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Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

‘Noticing’ Participant Events

Plan administrators must give employees certain written information about their retirement plan. Some notices must be provided regularly and automatically to all employees, while others should be provided in response to a specific event. Outlined here are some common events and the timeline for which the related notices should be distributed.

When an Employee Becomes Eligible for the Plan

An employer should provide several documents, depending on the type of retirement plan and when the employee meets the eligibility requirements. These include a summary plan description, enrollment package, beneficiary designation form, Safe Harbor notice (if applicable), participant fee disclosure, and salary deferral election form. These may be contained in the enrollment package.

Automatic Enrollment

If a plan automatically enrolls employees under either an Eligible Automatic Contribution Arrangement (EACA) or Qualified Automatic Contribution Arrangement (QACA) plan, the employer must give the employee a notice at least 30 days, but no more than 90 days, before the automatic enrollment date.

If the employee is newly hired and the plan offers immediate eligibility, then the employer may give the employee this notice on the date they are hired.

Statement of an Individual’s Benefits

The individual benefits statement (IBS) shows the benefits earned by a participant and their vested amounts. It must be given to a participant upon their written request, but no more than once in a 12-month period, and automatically to certain participants who have terminated service with the employer.

Plans that provide participant-directed accounts must furnish individual benefits statements on a quarterly basis. Generally, these are automatically provided by the plan's recordkeeper.

When a Participant Leaves the Company

A notice describing participants’ benefits and the procedures to obtain them must be given to participants within 90–180 days of when they have retired or quit working. The information given to a participant will vary depending on the type of retirement plan, the reason the participant has stopped working, and the participant’s age, but must explain a participant’s right to defer receiving their account balance and the consequences of taking money out of a retirement plan now rather than later.

When a Participant Requests a Distribution

A participant should receive a document, often referred to as a Special Tax Notice, when they request a distribution that is eligible to be rolled over. It should describe the effects of rolling over the distribution to an IRA or another plan and the effects of not rolling it over. The employer must provide this between 30-180 days before an employee receives a distribution. However, the employee may waive the 30-day period. In many cases, this notice and waiver are both built into the provider’s distribution form.

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The notice describing participants’ benefits must be given to participants within how many days of when they have terminated employment?

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2018 Tax Filing Data Shows Need to Review Withholdings

The Tax Cuts and Jobs Act made significant changes to the tax code, and 2018 was the first time that taxpayers filed under the new rules. Preliminary data for the 2018 tax year shows that more than 106 million federal income tax individual returns resulted in refunds, with an average refund of $2,879. Additionally, over 24 million individual returns showed tax due at the time of filing, averaging $5,160. Because of the difficulty many taxpayers seemed to have with their 2018 tax year withholding, the IRS waived certain penalties for many 2018 tax returns.

The IRS encourages taxpayers to review the amount of tax they have withheld to avoid surprises when they file their 2019 tax returns next year. 2018 tax filing data seems to show a widespread need for employees to review their elections and make sure the appropriate amount of tax is being withheld from their paychecks in light of recent tax law changes.

It is important that employees get withholding right for 2019 while there still may be time for any adjustments to take effect. Those who have too much tax withheld will receive a refund when they file their tax return, but it might make more sense for them to reduce the withholding and receive more in their paycheck. Those who have too little withheld will owe tax, and possibly a penalty, when they file their tax return.

Employers can help by relaying the importance of a review and making sure employees have easy access to the IRS Tax Withholding Estimator (available at irs.gov/individuals/irs-tax-withholding-estimator) to plan their tax withholding strategy, as well as to Form W-4 to request any necessary adjustments. Employees who have questions or need assistance determining the right amount of tax to have withheld should be encouraged to consult with a tax advisor.