The Handbook of 401(k) Plan Management

Towers Perrin

Business One
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Part One
Introduction

Preface

During the last decade, Section 401(k) plans have become a major factor in employee benefit planning. By any measure—number of plans, number of employees covered, or asset accumulations—the growth of these plans since the early 1980s has been remarkable.

Most employers established their 401(k) plans without specific objectives and employee needs in mind, viewing them simply as a source of additional funds for general benefit purposes. More and more plan sponsors are beginning to recognize the growing value of these plans and the role they can play in meeting specific employee needs, however—providing for post-retirement inflation or long-term care protection, for example. Whatever purpose they serve, it is clear that 401(k) plans have become quite important to both employers and employees.

As a result, it is equally important that benefit professionals understand the complex tax and legal environment in which 401(k) plans operate, and how these plans can be designed and administered to operate as efficiently as possible in this environment. This book is intended to aid practitioners in gaining that understanding. The neophyte will find a comprehensive treatment of all aspects of 401(k) plans—design, the general tax and legal requirements that apply to these plans, and administrative and investment considerations. There is also much for the experienced practitioner, including in-depth, annotated coverage of the tax law and regulations.

Part One of the text includes introductory and background material on such matters as the history and development of 401(k) plans, their basic characteristics, and their relative advantages and disadvantages. It also includes a discussion of the changing employee benefit environment and the emerging role of 401(k) plans.

Tax and legal requirements are covered in Part Two. Because Section 401(k) of the Internal Revenue Code simply authorizes a profit-sharing or stock bonus plan to offer participants a choice between current or deferred compensation, Part Two begins with a discussion of the general tax law requirements that apply to these plans. It then covers the specific tax law requirements that apply to the cash or deferred arrangement itself—the 401(k) plan. Part Two also covers employee stock ownership plans (ESOPs) and legal provisions governing the deductibility of contributions, the taxation of distributions, and so forth. It concludes with a discussion of non-tax legal requirements—age and sex discrimination, Securities and Exchange Commission requirements, and labor law provisions on disclosure and fiduciary obligations.

Part Three focuses on the design and operational issues that affect 401(k) plans. Topics include employee and employer contributions, provisions on vesting, retirement age, distributions at termination of employment, in-service withdrawals and loans, and such miscellaneous plan features as service counting, eligibility requirements, committee and trustee provisions. Part Three also covers plan investment provisions, administrative issues, and effective employee communications.

Appendix I is an historic table of tax law limits on contributions and benefits, on elective deferrals, and on the pay that can be taken into account for plan purposes. Appendix II briefly summarizes legislation and regulatory changes that occurred or were pending as we went to press, too late for inclusion in the main text. Appendix III is a speciman plan document.

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