Eight 403(b) Mistakes You Can Avoid

Although the dust has settled on the last round of regulatory changes, compliance expectations in the 403(b) space are still a topic of discussion as organizations adapt to their new administrative duties and adjust their plan documents. The challenges faced by plan sponsors as they design, update and execute their plan documents are sometimes left undiscovered until they are identified under audit.

Here are some common stumbling blocks for sponsors:

- **Exclusion of eligible employees.**

  Universal availability requires that all employees have the opportunity to make deferrals unless the plan specifically excludes them. A common error is the exclusion of part-time employees regularly working 20 hours a week or more, but their exclusion isn’t reflected in the plan document.

- **Failure to suspend contributions after a participant has taken a hardship distribution.**

  Under the safe-harbor rules for hardship distributions, normal contributions must be suspended after a hardship distribution is received. If multiple providers aren’t coordinated properly, one vendor may grant a hardship distribution on an account balance while the participant continues to make contributions to another.

- **Vendor documentation oversight.**

  For example, be sure your vendors are requiring evidence that hardship distributions meet income tax regulations, the terms of the individual annuity contract/custodial account, and the written terms of your plan document.

- **Not following loan default procedures.**

  In addition to being a plan qualification issue, failures here can be costly to fix. Be sure that your vendors are enforcing participant loan repayments and are limiting aggregate loan amounts.

- **Qualified Domestic Relations Orders are not properly implemented.**

  This is another place where coordination is key. The most common error we encounter is a QDRO directing an asset split percentage to an alternative payee without taking all plan assets into consideration.
- **Investment contracts that don’t agree with the plan document and/or contractual procedures that don’t agree with plan provisions.**

For instance, your plan does not allow loans, but an investment contract does. The service provider of the contract may grant a loan because it’s allowed under the contract, but, because this is not in the plan document, this knocks you out of compliance. Remember: 403(b) regulations clearly define that the plan document must govern the operation of the plan.

- **Participant notice deadlines.**

Know what provisions associated with your plan require employee notice and when those notices are due. There are plenty of them: automatic enrollment, safe harbor contributions, QDIA and universal availability.

- **Keep the plan current.**

Make certain to update the plan document to keep up with the law, your organization’s needs and the needs of your participants.

*Mike Swallow is executive vice president for CBIZ Retirement Plan Services. He can be reached at MSwallow@cbiz.com. For more information, visit cbiz403bexperts.com.*