



## Your MAP to a Successful Plan - Plan Sponsor FAQ

Running a retirement plan comes with many moving parts, but it doesn't have to feel complicated. This FAQ answers common plan sponsor questions and provides clear, straightforward guidance to keep your plan on autopilot while you focus on your business, confident that your plan is guided safely toward its destination.

### **Q. What is a defined contribution plan?**

A defined contribution plan, such as a 401(k) or profit sharing plan, allows employees and/or employers to contribute money to individual participant accounts. The balance grows based on contributions and investment earnings. At retirement or termination, the participant's benefit is based on their account value.

### **Q. What are Safe Harbor plans, and how do they help?**

Safe Harbor plans automatically satisfy certain IRS nondiscrimination tests by committing to specific employer contributions and notice requirements. They simplify administration and help owners maximize contributions.

### **Q. What is a defined benefit plan?**

A defined benefit plan, or "pension," promises a specific retirement benefit based on factors like salary and years of service, with the employer responsible for funding and investment risk. A common variation is the cash balance plan, which defines benefits as an account balance that grows with employer and interest credits rather than as a monthly pension amount.

### **Q. If I own more than one business, can I limit plan participation to one company?**

If your businesses are considered related under IRS Controlled Group or Affiliated Service Group rules, they are treated as a single employer for retirement plan purposes. This means employees of all related companies may need to be included in testing and eligibility.

### **Q. Can partners or owners of an LLC make 401(k) contributions?**

Yes, partners and members who report self-employment income on Schedule K-1 or Schedule C can make contributions, but special calculations apply. Your CPA or TPA can assist with determining eligible compensation.

### **Q. What are the main types of plan service providers, and what do they do?**

Several partners assist in administering and operating a retirement plan:

- **Third Party Administrator (TPA):** Assists the plan sponsor in day-to-day administration, performs annual compliance testing, and prepares filings to confirm contributions stay within limits and the plan follows IRS rules.
- **Recordkeeper:** Tracks individual participant accounts and processes contributions, loans, and distributions.
- **Financial Advisor:** Provides investment guidance and fiduciary support.
- **CPA/Auditor:** Assists with tax planning and reporting related to the plan. For large plans, a CPA is also needed to perform the required annual audit.

### **Q. Why does my TPA ask for so much information every year?**

This data drives compliance testing, government filings, and contribution calculations. Accurate and complete information helps avoid errors and potential compliance issues.

### **Q. Why is it important to identify highly compensated and key employees?**

These classifications determine how certain compliance tests are run. Ownership, including family ownership attribution, can affect who is considered highly compensated. Identifying these employees correctly helps ensure the plan remains fair and passes IRS testing.



**Q. When do employee deferrals need to be deposited?**

Employee deferrals must be deposited into the plan as soon as administratively feasible. The Department of Labor provides a 7-business-day safe harbor for plans with fewer than 100 participants. Larger plans do not have a specific safe harbor and are expected to deposit contributions as quickly as reasonably possible, typically within a few business days.

**Q. What is the deadline for employer contributions?**

It depends on the plan's terms. Some plans require contributions each payroll period, while others allow annual deposits after year-end. Generally, contributions must be made before your business tax filing deadline, including extensions.

**Q. Can we stop our matching contributions mid-year?**

That depends. Traditional match formulas can usually be changed mid-year, but Safe Harbor match contributions generally cannot be stopped or reduced unless specific notice and timing rules are followed.

**Q. What are my primary responsibilities as a plan sponsor?**

As a plan sponsor, you are responsible for ensuring the plan follows its terms and all applicable laws. This includes timely deposits, approving distributions, maintaining plan records, and working with your service providers.

**Q. What is a fiduciary, and can I outsource fiduciary responsibilities?**

A fiduciary is anyone who has authority over plan decisions or assets and must act in the best interest of participants. Some fiduciary duties remain with the plan sponsor, but certain responsibilities, such as investment selection or plan administration, can be delegated to qualified service providers to help share or reduce the fiduciary burden.

**Q. How do participants take money out of the plan?**

Participants can take distributions at retirement, termination, death, or disability. Some plans allow in-service withdrawals, hardship distributions, or participant loans. Smaller balances may be automatically cashed out when an employee leaves.

**Q. What are forfeitures, and how are they used?**

Forfeitures are unvested employer contributions from participants who leave before fully vesting. They must be used within a specific time frame, typically to offset plan expenses or reduce future employer contributions.

**Q. What is an ERISA bond, and how much is required?**

A fidelity bond protects the plan from losses due to fraud or dishonesty by individuals handling plan funds. The minimum required bond is 10% of plan assets, up to \$500,000, or \$1 million for plans holding employer securities.

**Q. What happens if we make a mistake in operating the plan?**

Mistakes happen. The IRS and DOL have correction programs that allow most issues to be fixed voluntarily.

**Q. Can owners invest differently than employees?**

Plans can offer flexible investment options to all participants, including owners. Employees must have access to the same options. Risky or imprudent investments could create fiduciary liability. Unique or non-traditional investments, such as real estate or privately held company stock, may add administrative complexity and additional valuation requirements.

**Q. What is the deadline to set up a retirement plan?**

Most 401(k) plans with employee deferrals must be established by the end of the calendar year for deferrals to count that year. Employer-funded plans, like profit sharing or defined benefit plans, can sometimes be set up by the company's tax return due date, including extensions. Earlier setup allows more time to communicate with employees and complete required paperwork.



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Special deadlines apply to Safe Harbor plans. A Safe Harbor feature generally must be in place at least three months before the plan year. A Safe Harbor Nonelective contribution, such as the 4% retroactive option, can sometimes be added after the year starts.

**Q. What's the best advice for plan sponsors?**

The most important guidance is to take your fiduciary responsibilities seriously, stay organized, and maintain accurate records. Following plan documents, timely depositing contributions, and monitoring compliance are critical to avoiding costly errors. Equally important is selecting experienced, qualified partners. Working with knowledgeable partners can save time, reduce risk, and give you confidence that your plan is operating correctly while helping employees save effectively for retirement.