

Is Your Plan in Need of a True-Up?

by Brian White, Partner, Senior Consultant

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Prudent fiduciaries periodically review their plan document and procedures to ensure their plan is being administered as intended. Would you believe one of the most common mistakes Plan Sponsors make has to do with matching contributions? As service providers change over time (recordkeepers, payroll providers) it is important to ensure your plan is being administered appropriately. Understanding if current contributions being matched on a payroll by payroll or total year salary can result in material differences.

Every year there are certain circumstances that could lead to the company match contribution being lower than stated by the plan document. In these cases, a year-end true-up would be necessary for a participant to receive the full company match. Following are two scenarios where the company match may not be what it seems.

The ideal situation for those saving for retirement would be to save as much as possible to receive the full company match and to contribute to the IRS maximum. The contribution limit for employees who participate in 401(k), 403(b) and most 457 plans, as well as the federal government's thrift savings plan has increased to \$23,000 in 2024, up from \$22,500.¹ However, the reality is that many retirement plan participants do not max out their contributions. Many may change their deferral percentage mid-year for one reason or another. Below is an example of how changing deferral rates mid-year may affect the company match.

Scenario One: Participant Changes Deferral Rate During the Year

Let's assume the plan document for XYZ Corporation states that the company will match dollar for dollar up to 6% of total pay for the year. For Participant A, making \$50,000 a year and deferring 6%, the match would be \$3,000 ($\$50,000 \times 0.06$). Now let's assume that for the first six months of the year, Participant A deferred 4% ($\$25,000 \times 0.04 = \$1,000$) and the second half of the year Participant A deferred 8% ($\$25,000 \times 0.08 =$

¹IRS.gov: <https://www.irs.gov/newsroom/401k-limit-increases-to-23000-for-2024-ira-limit-rises-to-7000#:~:text=Highlights%20of%20changes%20for%202024,to%20%247%2C000%2C%20up%20from%20%246%2C500>.
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\$2,000). However, the match formula only allows the company to match dollar for dollar up to 6% (\$25,000 x 0.06 = \$1,500).

Input Assumptions

Annual Salary \$50,000
 Contribution Rate Varies - Avg 6%
 Match Rate 100% up to 6%

	\$50k Salary	Contribution %	Contribution \$	Company Match
January	\$4,166.67	4%	\$166.67	\$166.67
February	\$4,166.67	4%	\$166.67	\$166.67
March	\$4,166.67	4%	\$166.67	\$166.67
April	\$4,166.67	4%	\$166.67	\$166.67
May	\$4,166.67	4%	\$166.67	\$166.67
June	\$4,166.67	4%	\$166.67	\$166.67
July	\$4,166.67	8%	\$333.33	\$250.00
August	\$4,166.67	8%	\$333.33	\$250.00
September	\$4,166.67	8%	\$333.33	\$250.00
October	\$4,166.67	8%	\$333.33	\$250.00
November	\$4,166.67	8%	\$333.33	\$250.00
December	\$4,166.67	8%	\$333.33	\$250.00
Total:	\$50,000.00	6%	\$3,000.00	\$2,500.00

For illustrative purposes only.

Through the course of the year, Participant A deferred a total of 6% of their total compensation, which entitles him/her to the full company match of \$3,000 as stated above. However, if XYZ Corporation matched contributions on a payroll period basis, the participant would only receive \$2,500 (or 5%) in company match. XYZ Corporation would need to make an additional matching contribution of \$500 to the participant’s account. This true-up contribution may be made as late as the deadline (including extensions) for filing XYZ Corporation’s federal tax return.

Scenario Two: Participant Front-Loads Contributions

For most participants, saving for retirement can be a struggle. There are others who can, and do, save up to the IRS maximum. The concept of compounding interest is not lost on these individuals and a common problem with this group is that they will max out their contributions early, which may decrease the match received.

Let's assume the plan document for XYZ Corporation states that the company will match dollar for dollar up to 6% of total pay for the year. For Participant B (under the age of 50), making \$230,000 a year and deferring 6%, the match would be \$13,800 (\$230,000 x 0.06). If Participant B deferred 20% of his/her salary at the beginning of the year, they would max out their contribution in June (contribution limits for elective deferrals for 2024 is \$23,000). However, at this rate, the company would have only matched for the first six months or \$6,900. Once again if the Plan Document stated that matching contributions were based off *annual pay* and not per pay period, a true-up payment of \$6,900 would be required to stay in compliance.

Input Assumptions

Annual Salary	\$230,000
Contribution Rate	20%
Match Rate	100% up to 6%

	\$230k Salary	Contribution %	Contribution \$	Company Match
January	\$19,166.67	20%	\$3,833.33	\$1,150.00
February	\$19,166.67	20%	\$3,833.33	\$1,150.00
March	\$19,166.67	20%	\$3,833.33	\$1,150.00
April	\$19,166.67	20%	\$3,833.33	\$1,150.00
May	\$19,166.67	20%	\$3,833.33	\$1,150.00
June	\$19,166.67	20%	\$3,833.33	\$1,150.00
July	\$19,166.67			
August	\$19,166.67			
September	\$19,166.67			
October	\$19,166.67			
November	\$19,166.67			
December	\$19,166.67			
Total:	\$230,000.00	10%	\$23,000.00	\$6,900.00

For illustrative purposes only.

A Common Provision

The two examples above both have one common provision; they both have plan documents that state the match will be calculated on *annual salary*. However, in both cases the Plan Sponsor matched contributions on a payroll basis. These examples are not applicable to Plan Sponsors that match per pay period. There are pros and cons to both matching scenarios. Sponsors should review and ensure their plan is being administered as written.

With the rollout of several mandatory and optional provisions allowed by SECURE 2.0, 2024 will serve as a good year to review plan documents to ensure the plan is being administered as intended. As a fiduciary, it is

important to make sure you are following the Plan Document regardless if it is a custom document or a prototype or volume submitter.

Save the date for our Annual Investor Conference on September 26, 2024 at the Chicago Marriott Downtown Magnificent Mile. Please reach out to any of the professionals at Fiducient Advisors for additional details.

About the Author



Brian White
Partner, Senior Consultant

Brian services institutional clients by providing advice and guidance on the manager search process, fund selection for portfolios and overall investment management. Brian is a member of the firm's Defined Contribution Business Council and co-chair of the Recordkeeper Oversight Committee. Brian joined the firm in 2007 as a Performance Analyst and held many positions within Fiducient Advisors on his path to Senior Consultant.

Previously, he was a Client Service Specialist for Chase Investment Services and Scudder Investments. He graduated with a BA from the University of Northern Iowa. Brian is actively involved in The Greater Chicago Food Depository and enjoys biking, golf and traveling.