IRS

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

- SMALL (0-5)
- MEDIUM (6-100)
- LARGE (101-2500)
- VERY LARGE (2501 +)

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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

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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.
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.
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.
Final Report Highlights

Participation in Elective Deferral Contributions

- 54% One-year service requirement
- 64% Age 21 restriction
- 4% Permit employee after-tax contributions

Very Large Plans: more likely to have no age requirement

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Final Report Highlights

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%
Final Report Highlights

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

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Final Report Highlights

Plan Type

43% Safe Harbor

5% SIMPLE

Small Plans more likely to be a safe harbor plan

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Automatic Contributions (ACA)

Plans that include an ACA

- Defer at the default rate: 43%
- Elected < the default rate: 7%
- Elected > the default rate: 29%

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Final Report Highlights

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.

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Final Report Highlights

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

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Final Report Highlights

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)
Final Report Highlights

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

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Final Report Highlights

Plan Administration

Third-party administrators used for

- 53% Plan administration
- 73% Making plan amendments
- 83% Form 5500 preparation

www.irs.gov/Retirement-Plans
More Information

Starting at www.irs.gov/Retirement-Plans...

Use the search engine

401(k) Final Report

Forms & Pubs  Help & Resources

www.irs.gov/Retirement-Plans
401(k) Compliance Check Questionnaire
Final Report

The Final Report summarizes the results from the 401(k) Compliance Check Questionnaire. The results 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 contains highlights of the findings from the Questionnaire. Unless otherwise indicated, all findings are from 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