ADP RETIREMENT SERVICES

Mitigating retirement plan risk under unprecedented conditions

Leverage the power of integration and smart data to overcome fiduciary challenges

You designed your workplace benefits to help your business and employees thrive. And, in this time of COVID-19, healthcare and financial benefits are even more important to help protect your workers from new threats to their health and financial security. But, the economic fallout from the outbreak has forced some business owners to make difficult decisions about their workforce and benefits programs to keep their organizations afloat. When making such decisions, plan sponsors and fiduciaries should keep in mind that workforce and retirement plan changes can have a big impact on 401(k) plan compliance with the potential for costly consequences.

Rapid Change and Increased Risk Under COVID-19

Generally, a plan's ability to pass nondiscrimination testing depends upon which employees participate, how much they defer, and how much a company contributes to their retirement accounts. Annual nondiscrimination testing helps ensure that retirement plans benefit all employees, not just business owners or highly compensated employees (HCEs). According to the IRS, "the employer must perform annual tests, known as the Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) tests, to verify that deferred wages and employer matching contributions do not discriminate in favor of highly compensated employees."[1] Plans that fail testing thresholds are required to take corrective actions, such as through HCE contribution refunds.

Mass layoffs, furloughing employees, and reducing salaries can have implications on your retirement plan's nondiscrimination test results. If your business is considering a substantial change to your workforce, it is important to review all plan provisions prior to taking action to understand the requirements and potential expenses. Such changes can result in a partial plan termination requiring certain immediate vesting.

1 U.S. Department of Labor EBSA Disaster Relief Notice 2020-01

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Employers that determine their business is no longer able to fund employee retirement plan matching or other contributions may also find this change can hinder the plan's ability to meet plan testing requirements. The loss or reduction of a plan matching contribution may influence employee savings behaviors such as deferral rates or putting participation on pause which may also hurt plan test results.

In the case of 401(k) Safe Harbor plans that make a specific required employer contribution in exchange for an automatic pass in plan nondiscrimination testing, a change to employer contributions will require additional administrative responsibilities. To suspend or eliminate Safe Harbor employer contributions, certain requirements must be met, and the plan will lose its ADP/ACP and top heavy testing exemptions. In the year the change takes place, the plan must be ADP/ACP tested using the current year testing method for the full plan year and meet top heavy minimum contribution requirements for the full plan year.

It is also important to note that to reduce or suspend fixed matching and nonelective contributions in a 401(k) requires a plan amendment. No amendment is needed for discretionary matching and profit sharing contribution changes.

Looking Ahead to Reduce Year-End Plan Testing Surprises

2020 has been a year like no other. In this environment of unprecedented uncertainty, it may be prudent for plan sponsors to monitor retirement plan data regularly so there are no end of year testing surprises — especially if their organization has implemented workforce or retirement plan changes. Projection testing can be especially helpful for Safe Harbor plans that make changes to employer contributions to help them plan and prepare to complete their testing obligation as they will not be allowed to bypass this responsibility for the year.

With mid-year or quarterly projection testing, plan sponsors can know their potential annual plan test results ahead of time to determine whether to expect failures for the 2020 plan year. This can allow plan sponsors that are anticipating a failure to take preventative action to avoid a potentially costly correction. For example by limiting Highly Compensated Employee contributions for the remainder of the year rather than repaying contributions at year end. Alternatively, plans could continue their current plan design and make year-end corrections as needed. Imposing an HCE cap could overly restrict savings for those that need to maximize savings, such as those closing in on retirement. Top heavy plans that reduce or suspend discretionary employer contributions will still be required to make top heavy minimum contributions.

Plan sponsors may want to consult their financial advisor or other advisers to help them understand the potential compliance test result outcomes, mitigate test failures and determine the best course of action for their organization. It's important that 2020 plan year-end testing is completed timely to allow time for potential corrective distributions for ADP/ACP test failures, as such test failure distributions must be paid within 2 1/2 months following the end of the plan year.

ADP Puts You in Control of Your Compliance

Staying on top of retirement plan administration in times of rapidly changing conditions can be difficult. Employee-driven savings rate changes, loans and withdrawals, along with changes to your workforce and payroll can be administratively overwhelming. And, if your plan information isn't continuously updated to your payroll system, you've potentially left your plan — and yourself — exposed to a higher level of risk.

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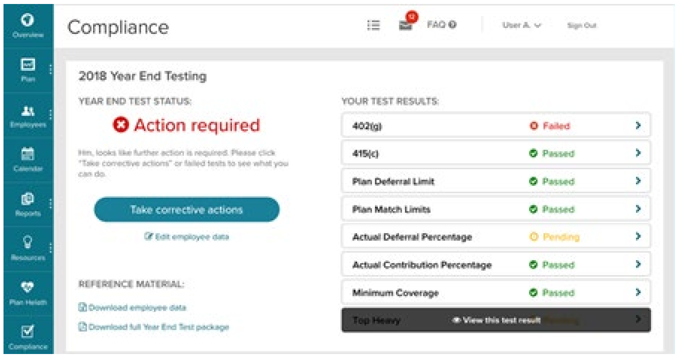
ADP's SMARTSync® — available to our joint ADP payroll and Retirement Services clients — can help. Our sophisticated integration solution links ADP's payroll and retirement plan recordkeeping systems and continuously shares critical plan data from the two sources to ensure data accuracy. Plan and payroll data flows freely from one system to the other automatically, synchronizing and making updates. Smart, sophisticated programming checks for accuracy, identifies and flags potential errors and manages processes to ensure the most accurate data is passed between the payroll and the 401(k) recordkeeping systems, and the correct contribution amounts are transferred to the plan. Because the systems are truly connected, little manual oversight is required.



Our integration with ADP Payroll data can also increase data reliability for more accurate retirement plan test results. And ADP provides you with everything you need to easily manage plan compliance tasks — including satisfying your annual plan testing requirements. We've transformed a cumbersome and time-consuming task with technology, integration, and a streamlined process that simplifies how you manage your compliance responsibilities. From our Plan Sponsor Website, you have instant access — anywhere and everywhere — to your plan test results at year-end so you can tackle tasks at your convenience and stay ahead of submission deadlines. And a guided user experience empowers you to be confident in your compliance. When you leverage the power of integration and smart data, you can save time and avoid mistakes, inaccuracies and missed deadlines.

ADP Helps You Stay Focused on What Matters

Stay focused on what matters with solutions that can help simplify the work associated with administering a retirement plan. Like the intuitive dashboards of our plan sponsor website, anywhere and everywhere access, analytics that turn data into insight, automated processes, and compliance support.

Discover how easy it can be to stay compliant and be more productive with ADP.

For more information, please contact a Retirement Services District Manager today at 800-432-401k or visit www.adp.com/401k.

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