



PLAN SPONSOR

Plan Sponsor Responsibilities

Many employers are establishing retirement plans for their employees, but are not certain of the requirements or obligations they have to employees once they set up a plan. This article from the Internal Revenue Service (IRS) discusses those responsibilities.

It is imperative that employers ensure the retirement plan their employees count on is running effectively. This way, they can keep the promises they made in setting up a plan as a qualified retirement vehicle. To stay qualified, the provisions in the plan document must satisfy the requirements of the Internal Revenue Code and those provisions must be followed. All eligible employees need to be covered by the plan and the plan assets must be managed with the best interests of the plan participants in mind.

By adopting a plan for employees, an employer is making a commitment to its workforce by providing them an opportunity to save for retirement. An employer's responsibilities do not end once a plan is set up. In addition to being responsible for keeping the plan qualified, a plan sponsor must ensure the plan participants have the information they need to make good choices.

Is there an overall responsibility?

Yes, keeping the plan in compliance in form and in operation would be the overall responsibility. If the plan is not in compliance, then the other items discussed below will not be relevant and the employees' retirement benefits could be lost.

Suppose we have a plan sponsor who is doing everything to keep the plan in compliance. What should a participant be receiving from the plan sponsor?

The first item the plan sponsor must provide is a **Summary Plan Description**, often referenced by its acronym, SPD. This is a synopsis of the plan document and other important plan information in an easier-to-understand format than the plan document.

What kind of information is in the SPD?

When employees begin to participate in the plan, the type of contributions that can be made to the plan, the vesting (ownership) schedule of the contributions an employee receives, and the timing of retirement benefits are some of the provisions in the SPD.

What if a participant wanted to see the plan document?

The employer is required to provide the plan upon a written request from the participant. The employer may charge the participant the cost of copying the plan document.

Should a participant receive updates when there are changes made to the plan?

Yes, the plan administrator must provide the updated information via an updated SPD or through a **Summary of Material Modifications** document.

Are there any other mandatory items the plan sponsor must provide?

Each participant should receive a yearly summary regarding the financial information of the plan, which is referred to as a **Summary Annual Report**, or SAR.

For 401(k) plans, participants must be informed in advance when a blackout period of three days or longer occurs. Blackout periods sometimes occur when investment options or record keepers are changing. This would affect the participant's ability to direct investments or to apply for loans, for example. Therefore, a **blackout period notice** must be given stating that there will be a temporary shutdown so the participants can plan ahead.

How does a participant know how much money he or she has saved for retirement?

With regard to individual account plans that permit participants to direct the investment of assets in their account, the plan sponsor must give a **benefit statement** at least once each calendar quarter. Plans that do not permit participants to direct their investments must provide a statement at least once each calendar year at no cost to the participant.

Employers have many responsibilities to the employees. What resources are available to assist plan sponsors?

The IRS has a wealth of information available to help plan sponsors and plan participants at www.irs.gov/retirement-plans. If hands-on assistance is needed, there are many capable practitioners available to assist plan sponsors. While sponsoring a plan does come with many responsibilities, its benefits are worth it in the long run. The reasons for establishing and maintaining a retirement plan include significant tax advantages, increased employee morale and retention, and protecting the retirement future for your employees.

Source: Internal Revenue Service