



CASE STUDY: Manufacturing Company Benefits from GRS Limited Scope Audit

Challenge: In 2008, a manufacturing company with approximately 550 employees reduced staffing in their Human Resource department and outsourced many duties. In 2006, this manufacturing firm acquired a smaller operation and transitioned the 401(k) plan to the parent company's retirement plan vendor resulting in a single vendor, but the maintenance of two separate 401(k) plans. The parent company utilized an independent investment advisor for investment consulting, but relied on the 401(k) vendor to provide compliance consulting and fiduciary guidance. In 2009, the plan sponsor discontinued the company match, which had been 50% on the first 4% of pay – capped at \$1,000.

Industry: Manufacturing
Employees: 550
Type of Plan(s): 401(k), Profit Sharing
Headquarters: Batavia, Illinois
Five U.S. locations

Strategy: Gallagher Retirement Services (GRS) was engaged to conduct a “limited scope” audit of both Defined Contribution Plans, focusing on the following:

- Fiduciary Processes
- Plan Design
- Discrimination testing
- Operational process review

Results: Most of the issues discovered related to the plan's discrimination testing. The audit revealed that the current 401(k) vendor was merely processing data as the following issues were exposed:

- ✓ Plan Sponsors are a Controlled Group of Employers and an aggregated test was not performed. The company will likely need to correct through the U.S. Internal Revenue Service's Voluntary Correction Program (VCP).
- ✓ Company match issues:
 - 10 participants, who did not meet the plans' eligibility requirements, received matching contributions.
 - Several employees received matching contributions in excess of the \$1,000 maximum.
 - 7 individuals received matching contributions in excess of the 50% matching level.
- ✓ Both 401(k) plans failed discrimination testing, as Highly Compensated Employees (HCEs) received funds.

Recommendations:

- Begin the Voluntary Correction Program filing process.
- Establish internal controls to help ensure that eligibility for employer matching contributions are calculated properly.
- Set-up payroll program to input match cap limits to help ensure excess match is not made.
- Help improve future discrimination testing results by initiating the following:
 - Develop a comprehensive communication/education campaign.
 - Explain the additional “Saver's Tax Credit” for low- and moderate-income workers.
 - Add a Non-Qualified deferral program for HCEs.

This case study is based on an actual client situation, but is meant for informational purposes only. The case study is in no way intended to be used as a primary basis for benefits, fiduciary, or securities decisions. Similar results are not guaranteed and will vary based on the individual client situations. Clients should consult with their own financial, tax, legal, and accounting advisors before implementing any plan or course of action. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any product.

Gallagher Retirement Services is the national retirement plan services and consulting division of Gallagher Benefit Services, Inc. Securities and investment advisory services offered through NFP Securities, Inc., a Broker/Dealer and Member FINRA/SIPC and a Federally Registered Investment Adviser. Investment advisory services and corresponding named fiduciary services may also be offered through GBS Investment Consulting, LLC (GBS IC), a Registered Investment Adviser and wholly owned subsidiary of Gallagher Benefit Services, Inc. Not all individuals using this material are registered to offer Securities or Investment Advisory services through NFP Securities, Inc. NFP Securities, Inc. is not affiliated with Gallagher Benefit Services, Inc., GBS Investment Consulting, LLC, or Gallagher Retirement Services. Neither Gallagher Benefit Services, Inc., Gallagher Retirement Services, GBS Investment Consulting, LLC, or NFP Securities, Inc. provide legal or tax advice.