Unexpected Retirement Plan Problems due to COVID-19

Published June 12, 2020. One aspect of the current pandemic and subsequent business layoffs and furloughs that is not being talked about very much is the impact to corporate retirement plans. I'm not referring to the new CARES Act withdrawal regulations. But rather the impact that those layoffs could have on a plan's non-discrimination testing next year. Although almost a year away, business owners should start thinking about how any business interruptions could negatively impact their 401(k) testing for 2021.

Every year, with certain exceptions, 401(k) plans need to conduct and pass a variety of compliance tests to demonstrate to the government that the plan is equitable. Equitable between all plan participants, both the highly compensated and non-highly compensated employee groups. These tests can potentially limit how much a highly compensated employee can contribute to the plan or how much an employer has to contribute. Factors such as an employee's annual compensation, the number of hours they worked in the year, the amount they contributed to the plan and any employer contributions they received all factor into the testing requirements and impact the results.

Well, all of these factors could have been impacted by COVID-19 and the business interruptions that resulted. Business owners need to ask themselves the following:

- Are you a business that had to layoff employees?
- Did employee hours have to be cut back?
- Did employees have to take pay cuts?
- Was your business forced to lower or suspend employer 401(k) matching contributions?
- Did the business owner front load plan contributions for themselves early in the year?

These are just a few of the business situations that could have resulted from COVID-19 that can impact 401(k) testing. All of these factors can lead to testing problems and potential failures in 2021. That could further lead to reduced contributions to business owners and/or key employees, or even result in the refund of employee deferrals or require additional employer contributions and costs to staff. The time to review and act is now. Adjustments can still be made in 2020 to minimize the negative impact to retirement plans and business owner's retirement savings.

Analyzing prior year's testing can help indicate whether there is the potential for problems going forward. Dopkins' Client Accounting and Advisory Solution Team can help. We can work with you to discuss your business operations and determine whether any type of business interruption or COVID-19 impact could lead to negative consequences to your retirement plan. Nobody wants to get a nasty surprise regarding their retirement plan next Spring. The time to act is now. Contact us now.

For more information, contact Chad O'Connell at coconnell@dopkins.com or your Dopkins Wealth Management, LLC advisor.

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