401(k) Rescue

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Our 401(k) Fix-It Series

401(k) Rescue, the Ēkon Benefits 401(k) Fix-It Series, describes the most common 401(k) mistakes as determined by the IRS. We provide explanations of common mistakes, suggested prevention techniques and recommendations on correction methods.

Does your 401(k) Plan need to be rescued?

Common Mistake #11—
The Plan was top-heavy, but no minimum contributions were made.

A plan is considered top-heavy if, as of the last day of the previous plan year, the value of key employees' accounts represent more than 60% of the total value of plan assets. A key employee is any employee who meets at least one of the following criteria during the Plan year.

- An officer making more than $170,000 (for 2014)
- An employee who owns more than 5% of the business
- An employee who owns more than 1% of the business and makes over $150,000 during the plan year

All other employees are considered non-key employees. In determining ownership, family attribution rules apply. Any employee who is a spouse, parent, grandparent or child of a 5% owner is considered a 5% owner, thus making them a key employee.

If the Plan is considered top-heavy, the employer must make a non-elective contribution of 3% of compensation to each non-key employee that is employed on the last day of the plan year. If a Plan is determined to be top-heavy and no minimum contribution is made, the employer must correct the error by making the non-elective contribution along with lost earnings. To avoid this error, top-heavy testing must be conducted annually with key and non-key employees properly identified.

For a complete listing of the most common 401(k) mistakes, please visit the IRS 401(k) Plan Fix-It Guide at http://www.irs.gov/Retirement-Plans/401(k)-Plan-Fix-It-Guide
For assistance in correcting a plan error, please contact Ēkon Benefits at (314)367.6555 or info@ekonbenefits.com