



Large plan audit: What is it?

Generally, plans with 100 or more participants as of the first day of the plan year must file Form 5500 with Schedule H Financial Information. In addition, DOL regulations require plan sponsors of these “large plans” to engage an independent qualified public accountant to perform an audit of the plan and include it with the Form 5500 each year. These audits can be expensive, typically two to three times the cost of annual plan administration. However, there is an exception for small plans that grow in participant count—a plan that files as a small plan can continue to file as a small plan until they reach 120 participants.



Who are the participants?

The participant count has historically included active employees who have satisfied the plan’s eligibility requirements, regardless of if they are making or receiving contributions. Participants who have separated from service but have a plan balance are also included in the participant count. Beginning with 2023 plan year reporting, this will change to only include those who are active or terminated participants with a balance in the plan. As a result, fewer plans may be required to undergo an audit.



What are best practices for plan sponsors?

To reduce the participant count, it is important that participants are encouraged to take a distribution of their benefits once they have separated from service. Plan sponsors should provide terminated participants with the distribution paperwork during the exit interview or with their final paycheck.

EGPS clients can contact their plan consultant for assistance in “forcing out” terminated participants with small balances who are non-responsive or locating those who are missing. If the participant has a balance over \$5,000 they cannot be forced out of the plan. This amount will increase to \$7,000 in 2024.

It’s important for plan sponsors to be aware of the audit requirement and the additional expenses it brings for planning and budgeting purposes. Finally, auditors need ample time to perform the audit, so it’s important for plan sponsors to provide their TPA with the required administration information as quickly as possible after the plan year end. Not all accountants will perform ERISA plan audits, and those who do are often “booked” early.

We’re here to help determine how this requirement may affect your plan, or can provide a list of firms who do Form 5500 audits. Please let us know if you are interested!