

# LIMITING 401(k) DEFERRALS

## Items for Consideration

### RESPONSIBILITY

Most payroll systems are capable of applying the proper limits to 401(k) deferrals IF they are set up correctly. Limits are published each year by the IRS who applies cost of living adjustments to them.

- Does your system have functionality to limit 401(k) deferrals?
- If you utilize pre-tax deferrals, catchup contributions and / or Roth contributions in your plan, does your payroll system properly apply the limit?
- Does your payroll system provider automatically increase the limit each year for you or must someone in your office adjust the limit?
- If you must adjust the limit, who is assigned to the task and do they have a written procedure and calendar reminder to ensure the limits are properly updated?

### MULTIPLE PLANS

Assume for a minute that on July 1<sup>st</sup>, you hire an employee away from another company. The employee has been saving in their prior employer's 401(k) plan. The employee is limited to the IRS maximum deferral amount for the year across all plans. You must either ask for information about the employee's prior year-to-date contributions or be prepared to possibly return money to the employee when they do their taxes next spring.

- Will you collect information on prior year-to-date deferrals from employees at the time you hire them or will you rely on the employee to notify you if they may exceed the limit?
- If an employee does exceed the limit, when they approach you about it next spring, what is the process they should follow?
- Which member of your service provider team will assist you to process any returns?
- Does your plan's document impose any additional obligations, such as specified timing requirements, on you that you should be aware of?

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.