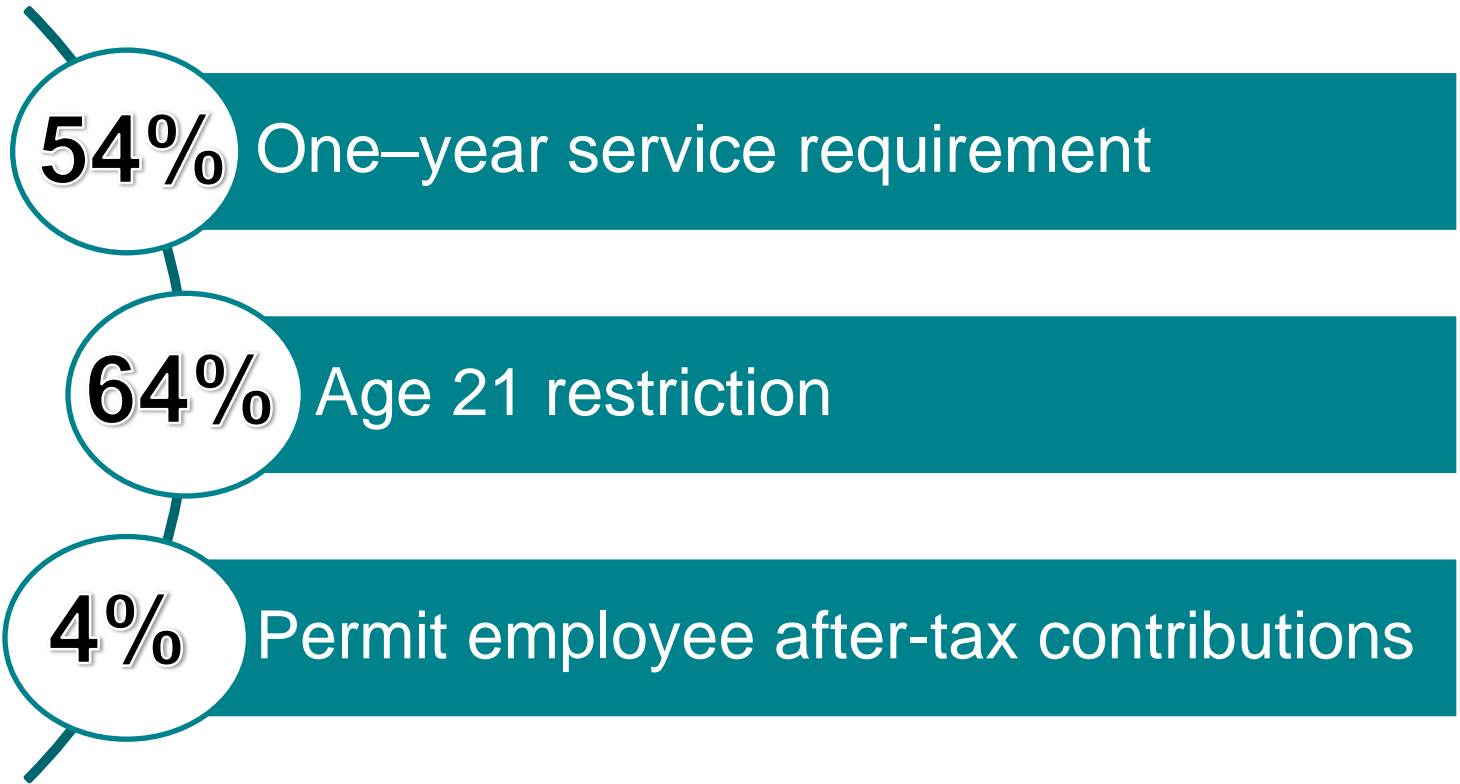
Small Employers with Multiple Plans

- 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. www.irs.gov/Retirement-Plans



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...



Use the search engine

Info



Forms & Pubs

Help & Resources

f

More Information

401(k) Compliance Check Questionnaire Final Report



The [Final Report](#) (page 1 of 91 pages) summarizes the results from the 401(k) Compliance Check Questionnaire. The **1** findings 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 **2**
- [Next Steps and Web Resources](#)

The following **chart** **3** 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