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## Increased reporting required for nonprofit 403(b) retirement plans

by Julleen J. Snyder, CPA

Are you still reeling from the recent punch delivered by the changes in auditing standards? Well, look out here comes a left hook! Beginning in 2009, 403(b) retirement plans sponsored by nonprofit organizations will be subject to the same reporting and audit requirements that currently exist for section 401(k) plans.

**Here is the background** -- under new U.S. Department of Labor regulations issued in November 2007, "large" 403(b) plans (those with 100 or more participants) will generally be required to file audited financial statements beginning with their 2009 IRS Form 5500, *Annual Return/Report of Employee Benefit Plan*. "Small" 403(b) plans (those with fewer than 100 participants) may be eligible to use abbreviated reporting forms, without audited financial statements. "Eligible participants" are defined as employees participating in the plan, employees who are eligible for the plan but decline participation, and former employees/beneficiaries who have a balance remaining in the plan.

**Although an audit may not be required** for small plans, the new regulations require all 403(b) plans to have a written plan document. If an employer fails to have a written plan document by January 1, 2009 (i.e., a document which contains basic provisions relating to eligibility, benefits, distribution availability and other limitations, and information relating to the annuity contracts or custodial agreements used by the 403(b) plan) any contributions made to the plan after that time will be fully taxable to their employees.

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**The first audit for large plans** is not required until the 2009 plan year. However, the process of performing a 403(b) plan audit is similar to the process used to perform the organization's financial statement audit. As such, consider engaging your auditor early and seek their advise as you prepare for the 2009 audit.

**In addition to early engagement of auditors**, there are other things you can do to prepare for the future. For example, the Form 5500 requires the *Statement of Net Assets* be fully comparative. Thus, the 2008 financial information will need to be included in the plan's 2009 audited financial statements. Many 403(b) plans have not traditionally received a statement of net assets and activity statement at the plan level. Most 403(b) plans are often treated more as individual account arrangements than a formal plan. This consolidated plan information needs to be available for 2008 to meet the presentation requirements of the *Employee Retirement Income Security Act* (ERISA), and for 2009 to complete the plan audit. Organizations should contact their 403(b) investment custodian (typically an insurance company) to ensure that an investment statement will be available at the plan level for 2008 and thereafter.

**Along with auditing plan level information** required for the financial, auditors are also required to perform procedures at the participant level. Organizations should contact their record keeper (typically, this entity is the investment custodian/insurance company or a related entity) to ensure records by participant with plan totals showing the activity for the year are available. *Please Note:* This could be a significant request, especially if each employee is given his/her own account number and they are not linked together by employer.

**Organizations with 403(b) plans** may have previously had little involvement in their plans, as virtually all plan recordkeeping is often outsourced to an insurance company (or similar entity). Employers typically withhold employee contributions and remit them to the insurance company. If the organization contributed to the plan, they would also remit their contributions to the insurance company.

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## **Auditing 403(b) plans...** *(continued from page 1)*

**Now that the plans will be audited**, there will be an expectation that the organization sponsoring the plan has controls over the plan (even if certain functions are outsourced) and the auditors will need to understand these controls. The requirement for the auditors to gain an understanding of, and report deficiencies in, controls are the same for the audit of the plan financial statement as there are for the organizations financial statements.

This article presents only a few of the changes effecting 403(b) plans. Other changes include new guidance on the terms and provisions that must be included in the plan document; new rules regarding nondiscrimination requirements; new rules regarding excluding employees and the universal availability rule; and, new limitations on distributions to employees. We encourage all 403(b) plan sponsors to familiarize themselves with the DOL regulations published in the Nov. 16, 2007, Federal Register available at [www.dol.gov/ebsa/regs/fedreg/final/20071116.pdf](http://www.dol.gov/ebsa/regs/fedreg/final/20071116.pdf). •••

## **About the Author**

Audit Partner, Julleen Snyder, has been with Jacobson Jarvis since February of 1995. She has both practical experience working within a not-for-profit organization, as well as a solid background in accounting and auditing. This multi-disciplinary experience provides her with a unique perspective of the client's issues combined with the ability to implement timely, appropriate solutions.



*Julleen J. Snyder*

Julleen joined the firm of Ernst & Young as an auditor after graduating Cum Laude from Washington State University. Julleen left Ernst & Young to become the controller of a local medical research organization prior to joining Jacobson Jarvis.

She is a member of the American Institute of Certified Public Accountants (AICPA) Council and the Chair-Elect of the Washington Society of Certified Public Accountants' Board of Directors. •••