DURING AN ECONOMIC DOWNTURN:

Review Plan Design & Expenses to Protect Cash Flow

July 2020

Managing cash flow is an ongoing priority for any business. Protecting an organization's cash flow in times of economic distress is paramount. To retain liquidity in the short term, many organizations are examining their retirement plans for flexibility in cash outflows.

Adjusting or temporarily putting a hold on employer contributions to retirement plans stands out as a prominent option for some, but other less obvious tools can help plan sponsors operate more efficiently during a crisis as well.

Before making any changes, employers need to consider both the short-term and long-term consequences of these actions. While such decisions can provide some immediate cash flow relief, they can also increase long-term costs or negatively impact an organization's employee morale and competitive positioning.

Trout CPA
Accounting | Tax | Advisory

Eliminating or Suspending the Employer Match

Eliminating or suspending the employer match, while a potentially effective tool employers can use to shore up cash, may not be an option, depending on how the plan document is written. Plans that include an annual safe harbor 401(k) contribution may include restrictions relating to the suspension or elimination of these contributions. Plan documents must be thoroughly reviewed before reaching a decision.

Even if eliminating or suspending the employer match is an option, employers should approach these decisions with care as they may negatively affect an organization's ability to attract new employees. This potential backlash may be the reason many employers are hesitating to suspend contributions, even as we anticipate a continued quarantine. A recent survey by the Plan Sponsor Council of America (PSCA) showed that only 16 percent of benefit plans expect to suspend contributions.

Eliminating Inactive Participants to Reduce Administrative Costs

Another option could be to reduce the number of participants in a plan to archive a lower administrative cost in upcoming quarters. Employers can achieve this is by removing inactive participants from the plan. The Internal Revenue Service (IRS) allows plan sponsors to cash out inactive participants with $1,000 or less in their accounts, and plan sponsors don't need permission from the individual to do this. In addition, plan sponsors can roll accounts with balances of $5,000 or less into Individual Retirement Accounts (IRAs).

Participants with more than $5,000 in their accounts can't be forced out of the plan, but plan sponsors are permitted to contact such participants and inquire if they would like to be cashed out. As always, it's important for plan sponsors to refer to their plan documents before seeking to reduce the number of inactive participants or issue distributions.

Review "Lost Money" in the Plan

Several other tools exist that may help plan sponsors operate more efficiently:

- **Forfeitures:** Partially vested employees who terminate employment are the most common source of forfeitures. Plan sponsors most commonly use forfeitures to offset employer contributions, but they can also be used to pay for certain permitted plan expenses.
- **ERISA Spending Accounts:** ERISA spending accounts present an opportunity to reduce the total costs charged to the plan. If there isn't a spending account already, plan sponsors should communicate with service providers to determine whether there may be an opportunity to negotiate one.
- **Evaluate Fees:** Plan sponsors have a fiduciary obligation to monitor fees to ensure they are reasonable. Plans should examine their investment, administrative, and consulting fees to determine if saving cash may be possible. Now may be a good time to reach out to service providers to ask for fee reductions. Plan sponsors can also consider shifting some administrative costs, such as audit expenses, from the company to the plan and using forfeitures or ERISA spending accounts for these costs.
- **Changing Eligibility and Matching Provisions:** Changing eligibility requirements and / or matching provisions can also help to conserve cash. For example, plan sponsors could require employees to work for at least one year before becoming eligible for a retirement plan.

Insight: Evaluate Cash Conservation Tools Thoughtfully

When examining the potential tools at your disposal for conserving cash, it's important that employers don't make these decisions in a vacuum. While certain actions can be taken to improve cash flow now, they could lead to greater expenses in the long term—and changes to retirement savings plans may ultimately weaken an organization's ability to recruit and retain talent.

Your representative is available to help evaluate your plan and look for opportunities to create valuable flexibility while still being mindful of the long-term impacts of these changes.

For questions or assistance, please contact one of our Employee Benefit Plan professionals at 717-569-2900.

LANCASTER
1705 Oregon Pike
Lancaster, PA 17601
717-569-2900

MECHANICSBURG
930 Century Drive, Suite 104
Mechanicsburg, PA 17055
717-697-2900

CARLISLE
62 W Pomfret Street
Carlisle, PA 17013
717-243-4822