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RECONCILING RETIREMENT PLAN ACCOUNTS AVOIDS POTENTIAL HEADACHES

Successful retirement plan administration requires annual reconciliation of the plan's *cash flow* and *asset holdings*. A plan trustee who fails to have this review performed exposes the plan -- and himself or herself -- to potential problems.

"Reconciliation" is nothing more than a sophisticated approach to "balancing the plan's checkbook". All cash transactions during the year should be tracked. The goal is to confirm that the plan's year-end cash balance is in fact the sum total of all transactions during the year.

This process requires reviewing all contributions to and distributions from the plan, purchases and sales of assets, interest and dividends received, and all other receipts or disbursements of funds by or from the plan. If any errors were made, the trustee can implement corrective action.

Tax Penalties

An example will clarify the issue. Assume that there is a one-person defined contribution plan and that the maximum annual permissible contribution for 2011 is $49,000. At the beginning of the year, Client deposits the maximum permitted contribution into the plan's account. In December of that year, Client forgets that the plan contribution was already deposited, and writes a second check for a $49,000 contribution into the plan.

In the absence of a "cash-to-cash" reconciliation, the second contribution of $49,000 would remain in the plan. In the event of an IRS audit, the IRS agent would discover the over-contribution (the IRS *does* believe in "cash-to-cash" reconciliations) and could assess penalty excise taxes.

Plan Disqualification

In other situations the absence of a plan reconciliation could result in something far worse -- potential plan disqualification. For example, Participant retires with a benefit entitlement of

$1,000,000 of which $50,000 represents the Minimum Required Distribution ("MRD"). The Plan Administrator instructs the fund custodian to issue two checks, one for the MRD and one for the balance of the benefit payment. Instead of subtracting the MRD from the second check, the custodian issues two checks, one for $50,000 and the second for the full $1,000,000.

Absent a year-end reconciliation, the extra $50,000 payment might not be uncovered. In an eventual IRS audit, the distribution of amounts to which the participant was not entitled could lead to an IRS assertion of plan disqualification.

Our administrative servicing clients can rest assured that our procedures include an annual reconciliation of plan assets. Plan sponsors whose plan administration is handled through other entities should confirm that this *important step* in their plan administration is not being overlooked, since the consequences of failing to perform an annual reconciliation can be severe. ■

Please contact Ira Langer, Esq., William Miller, Senior Actuary, or Aileen Palazzo, Director of Plan Administration, for further information.

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