Employer Connect | Paying Fees From Plan Assets

A COVID-19 UPDATE FOR YOU

COVID-19 is obviously causing financial stress and, when it comes to your qualified retirement plan, you may be looking for ways to reduce expenses. You have the option to use plan assets to pay *some* plan fees as long as you follow Department of Labor and IRS rules.

You can generally use plan assets to pay for administrative expenses. This includes the costs of:

- Annual administration
- Recordkeeping
- Compliance testing
- Preparing your Form 5500
- Distribution and loan processing fees paid by your company
- Plan amendments that are mandated by the IRS
- CPA audits (for larger plans)

There are some expenses you cannot pay for with plan assets. These include business costs for:

- Designing and drafting your plan document
- Installing a new plan
- Fees associated with drafting discretionary amendments
- IRS correction program fees
- Fees associated with a plan termination

ACTION TO TAKE NOW

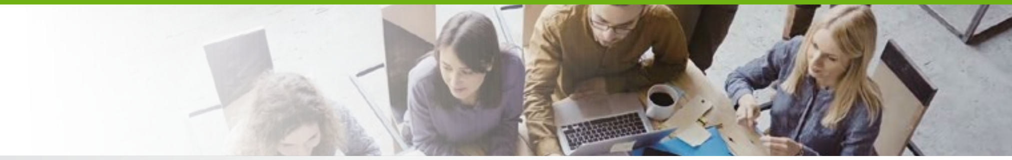
When it comes to paying fees from plan assets, your choice is to draw from participant accounts, the plan's forfeiture account, or an ERISA fee account. Take a moment to look over this quick breakdown of all three options.

1

Paying Plan Expenses from Participant Accounts

If you choose to pay plan expenses from participant accounts, you need to do so in a way that doesn't discriminate and with a formula that's uniform. That means: your fees must be charged against *all* participants to whom they apply, and the fees must not *favor* highly compensated employees.

Two common uniform formulas are the "**pro rata**" method and the "**per capita**" method.



A pro rata—or “proportionate”—method allocates the fee based on the percentage each participant should share based on their account balance.

EXAMPLE
Sue’s retirement account balance is $100,000. The plan’s total balance is $1,000,000. Since her account balance is 10% of the total, Sue’s proportionate share of a $500 fee is $50.

A per capita method divides the total fee evenly by the number of applicable participants in the plan.

EXAMPLE
Sue’s retirement plan has 20 participants. A $500 fee would be divided evenly by 20; that’s $25 per participant.

2 Paying Plan Expenses Using Forfeitures

Your plan may make some employer contributions subject to a vesting schedule. When an employee terminates before being fully vested in those employer contributions, they forfeit the non-vested portion of their balance back to the plan. That amount is held in the plan’s forfeiture account.

Forfeiture accounts can be set up to do one of three things:

- Re-allocate money to other participants
- Reduce employer contributions
- Pay administrative expenses

Your plan document spells out how forfeitures are handled each year.

3 Paying Plan Expenses Using ERISA Budget Account

If you have a 401(k) or a similar plan, you may have an ERISA Budget Account for revenue sharing fees paid by mutual funds. 12b-1 fees and sub-transfer agent fees are tracked in this separate account within the plan. The balance in this account may be distributed to plan participants or it may be used to pay plan expenses.

If you have any questions about paying plan expenses, reach out to us to talk about your plan and your company’s needs. We’re here to help you.