

Coordinating Retirement Plan Definition of ? ? Compensation? with Payroll

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A frequent, but often times avoidable, operational error for retirement plans is the failure to use the proper definition of ? Compensation? for various plan purposes, including, without limitation, calculating employee deferrals and employer contributions. A retirement plan's definition of compensation typically includes dozens of components that all must be properly coded in the plan sponsor's payroll system as either eligible or ineligible plan compensation. One such component that is frequently misclassified is the value of employee equity awards, such as stock options and restricted stock. Accordingly, plan sponsors should periodically compare the plan's definition of compensation to the employer's payroll records to verify that the proper definition of compensation has been used for all relevant plan purposes. Performing such an audit can help identify any errors and minimize the amount of corrective contributions and other fees or expenses that may be associated with correcting the error.