

# 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 #6—

Using the incorrect definition of Compensation for allocation or deferral calculations.

Compensation, as defined in the Plan Document, ultimately affects the operation of the plan. Compensation commonly refers to any pay the participant receives from the employer for services provided in a given year such as wages or salary, commissions, tips, fees for professional services, fringe benefits and bonuses. (IRS)

Each Plan defines Compensation differently, therefore it is important to ensure you are familiar with your Plan Document. A common pitfall is not including bonus payments in deferral and employer contribution calculations. Also review Plan provisions regarding bonuses, post severance payments, car allowances, fringe benefits, and limiting Compensation by job title.

A Plan may contain multiple definitions of Compensation to be used for different purposes such as calculating profit sharing allocations, performing discrimination testing, or determining payroll based deferral and match amounts. In addition to the Plan's definition of Compensation, Internal Revenue Code Section 401(a)(17) specifies annual limits on Compensation permitted to be considered for Plan purposes. In 2014, the Compensation amount recognized by the Plan cannot exceed \$260,000, increased from \$255,000 in 2013. If the incorrect definition or amount of Compensation is used in calculating allocations and deferrals, the resulting contributions made will also be incorrect.

The definition of Compensation used in Plan operation is frequently contained in a Plan summary or internal procedural manual which may not be updated to reflect amended Plan provisions. To ensure this error has not occurred, compare the definition of Compensation found in the Plan summary with that of the amended Plan Document. Each year-end verify that the definition of the Compensation is what has been provided to any third party to ensure the calculations of contributions are accurate.

If an error has occurred from using the improper definition of Compensation, correct in a timely manner. Corrections should place affected participants in the position they would be in had the error not occurred. If Compensation was considered that should have been excluded, resulting in excess deferrals, distribute the excess plus earnings to the affected participant. If Compensation was erroneously excluded in determining allocations or deferrals, corrective contributions may be required.

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)