



2018 Qualified Plan Year-End Requirements & Changes for 2019

Happy New Year!

This newsletter is a resource for you regarding important pension administration matters as we enter the New Year. If you have any questions, please call us at (908) 575-7575. We wish you a happy, healthy, and prosperous 2019!

In This Issue

Recent Developments	1
General Year End Requirements	
✦ All Plan Sponsors	3
✦ 401(k) Plans	3
Safe Harbor Plans	4
Plan Audit Rules	4
IRS Audit Notice	4
What Expenses Can We Pay From Plan Assets?	4
Plan Documents	5
Record Retention	5
Plan Bonding Requirements	5
Privacy Policy Notice	5
Electronic Invoicing & Payments	5
Contact Us	

balances attributable to additional types of contributions;

(3) Earnings on salary deferral contributions are now included in the amount available for hardship; and
(4) The requirement to impose a 6-month suspension on deferrals following a hardship withdrawal has been eliminated.

Most plan documents will require an amendment in order to take advantage of these changes. We will reach out to our clients who may be affected by this change with guidance on any action that may be required.

Student Loan Repayment Programs:

In August 2018, the IRS released a Private Letter Ruling in response to an employer's request to amend its 401(k) plan to include a voluntary student loan program. The employer wanted to make retirement plan contributions for employees who couldn't afford to contribute to the 401(k) plan because they were



making student loan repayments. The IRS approved the employer's proposed amendment, but only under a very limited set of rules. It is important to note that a Private Letter Ruling applies only to the employer requesting the ruling. There are a lot of questions that remain unanswered, and Student Loan Repayment Programs are generally not ready to be used for most employers' 401(k) plans. However, the ruling does provide promise

Recent Developments

Changes to Hardship Distribution Rules:

On November 14, 2018, the IRS released regulations regarding hardship distributions from 401(k) and 403(b) plans. The regulations simplify the administrative requirements for hardship distributions.



Three of the rule changes regarding hardship distributions include:

- (1) Participants may take a hardship withdrawal without first requesting a plan loan;
- (2) The portion of a participant's account available for hardship withdrawals has been expanded to include



for employers that want to do more to help their employees save for retirement.

Multiple Employer Plans:

The Department of Labor issued regulations in October 2018 in response to an Executive Order to review existing rules on Multiple Employer Plans (MEPs). The regulations clarified, but did not change, the rules for MEPs. In order for more than one employer to join together in a single plan, there must be a "nexus" between them. In other words, they must share some type of common bond, such as being in the same industry. Professional Employer Organizations (PEOs), which are human resources companies that assume

certain employment responsibilities for their client employers, may also sponsor plans. MEPs are still burdened with the "one bad apple" rule, which states that the failure of any one of the employers participating in a MEP to comply with IRS rules could

jeopardize the qualification of the entire plan.



TCJA Change in Participant Loan Repayment Rules:

As part of the Tax Cuts & Jobs Act of 2017 (TCJA), the deadline for repaying participant retirement plan loans upon termination of employment was changed.

In general, a plan loan is due in full upon separation from service. In order to avoid being taxed on the outstanding balance of the loan, the participant has three options: (1) repay the loan balance before taking the distribution, and then roll over the full amount to another plan or an IRA; (2) if a new employer has a plan that accepts loans as part of a rollover, transfer the loan to the new employer's plan; or (3) take a distribution net of the loan, then roll over the net amount to an IRA, and add personal funds equal to the loan balance to the rollover.

Prior to 2018, if a distribution was offset by the loan balance (option (3) above), the offset amount could be rolled over up until the 60th day after the date the offset occurred. The new rule adjusts this deadline to be the

due date of the individual's tax return (including extension) for the year of the offset. This allows the participant significantly more time to contribute the required funds and avoid taxation.

Missing Participants:

The Department of Labor has announced a country-wide initiative to send requests to retirement plan sponsors, asking for current contact information for selected participants. Sponsors who cannot give accurate information may subject their plan to an audit. Importantly, if the sponsor has not made a diligent effort to contact participants who have balances in



the plan, the DOL considers it a breach of fiduciary responsibility, which can be costly. If you go to our website, www.preferredpension.com, and click on the "News" link, the article titled, "Do you know where your participants are?" suggests actions and documentation that we believe will show a diligent effort.

PlanSponsorLink:

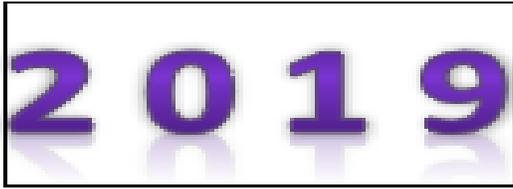
Many of you are familiar with the secure site we have created for delivering and receiving information. On our website, you will see a link in the top right-hand corner titled "Manage Plan", which will bring you to pppc.plansponsorlink.com.

Your username is your email address. If you have trouble with your password, you may click "Forgot password?" and it will be

reset. If this is your first time using the link, just click on "New User Setup" to create an account. There are many benefits to using PlanSponsorLink. Data is submitted securely and is received instantly. Costs of delivery are eliminated and you're going green to help the environment. Errors are less likely, since data is



directly imported, and documents are readily accessible from any location where you have internet access.



2019 Retirement Plan Limits:

The IRS announced 2019 pension plan limitations in October which included the following:

- ✦ The maximum deferral limit for 401(k), 403(b), and 457 plans is \$19,000 (excluding catch up contributions).
- ✦ The maximum catch-up contribution remains at \$6,000.
- ✦ The maximum annual addition (total of all contributions and forfeitures, excluding catch up contributions) for defined contribution plans is \$56,000.
- ✦ The maximum annual benefit payable from a defined benefit plan at Normal Retirement Age is \$225,000.
- ✦ The maximum annual compensation for retirement plan purposes is \$280,000.

Plan Restatements:

We are in the restatement period for both 403(b) plans & Defined Benefit plans. PPPC will be sending authorization letters to instruct those clients maintaining these plans of the required restatement of their plan. The restated documents must be adopted by March 31, 2020 and April 30, 2020 respectively.

General Year End Requirements for All Plan Sponsors

Required Designation on W-2 Forms:

Employers must indicate on Form W-2 if an employee is an active plan participant. If an employee is covered under a plan during 2018 (whether or not the individual is vested), the "Retirement Plan" Box in Section 13 on Form W-2 must be checked. If you need assistance determining if an employee is an active participant in a plan, please let us know.

Participants Receiving Distributions:

If a participant received a distribution from a pension plan during 2018, Form 1099-R must be sent to the participant no later than January 31, 2019 and filed with the IRS no later than February 28, 2019. However, if the Form 1099-R is filed electronically, the IRS filing deadline is April 1, 2019. In addition, if any Federal income tax was withheld from the distribution, the withheld taxes must be reported on Form

945. Please let us know if you need assistance preparing these forms.

Required Minimum Distributions:

In general, participants who are at least age 70½ in 2018 and who either have terminated employment or who own more than 5% of the company must receive minimum distributions by the end of the year. Failure to distribute the required minimum may result in a 50% excise tax to the participant on the undistributed portion of the minimum. If you need assistance determining the minimum distribution, please call us as soon as possible.

General Year End Requirements for 401(k) Plans

Maximum Employee Deferrals and Required Designations on W-2 Forms:

The maximum amount that an employee may defer under all 401(k) plans for the 2018 calendar year is \$18,500, plus the \$6,000 catch-up contribution, if applicable. To enable the IRS to enforce these limits, you must check the "Retirement Plan" Box in Section 13 on Form W-2 if you sponsor a 401(k) Plan. Additionally, the amount deferred should be indicated in Box 12 along with the Code D next to it.

Excess Contributions:

Distributions of excess contributions made after 12/31/18 will be taxable in 2019.

For Partnerships, LLCs and LLPs:

If your entity is a partnership, LLC, or LLP, and your plan year is the calendar year, deferral elections for partners or managers must be made by December 31, 2018 for the 2018 plan year.

Special Timing Rules for 401(k) Deposits:

As a reminder of the DOL position, employee deferrals must be segregated from the assets of the employer as soon as possible. The DOL provides a 7 business day safe harbor rule for plans with fewer than 100 participants. Plans with 100 or more participants must segregate deferrals within two business days.

2019 Tax Credit for Low Income Savers:

In general, for joint filers who earn less than \$64,000 (heads of households who earn less than \$48,000, and other filers who earn less than \$32,000), the IRS will provide a nonrefundable tax credit of 10% to 50% of the first \$2,000 deferred into a 401(k), 403(b), 457, Simple, SEP, IRA or Roth



IRA. The credit is based on a graduated scale depending on the taxpayer's Adjusted Gross Income. The credits are in addition to any tax deduction or tax deferral allowed for the contribution.

Safe Harbor Plans

Each year a 401(k) Plan must pass certain nondiscrimination tests. However, a 401(k) Plan can be designed to automatically pass these tests if the Plan operates as a Safe Harbor Plan.

There are several types of Safe Harbor contribution formulas. The formula options to consider are dependent on several factors. These factors include the amount of employer contributions desired, whether or not the Plan is Top-Heavy, and which participants will receive the contribution.

All traditional Safe Harbor contributions are immediately 100% vested and all eligible employees must receive a safe harbor contribution, regardless of the number of hours worked or whether or not they are employed on the last day of the Plan year.

Certain conditions must be met before a Plan can become Safe Harbor. First, the Plan must include language to allow for Safe Harbor contributions. Second, a Safe Harbor Notice must be provided to the participants 30 to 90 days prior to the first day of the Plan year.

Those who currently have a Safe Harbor plan should have already received your 2018 Notice. If you decide to stop this contribution for 2019, please contact your administrator immediately. In order to change your election, a plan amendment is necessary.

Plan Audit Rules

In general, all plans with more than 100 participants require an outside plan audit. In addition, all plans require an audit, regardless of the number of participants, if less than 95% of the plan's assets are "qualifying plan assets" or if any person handling plan assets is not bonded for at least the value of the "non-qualifying plan assets" the person handles. In general, a qualifying plan asset is any security that is publicly traded, a loan to a participant, or any asset held by a bank, insurance company, or broker-dealer.

IRS Audit Notice

It's always a best practice to contact us right away if the IRS or any other government agency chooses your plan for an audit.

Notifying us immediately will give us time to prepare for a smooth meeting with the government agent.

What Expenses Can We Pay From Plan Assets?

The Department of Labor (DOL) divides plan expenses into two categories: administrative expenses that are payable from plan assets, and settlor expenses that are not.

In general, provided the fees are reasonable, expenses that are fiduciary in nature can be paid from plan assets. Fiduciary administration expenses cover items such as compliance testing, trustee and recordkeeping fees, audit fees, and preparing mandatory amendments. Fees associated with the management of investments may also be paid from the Plan assets.

In contrast, settlor expenses are those that relate to the establishment, design, and termination of the Plan. These types of expenses must be paid by the Plan Sponsor employer, not by the Plan.

Plan Documents

Periodically, our Plan Document department will send you amendments to keep your plan compliant. We want to remind you that it is good practice to sign and return documents to us on a timely basis.

In the eyes of the IRS, the Plan Sponsor is ultimately responsible for the maintenance and retention of the plan documents.

One of our services is to have a copy your plan document available in case of an audit or if the documents are requested by the IRS due to a plan restatement.

Reminder: There is no statute of limitations on Plan Documents. All documents, no matter how old, must be saved.



Record Retention

Under ERISA, the plan administrator (usually the employer) is responsible for retaining copies of all plan-related materials. A question is often raised, "How long should we keep this information?" As a general rule, all plan-related information should be kept until seven years after the final Form 5500 has been filed upon plan termination. This should include all reports; census information; benefit distributions; and government forms and filings. Supporting documents to the plan – such as cancelled checks; payroll records; financial statements; the Employer’s federal and state returns; and benefit statements, should also be kept for at least seven years.

In addition, the DOL requires employers to permanently maintain records sufficient to determine the amount of benefits accrued by all participants. Although it is fairly common for a plan administrator to use an outside service provider to prepare certain reports and documents, the plan administrator is ultimately responsible for retaining all of these records.

Plan Bonding Requirements

The Employee Retirement Income Security Act of 1974 requires that all "fiduciaries" of Employees' Trusts be covered by a surety bond in an amount equal to at least 10% of the Trusts' assets (with a minimum bond amount of \$1,000 and a maximum amount of \$1,000,000). Fiduciaries include administrators, officers, trustees, custodians, or anyone who exercises any control over the Plan or its assets. If you already have a fiduciary bond covering the Plan, please check to be certain that the amount of coverage is sufficient. If you do not already have a fiduciary bond covering the Plan, you should immediately contact your insurance broker or our office to obtain the required coverage.

Privacy Policy Notice

In the course of providing our clients with pension consulting advice, we receive significant personal financial information from our clients. If you are a client of Preferred Pension Planning Corporation, you should know that all information we receive from you is held in confidence, and is not released to people outside the firm, except as agreed to by you, or as required under applicable law.

We retain records relating to professional services that we provide so that we are better able to assist you with your professional needs and in some cases, to comply with professional guidelines. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

Electronic Invoicing & Payments

In an effort to "go green," we will be issuing our invoices through email where possible. Please provide us with the appropriate email address to receive invoices if you have not done so already. The emailed invoice will contain a link to PayPal, which will allow payments from your bank account or credit card as well. You may also call our office and we can take the information over the telephone. If you have any questions, please contact us for further information.

Preferred Pension Planning Corporation is a qualified retirement plan administration firm dedicated to providing exceptional client service from a knowledgeable, well-informed staff. Our goal is to design the best possible retirement plans for our clients and facilitate smooth and efficient plan administration. Preferred Pension Planning Corporation is a member of ASPPA and certified by CEFEX.



Please visit our web site at www.preferredpension.com and follow us on social media for all types of news relating to the pension industry.

-  @Preferred-Pension-Planning-Corporation
-  @PreferredPensionCorp
-  @PreferredPPC



991 Route 22 West, Bridgewater, NJ 08807-2956
T. 908.575.7575
F. 908.575.8889
E. info@preferredpension.com