

PROS AND CONS OF PAYROLL COMPANY 401(k) PROGRAMS

Payroll companies have gotten into the 401(k) business. They offer turn-key plans that seem so easy and are often packaged with other services as an all-or-nothing option. Qualified retirement plans are a lot more than just making contributions and keeping track of accounts. Before you consider adoption of a qualified plan, be sure you understand the pros and the cons of a Payroll Company prototype plan.

PROS

- ✘ Employee elective deferrals sent automatically from payroll account to 401(k) trust account; employer doesn't have to write and transmit contributions.
- ✘ Pre-established investment portfolios available from various vendors; trustees choose from vendors available.
- ✘ Participant-level record keeping provides employees with daily access to accounts.
- ✘ Preparation of Form 5500 and ADP/ACP compliance testing provided.

CONS

- ✘ Payroll companies are paid significant fees from the investment companies offered in their 401(k) platform. These fees are charged against participant accounts.
- ✘ All plan servicing is done on the East Coast. No local representative is available.
- ✘ Investment advisors are assigned to the plan by the payroll company. Some advisors provide decent service, but many do not.
- ✘ Investment selections are limited, and outside investments not allowed in Payroll company plan.
- ✘ Large set up, and takeover fees are quoted then often waived to make it seem like you're getting a bargain.
- ✘ Plan design options are limited.
- ✘ Certain contribution formulas are not available through the Payroll Company plan, such as age-weighted or cross-tested (new comparability), or traditional pension contributions.
- ✘ The Employer must perform certain compliance tests such as determining the Key Employee status for all participants. This determination must be performed every year and provided to the Payroll Company. If this is not done or done incorrectly, the compliance testing will be incorrect, and the liability will lie with the Employer, not the payroll company.
- ✘ ADP/ACP testing is only performed using current year testing method. There are other options that may help you pass your ADP/ACP testing that are not available with the payroll company.
- ✘ Plan compliance services are limited.
 - Does the business owner own shares in more than one company, or is the company owned by a parent company? The payroll company won't help you with controlled group or affiliated service group verification
 - Do you have more than one payroll service for your company, or did you switch payroll companies during the year? The payroll company may miss annual contribution limits exceeded by the plan participants resulting in the possibility of excise taxes.
 - Do you exclude a group of employees from the plan? The payroll company will not perform mandatory coverage testing for the plan.
 - Need a special filing for your plan to report excise taxes or plan termination? The payroll company will not prepare those filings for you, and most CPAs do not have the expertise to prepare these reports.

*The information contained here is intended for general use.
It is not meant to offer legal advice or recommendations.*

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