Early Correction for Elective Deferral Errors

ĒkonBenefits
YOUR TRUSTED PARTNER

A Segment in Our Retirement Rescue Series

In April 2015, Revenue Procedure 2015-28 modified several sections of Revenue Procedure 2013-12, introducing new safe harbor correction methods for failures related to automatic enrollment features and elective deferrals.

A failure to implement an employee's elective deferral election is one of the most common mistakes made in 401(k) Plans. Historically, to rectify the missed opportunity, the Plan Sponsor has been required to make a Qualified Nonelective Contribution (QNEC) equal to 50% of the missed opportunity for each affected participant.

However, to encourage early correction of elective deferral errors, the IRS has implemented reduced safe harbor corrective contributions if deferrals are corrected within a set amount of time. In some cases, the corrective contribution may be avoided completely.

Tier 1: No Corrective Contribution Required

Plan Sponsors are not required to make qualified nonelective contributions for affected participants if the deferral election is correctly implemented by the first payment of compensation made on or after the *earlier* of:

- **Three months** after the first occurrence of the error for the affected participant, OR
- The last day of the month following the month in which the affected participant notified the Plan Sponsor of the error.

Tier 2: Reduced Corrective Contributions

The historically required corrective contribution is reduced to 25% of the missed opportunity if the affected participant's deferral election is correctly implemented *after* the period provided in Tier 1 but by the first payment of compensation made on or after the *earlier* of:

- **The last day of the second plan year** after the plan year in which the failure first occurred for the affected participant, OR
- The last day of the month following the month in which the affected participant notified the Plan Sponsor of the error.

Plans that do not meet the requirements for the reduced QNEC should use the correction methods found in Revenue Procedure 2013-12.

Additional Requirements

If a failure to implement an employee's deferral election has occurred, the Plan Sponsor must provide the affected participant with written notice of the failure and subsequent correction **no later than 45 days after correct deferrals begin**.

Additionally, a corrective contribution for the full amount of missed matching contributions, where applicable, should be made to the account of the affected participant within two years and include missed earnings on all missed deferrals and contributions.

New Methods for Correcting Elective Deferral Errors. Internal Revenue Service. Updated 09 June 2015.