Depositing Plan Contributions

Does your company sponsor a 401(k) plan? If it does, you know how important it is to comply with the many government regulations that affect your plan. One area that has caused confusion among plan sponsors is the deadline for depositing employee contributions into the plan’s trust account.

General rule. Federal pension regulations basically provide that employee contributions become plan assets as of the earliest date on which the contributions can reasonably be segregated from the employer’s general assets. Since this earliest date rule does not set a clear-cut deadline, employers have had to make their own determination of what is reasonable and hope that it won’t be challenged if government auditors examine the plan.

Cost of noncompliance. Not getting it right can prove costly. Failure to timely deposit contributions is considered a prohibited transaction and may result in significant penalties, including possible loss of the plan’s tax-qualified status.

Seven-day safe harbor. Employers that sponsor *small* plans (those with fewer than 100 participants) can avoid potential problems by satisfying a seven-day safe harbor rule. Under the safe harbor provision, employers that deposit employee contributions in a plan account within seven business days after the contributions are withheld from employees’ wages or received by the employer will automatically satisfy the law’s requirements. Allocations to specific participant accounts and investments do not have to be completed within the seven-day window, as long as the contributions have been deposited in the plan. A similar seven-day safe harbor is available for deposits of plan loan repayments.

Note that sponsors of *large* plans — 100 participants or more — must continue to deposit contributions as of the earliest date the contributions can reasonably be segregated from the employer’s general assets.