

Ekon Explains - The Dreaded Census Questionnaire

Part One. Employee Information

*Why are you asking so many questions? Is this really necessary?
Why do I have to do this year after year?*

As a Plan Sponsor, you likely ponder these questions every time your TPA sends out the yearly census questionnaire. The truth is the census questionnaire is a key piece of your Plan's administration and compliance. The information requested is used to help ensure that your Plan's operation conforms to your Plan Document and with current laws and regulations.

To clarify the significance of the information requested, we are breaking down the census questionnaire piece by piece in our new series, Ekon Explains - The Dreaded Census Questionnaire.

Part One. Employee Counts

The census does not merely ask about those employees that are participating in your Plan. The census questionnaire concerns both current and terminated employees, participating or not, who received a Form W-2 for the year. Typical requests include an entire database of information with Social Security numbers, dates of birth, hire, & termination, compensation, hours of service, salary deferrals, and more.

How can information about employees that aren't even participating in your Plan and people that are no longer employed by your firm be necessary to Plan compliance?

Having this employee information tells your TPA several things;

- the total population of who could potentially be eligible for your Plan,
- which employees are eligible or ineligible based on dates of hire, years of service, excluded classes, etc., and
- whether an employee is a highly compensated employee (HCE) or a non-highly compensated employee (NHCE), which is necessary for required compliance testing.

In short, this information is extremely important and should be meticulously reviewed for accuracy.

One key use of participant counts is to perform coverage testing in order to satisfy IRC 410(b). This regulatory requirement is designed to ensure that the tax benefits of your Plan result in broad-based coverage of employees instead of benefitting only highly compensated employees or owners. If the Plan is not in compliance with IRC 410(b), adverse tax consequences may result. To properly perform required coverage testing, accurate employee counts ensure that all eligible employees are identified and properly categorized as an HCE or NHCE.

Additionally, the information requested in this section helps your TPA to ensure that only eligible employees are participating in your Plan and all eligible employees have been given a chance to elect a salary deferral, if permitted in the Plan.

The Bottom Line

Your TPA is not asking for employee information to give you needless headaches. Participant counts are necessary for annual testing and aid in ensuring your Plan remains in compliance. Providing accurate census information to your TPA will potentially save you from much bigger headaches in the future.