



PENSION SERVICES



Employer Connect | Understanding How Forfeitures Work in Your Retirement Plan

MAKING IT ACTIONABLE

When we talk about 401(k)-type retirement plans, we sometimes focus on the contributions made by your employees that are always immediately vested. In other words, it's their money and they can always withdraw it without forfeiting any (subject to IRS rules about early withdrawals).

We know, of course, that you may also make profit-sharing or matching contributions to your plan too. And, these contributions may be subject to a vesting schedule.

Vesting over a period of years provides:

- Incentive for employees to stay with your company
- Flexibility for how your business chooses to share the wealth

When one of your employees leaves your company before being fully vested, the non-vested portion of their account is forfeited back to the plan.

Generally, you have three options for how you can distribute these forfeited monies:

- 1** | You can redistribute the forfeited amount to the remaining eligible participants.
- 2** | You can apply the forfeited money towards reasonable plan expenses. This reduces your out-of-pocket expense of maintaining your plan.
- 3** | You can use the forfeited money to reduce future contributions.

Your retirement plan document spells out how forfeitures are to be treated. In other words, the definitions of vesting, forfeitures, and how they will be handled is explicitly defined and should be clear to you and your plan participants.



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As a plan design feature, vesting and forfeiture rules associated with employer contributions can be an important tool to help you offer a potentially lucrative employee benefit while retaining control of how those dollars are ultimately distributed.

ACTIONS TO TAKE NOW

Like with many of our previous topics, it's important to:

- Understand your unique objectives for your plan
- Work with us so that we can design a plan that fits your specific needs and goals

Let us know if you'd like to specifically discuss how your plan presently treats forfeitures of employer contributions to make sure they're working as you desire.