

# 401(k) Rescue

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## *Our 401(k) Fix-It Series*

*401(k) Rescue, the Ekon 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 #9—

#### Exclusion of Eligible Employees

Plan eligibility should be determined using the definition of an “eligible employee” found in the Plan Document. Each employee who receives a Form W-2 should be considered an eligible employee unless they can be properly excluded by plan provisions. The risk of excluding an eligible employee can be minimized by ensuring that employee data is accurate such as date of birth, date of hire and hours of service.

In order for a plan to qualify for tax-preferential treatment, it must follow eligibility and participant standards as outlined below.

- The plan cannot require an employee to be over the age of 21 in order to be eligible.
- Service can be credited to an employee by two methods:
  - Hours of Service - A plan may require up to one year of service (calendar year, plan year, or other 12-month consecutive period) in which the employee works at least 1,000 hours as a condition for eligibility.
  - Elapsed Time - Eligibility is generally determined in reference to a 12-month consecutive period but does not require a certain amount of hours.
- An eligible employee must enter the plan within 6 months of becoming eligible.

Self-correction can typically be used for this error. If an eligible employee was excluded from participating in the Plan, a qualified non-elective contribution (QNEC) must be made on their behalf in order to compensate for the missed deferral opportunity. The QNEC is equal to 50% of the missed deferral found by multiplying the employee’s compensation for that year by the actual deferral percentage (ADP) of the employee’s group (HCE or NHCE) for that year.

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](http://www.irs.gov/Retirement-Plans/401(k)-Plan-Fix-It-Guide)

For assistance in correcting a plan error, please contact Ekon Benefits at (314)367.6555 or [info@ekonbenefits.com](mailto:info@ekonbenefits.com)