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YOUR TRUSTED PARTNER

Correcting Vesting Errors

A Segment in Our Retirement Rescue Series

The term "vesting" refers to the ownership a participant has in the assets that are contributed to their account by their employer. Should the participant terminate their employment, their vested percentage determines the amount they are entitled to.

Does your Plan need to be rescued?

Employee Contributions

Participants are always fully vested in the money they have contributed to their account meaning they are 100% entitled to their contributions with earnings upon a distributable event (i.e. termination).

Employer Contributions

Vesting for contributions made to a participants' account by the employer, such as matching and profit sharing contributions, is determined by the Plan's vesting schedule. The Pension Protection Act of 2006 (PPA) altered the previous vesting maximums from a 5-year cliff vesting schedule or a 7-year graded vesting schedule to a 3-year cliff or a 6-year graded vesting schedule. Based on this requirement, a participant must be 100% vested in employer contributions by either their 3rd Year of Service if the Plan Document dictates cliff vesting or by their 6th Year of Service if graded vesting is used.

The chart at right compares cliff vesting and graded vesting. If cliff vesting is used, the participant is vested all at once upon attainment of no more than 3 Years of Service. Graded vesting allows full vesting to be delayed longer with the requirement of minimum vesting percentages for each Year of Service. These minimums are depicted in the chart at right.

Years of Service	Cliff Vesting	Graded Vesting
1	0%	0%
2	0%	20%
3	100%	40%
4	100%	60%
5	100%	80%
6	100%	100%

Additionally, a participant is automatically 100% vested when they reach normal retirement age or if the Plan is terminated. Although not a requirement, many plans fully vest participants upon death or disability.

Errors and Correction

Since vesting is based on Years of Service, as defined by the Plan Document, using inaccurate service records or the incorrect definition of Years of Service can lead to vesting failures. Commonly, Years of Service are miscalculated when a participant switches roles, such as from an intern to a full time employee. As a result, participants may receive incorrect benefit amounts upon leaving the Plan. If the error is not remedied, the Plan could lose its tax qualified status.

The Employee Plans Compliance Resolution System (EPCRS) can be used to remedy a vesting error. The Self-Correction Program (SCP) can be used to correct this error within two years of the Plan year in which the error occurred. After this time, the Voluntary Correction Program (VCP) should be used.

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