

# CALCULATING THE CORRECT MATCH

## Items for Consideration



### RESPONSIBLE PARTY

The first step is to determine who is responsible for calculating the match. Most payroll systems can calculate matching contributions, but this only works if the match is calculated and contributed every payroll period. If you impose a rule for receiving matching contributions, such as an employee must be employed on the last day of the plan year, the match is usually calculated by one member of your service provider team.

- Who is responsible for calculating the matching contributions?
- If an outside service provider is responsible, what liability do they have if they calculate the match incorrectly?
- If your payroll system calculates the match, what responsibility does the payroll system provider have if the match is calculated incorrectly?

### PAYROLL SYSTEM CALCULATED MATCHES

Most logical people would assume that if you told a payroll provider that you were adding a match and what the match formula was, that the resulting match calculations would be correct. In our experience, this assumption is not always correct. Likely, the responsibility for ensuring the payroll system is calculating the correct match remains with you.

- Is your payroll system coded with the correct matching formula?
- Is your payroll system set up to use the correct definition of compensation to calculate the match?
- If your plan allows for pre-tax deferrals, catchup contributions and Roth contributions, does your plan document say that all three are used in the match calculation?
- If pre-tax deferrals, catchup contributions and Roth contributions are all considered in the calculation of the match, is your payroll system set up to perform the calculation correctly?
- How does the payroll system handle multiple checks to the same person during the same payroll period? For example a regular pay check and a bonus check?
- What process do you have in place to review this calculation periodically?

Please see the final page of this document for important information about suggested use.



## SERVICE PROVIDER CALCULATED MATCHES

You have a service agreement with someone to calculate the match for you. Most often those service agreements contain statements that the service provider has no liability for incorrect data provided to it. Perhaps you personally run the reports from your payroll system to provide to the service provider. Perhaps there is an electronic data transfer of the needed information to the service provider. Either way, the results are only as good as the data provided. And, the data likely comes the payroll system in your offices.

- What data does the service provider need to perform the calculations properly?
- How does that data get to the service provider?
- Do you have the ability to review the data to ensure it is accurate?
- If you can review the data prior to its use, is someone in your office assigned that task and have the necessary training / education to complete the task?

## CHANGING MATCHING CONTRIBUTION FORMULAS

From time to time, your organization may wish to change the amount of matching contributions or the formula for determining the matching contributions. Many plan documents state the match is discretionary, so you can change it without plan amendment. Some plan document specifically state a matching formula so the plan must be amended to reflect a change.

- Does your plan document specify how the match works or is it discretionary?
- If you have a discretionary match, what's your company's internal policy about how matching contribution formulas and levels get changed?
- If you have a specified match in the plan document, see our information on keep plan documents up to date, specifically the information on voluntary amendments.
- If your match is calculated by your payroll system, what process is used to communicate the change in match formula to the necessary staff in payroll or at the payroll company?
- If your match is calculated by an outside service provider, what's it the process to communicate the change to the service provider and who on your staff is responsible for that communication?

Please see the final page of this document for important information about suggested use.

## IMPORTANT INFORMATION ABOUT USING THIS DOCUMENT

The answers to the questions in this questionnaire could, and very well might be, used against you in a DOL audit or a lawsuit. **We do NOT recommend that you complete and retain this questionnaire without first reviewing the answers with ERISA legal counsel.** The intention is to provide you with questions to discuss internally rather than to create a paper trail that can be used against you.

Depending on your particular situation, there may be other items you should consider. Larger entities will have plan document issues with regard to mergers and acquisitions which are not covered by this questionnaire. There may be administrative policies that exist outside of the plan documents that help govern how the plan works that are not addressed here. This questionnaire is not intended to be exhaustive.