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# The PRS Report



## WHAT DO I DO . . . .



We are inaugurating a new column in this issue called, "What Do I Do." In each issue, we will introduce a topic concerning what action the Plan Sponsor needs to take in a given situation.

Today, we will discuss what paperwork you, as Plan Sponsor, need to save and what part PRS plays when a participant receives a loan or hardship distribution from the Plan.

Background: The IRS issued guidelines covering what Plan Sponsors need to save when a participant takes a loan or hardship distribution from the Plan. Although we, as the TPA, provide the paperwork for loans and hardship distributions, we do not have all the material the IRS requires the Plan Sponsor to save. This material might be requested in an IRS audit of the Plan. Failure to have these records available for examination can be deemed a qualification failure that can only be corrected through the Employee Plans Compliance Resolution System (EPCRS). This program includes a fee of \$750 if there are 20 or fewer participants in the Plan and a larger fee for plans with more than 20 participants.

The following two sections detail PRS' role and what you need to save:



### LOANS

When a participant requests a loan from the Plan, you should pass on the request to us to process the required paperwork. We will first check the plan document to make sure loans are allowed in the Plan, and if they are, we will then provide the material to you to procure the loan for the applicant.



The IRS requires you, as Plan Sponsor, to retain all records pertaining to the loan, in either paper or electronic format. What must be retained is listed below:

1. Evidence of the loan application, review and approval process
2. An executed plan loan note
3. If applicable, documentation regarding the use of the loan toward the purchase or construction of a primary residence. If the participant requests a loan repayment period for this that is longer than five years, the documentation of the home purchase must be received before the loan is approved. *Self-certification of eligibility for these loans by the participant is prohibited.*
4. Evidence of loan repayments
5. If applicable, evidence of collection activities related to loans in default and the applicable Forms 1099-R.

Items #1 and #2 above are included with the forms we prepare for the participant to sign. Item #5 above, if needed, is normally provided by the Recordkeeper.



WHAT DO I DO . . . (cont'd)



**HARDSHIP DISTRIBUTIONS**



As with loans, when a participant requests a hardship distribution, you should pass on the request to us to process the required paperwork. We will check the plan document to make sure hardship distributions are allowed in the Plan, and, if so, we will then prepare the material needed so that you can procure the distribution for the applicant.

The IRS requires you, as Plan Sponsor, to retain Hardship Distribution records. The participant should keep their own records; however, that does not eliminate your responsibility to maintain back-up for the participant's hardship distribution. Records must be retained in either paper or electronic format and should include:

1. Documentation of the hardship request, review, and approval
2. Financial information and documentation supporting the participant's immediate and heavy financial need. *Self-certification by the participant is not sufficient*
3. Documentation showing the hardship distribution was made in accordance with the Plan's provisions and the Internal Revenue Code
4. Proof that the actual distribution was made and the related Form 1099-R was filed with the IRS

Items #1 and #3 above are provided to you when we send you the forms for the participant to sign. Form 1099-R, mentioned in item #4 above, is normally provided by the Recordkeeper.

**LAST CALL FOR PPA RESTATEMENTS**



If you sponsor a Defined Contribution plan (profit sharing, 401(k), or money purchase plan), the deadline for restating the Plan is **April 30, 2016**. Restating a plan means that a new plan document and Summary Plan Description is drafted for the Plan which corresponds to recently enacted legislation. The current restatement period is commonly referred to as the PPA restatement, after one of the major laws requiring changes, the Pension Protection Act of 2006. Plan restatements are required by the IRS.

If you have not restated your plan, there is still time to accomplish this. Contact us **NOW** so that we can restate your Plan. Without the restatement, the Plan can be disqualified by the IRS.

**SHAREFILE**



In January, we placed the Data Requests for all clients with calendar-year plans into their respective portals on ShareFile. Since the ShareFile system was launched in late 2013, many clients have commended the system because it is secure, easily navigated, and offers the opportunity to retrieve information without searching for paper documents and to complete and send information to us online. In case you do not feel comfortable in the ShareFile system, we would like to invite you for a call-in tutorial session with one of our specialists.



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