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Advisor Connect | Payroll, It’s More than a Detail

MAKING IT ACTIONABLE

Every retirement plan design begins with a study of a company’s payroll. It’s essential data that informs how to optimize tax and savings potential for both business owners and their employees.

Once a plan is installed, we rely on payroll data to determine eligibility, vesting, and employer contributions. Accurate and complete data is critical and something we assume, but in the real world information this is not always the case.

ACTIONS TO TAKE NOW

We need both ***good*** and ***timely*** data to keep every plan on track. Familiarize yourself with what each one means in practice and make sure you understand the consequences for a plan that operates without.

Good Data

What is “good payroll data?”
Payroll data is “good” when all relevant data fields are complete and accurate for all employees. When employee information is incomplete or needs to be updated, that is *not* good data.

For example:
People who should be listed may be missing.
People who should no longer be listed may still be included.
Changes to contribution rates are not always updated and reflected.

What can go wrong?
Since contributions and corresponding investment trades are dependant on payroll data, incorrect data can lead to corrections that can be potentially expensive as markets move. If errors are not discovered until much later, this expense is only exacerbated.

Timely Data

What is “timely payroll data?”

Rules from the Department of Labor and IRS direct that plans must deposit contributions as soon as possible — “the earliest date on which such contributions can reasonably be segregated from the employer’s general assets.” The exact deadline varies depending on the plan but, generally speaking, the maximum deadline provided to any plan is “on the 15th business day of the following month.”

What can go wrong?

Late deposits can be costly in several ways:

1. There can be fees to fix errors.
2. There can be costs to make participants “whole” on lost earnings.
3. A late deposit may be regarded as a prohibited transaction, and therefore subject to a plan sponsor 15% excise tax.
4. Late deposits are red flags to the regulators; a pattern of late deposits could trigger an audit of the plan by the Department of Labor.

Let’s work together to remind company owners and HR professionals about this obvious but critical component of our relationship with them. As always, please contact us if we can address any client-specific situations.