



Plan Participation - Why Should You Care? Because the IRS Does!



Tax Deferred Solutions | 6939 Sunrise Blvd, Suite 250 | Citrus Heights, CA 95610
Phone: (866) 446-1072 | Fax: (916) 221-5040

5/1/2012

About TDS

- ❖ California's largest independent Third Party Administrator
- ❖ Our priority is education and compliance
- ❖ The only TPA recommended by CSBA



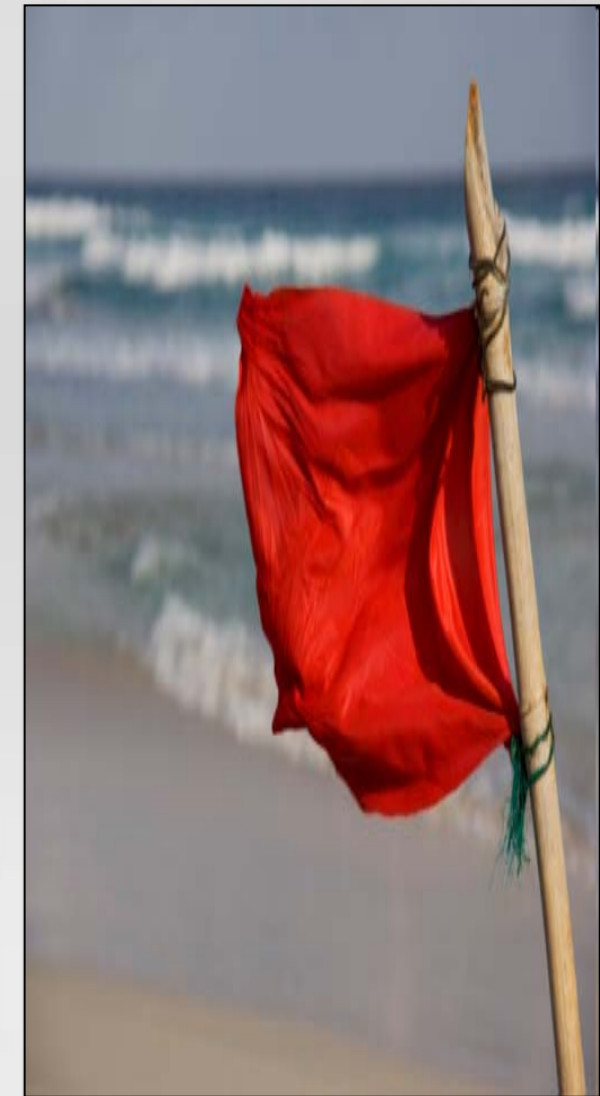
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Who will be audited?

- A District that received a questionnaire from the IRS and did not respond.
- A District that received a questionnaire and sent responses that indicated compliance issues.
- W-2's reported by employee differ from employer.
- Districts and Offices of Education selected to meet the quota within that particular area.
- Completely random.



IRS Compliance Check Letter

Section 403(b) Questionnaire

Please provide the following information (including the EIN in the space above):

- 1) Specify the requirements for any employee to participate in your §403(b) plan, including whether participation is contingent upon the deferral of a mandatory minimum amount (on an annual basis).

- 2) Which if any employee or group of employees, are excluded from participating in your §403(b) plan:
 Substitute or part-time teachers Bus drivers Cafeteria workers Janitors
 Others (specify) _____ No exclusions
Reason for exclusion(s) _____

- 3) Indicate whether the following groups of people are employed by the school district and if so, whether they are permitted to make deferrals to your §403(b) plan.
 - a) Employees regularly scheduled to work less than 20 hours per week.
 Permitted Not Permitted
 - b) Employees regularly scheduled to work at least 20 hours per week
 Permitted Not Permitted
 - c) Employees covered by a collectively bargained agreement (union)
 Permitted Not Permitted

- 4) Does your school district maintain any other plans with salary deferrals, such as:
 §401(k) - Date established _____ §457
 Other (specify) _____

- 5) Describe how the opportunity to make deferrals is communicated to employees to ensure that they are aware of their right to participate in the §403(b) plan. If the method differs by groups of employees or if there are different hiring packages, explain that as well.

IRS Press Release:

<http://www.irs.gov/newsroom/article/0,,id=171528,00.html>

Questionnaire Source:

http://www.irs.gov/pub/irs-tege/letter1562_epcu.pdf#page=2



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The Letter You Don't Want (but might receive)

- Only 2-weeks to prepare
- 8-page letter
- 38 individual items to provide

Internal Revenue Service
Tax Exempt and Government Entities Division
TEGE Employee Plans
9350 Flair Dr. 2nd Floor, El Monte, Ca. 91731

Date: 01/27/2012

Department of the Treasury
95-6000777

Name of Plan:
403(b) & 457 Plan
Plan Year(s) Ended:
12/31/2010
Date of Appointment:
Will call you to set up a date in March 2012.
Time of Appointment:
N/A
Place of Appointment:
Person to Contact/ID Number:
Ann Jitpalima/02-35904
Contact Telephone Number:
818-274-0799

Plan Year 2010!

2 weeks to prepare!

Dear Sir:


We are examining your Internal Revenue Code section 403(b) and 457 plan for the above year(s) and have arranged the appointment shown. The attachment lists documents and information needed to conduct our examination. To help make the examination as brief as possible, please have these items mailed to me by 02/17/2012.

If you would like someone else to represent the plan during this examination, you must submit a written power of attorney. Form 2848, *Power of Attorney and Declaration of Representative*, may be used for this purpose.

If you have any questions, please contact me at the telephone number shown above.

Thank you for your cooperation.

Sincerely,



80% of plans audited by the IRS FAILED!

IRS Audit Red Flags:

- Written Plan Document
- Excess Contributions
- Universal Availability
- Operational Failures

1. Are you confident that your plan will meet IRS guidelines?
2. Are you confident your TPA can handle the IRS?



CSBA Webinar Series

- ✓ How to Survive an Audit of Your 403(b) Plan – Part I
- ✓ How to Survive an Audit of Your 403(b) Plan – Part II
- ✓ Three Common ‘Universal Availability’ Errors and How to Fix Them.
- **Plan Participation – Why should you care? Because the IRS does.**
- Red Flags regarding contribution amounts and limits.

CSBA Webinar Series Review

Part I – Surviving a 403(b) Audit

- Universal Availability
- Contribution Limits
- Loans

Part II – Surviving a 403(b) Audit

- Hardships
- Early Retirement Incentives
- Timeliness of Contributions

Part III – Universal Availability

- How to make the notice
“Meaningful”
- Eligible Employees per the IRS



CSBA Webinar Series – Part IV

Plan Participation.

This has appeared in 100% of
the 403(b) audits.



Why is Participation Important?

To the employee / participant

1. Helps them retire on time.
2. It is a great opportunity to jump-start their retirement saving.
3. It's never too early to start.
4. They can change contributions and investments at any time. They can even opt out. (But we hope they won't.)

Why is Participation Important?

Start Early!

Source:

www.403bcompare.com

■ Early Start Advantage

One investor starts at age 25. Another investor waits until age 40. The second investor makes double the monthly contributions (\$50 vs. \$25), and actually contributes more money (\$15,000 vs. \$12,000) yet still amasses less in savings than the early start investor. The figures below assume an 8% return.



Why is Participation Important?

To the employer

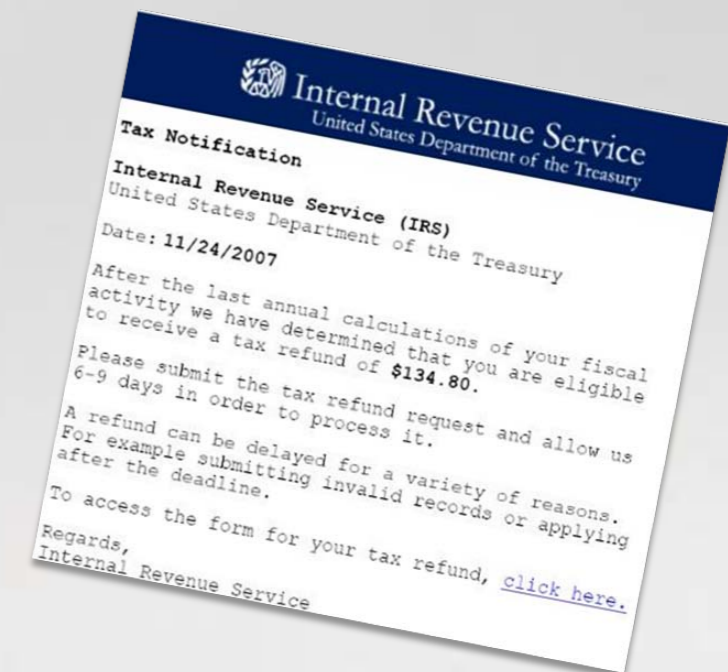
1. The budget.
2. Avoid Early Retirement Incentives.
3. The IRS drills down on participation.



What Does the IRS Look for During an Audit of a 403(b) Plan?

Actual Audit Requests

- Employee Census Files
 - Excluded groups
 - Review of payroll for actual hours worked
- Copies of Meaningful Notices
 - Proof of Delivery
 - Frequency
 - Types of delivery methods



What Does the IRS Look for During an Audit of a 403(b) Plan?

Actual Audit Requests - continued

- A list of all the vendors and how many participants are using each vendor.
- Copies of benefit booklets and enrollment materials.
- Demographics of plan participation.

Ideas to Increase Plan Participation

Effective Opportunity

Effective Opportunity

“Effective opportunity concerns an eligible employee’s practical ability to participate...”

Failure to satisfy UA is a recurring issue in IRS 403(b) plan audits and has consistently landed high on the list of top ten operational deficiencies discovered by the IRS.”

Source: <http://www.irs.gov/retirement/article/0,,id=238459,00.html>



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Ideas to Increase Plan Participation

#1 - Education

TDS believes education is the key to a successful employer sponsored plan and promotes:

- Access
- Awareness
- Choice



Ideas to Increase Plan Participation

#1 - Education

Access

- Ensuring eligible employees have access to the plan as per IRC section 403(b)(12)(A)(ii), *Universal Availability*
- Meaningful notice
- Educating employer on regulations



Ideas to Increase Plan Participation

#1 - Education

Awareness

- Education material about state sponsored plans
- Educational workshops
- Customizable education material
- Benefit Fairs, New Employee Orientation, In-Service days



Ideas to Increase Plan Participation

#1 - Education

Choice

- Participants continue to work with the vendors and advisors of their choice
- Limits liability on district
- Ensures greater participation



Ideas to Increase Plan Participation

#2 – Offer Loans

- Studies show that the existence of a loan provision increases participation rates.

• Source: <http://www.federalreserve.gov/pubs/feds/2009/200919/200919pap.pdf>



Ideas to Increase Plan Participation

#3 – Offer a Roth 403(b)

Traditional 403(b)

- Pre-Tax contributions, instant tax benefit.
- Withdraws taxed as ordinary income.

Roth 403(b)

- Contributions made after tax, no current tax benefit.
- Withdraws received tax free IF IRS guidelines are met.

Receive A Free Copy of our Report, *“The 403(b) Audit Survival Guide”*

Special Offer . . .

At the conclusion of this webinar you will receive a link to a brief survey. Please take a few minutes to tell us what you thought of today’s webinar.

As a way of saying thank you, everyone who completes the survey today will receive our free report full of valuable information as well as a link to register for the next webinar.

Ideas to Increase Plan Participation

#4 – Increase Vendor Choice

ASPPA Study, Protecting Participation

October, 2011

“Thus, the paper suggests that school districts should avoid reducing the number of investment providers in order to protect the levels of participation in 403(b) plans.”

- Source: http://www.asppa.org/document-vault/pdfs/mediaroom/PERF_ResearchProtectingParticipation2011.pdf.aspx

Ideas to Increase Plan Participation

#5 – www.403bcompare.com

Is your SRA online?

Are the Vendors up to date?

Is the contact information current?

Ideas to Increase Plan Participation

#5 – www.403bcompare.com

The screenshot displays the 403b Compare website interface. On the left is a navigation menu with links: Home, My Employer, Browse Vendors, My Compare, Education, Glossary, User Guide, and Contact Us. Below the menu is a search bar with a 'Go' button. The main content area features a header with the 403b Compare logo and tagline: 'Your California School Employee Retirement Product Information Bank'. A top right corner indicates 'MY COMPARE: 0 products'. The main heading is 'San Francisco Unified School District' with a 'Change Employer' link. Below this is a 'Contact Information' section with the following details: Contact Name: Account Management; Phone Number: 866.446.1072; Email: planadministrator@tdsgroup.org; Web Site: portal.sfusd.edu/template/default.cfm?page=departments. To the right of the contact info is a 'Salary Reduction Agreement' box stating: 'Your employer's salary reduction agreement can be found [here](#).' Below the contact info is an 'Approved Vendors' section with a descriptive paragraph: 'The 403(b) vendors that appear in this list are approved by your employer. To view a vendor's product list and profile information click on the vendor name.' Below the paragraph are alphabetical navigation links: [A-C](#) [D-F](#) [G-I](#) [J-L](#) [M-O](#) [P-R](#) [S-U](#) [V-W](#) [X-Z](#) [Other](#) [All](#). A 'Top' link with an upward arrow is located at the bottom right of the main content area.

The End?

Nope . . .

In two weeks we will present Part 5 of this series where we will address more Operational Errors.

Please mark your calendars for
Tuesday, May 15th, 10 am