

Benefits Resource Group

Case Study: 401(k) Compliance Test Review

Background

- As part of Benefits Resource Groups (BRG) annual service, our consultants review compliance testing performed by the vendor. Our objective is to thoroughly analyze the test, uncover and correct any errors, and minimize refunds to the Highly Compensated Employees (HCE's).

Issue

- HCE's were not able to maximize their retirement savings due to compliance testing failure. The failed tests resulted in refunds of 401(k) deferrals (plus investment gains) which then became taxable income to the participant.

Solution

- BRG provided compliance test review services to four clients. The summary below is reflective of the reviews whereby BRG was able to improve the test results (regardless of pass or failed results), thereby reducing or eliminating a refund.

	Vendor Original Test Result	BRG Revised Test Result	Savings to HCE's	# of HCE's Impacted	Vendor
Client 1	Failed	Pass	\$2,757	14	Prudential
Client 2	Failed	Failed	\$11,861	24	Fidelity
Client 3	Failed	Failed	\$1,284	8	Merrill Lynch
Client 4	Failed	Failed	\$9,000	9	Principal
Total			\$24,902	55	

Results

- BRG was instrumental in educating the plan sponsor about various testing methods that are permitted under the regulations that providers do not automatically use unless instructed.
- Never assume the test results are final until a thorough review of the test and data have been performed by a qualified person.
- BRG prevented costly tax ramifications and excise tax penalties in the event the plan was audited by the IRS.
- Compliance test refunds reduce the amount that can be saved for retirement and have an impact on personal tax returns therefore BRG was successful in helping our client's employee's save for retirement.

The case studies referenced above do not involve the provisions of investment advisory services. Cost savings cannot be attained through our efforts for all our clients.

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