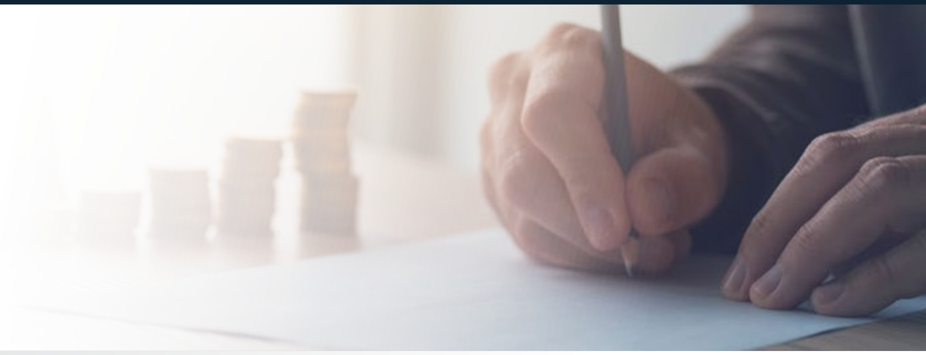


Advisor Connect | Understanding Forfeitures

MAKING IT ACTIONABLE

When we talk about 401(k)-type retirement plans, we sometimes focus on the contributions made by 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 employers often make profit-sharing or matching contributions, too. These contributions may be subject to a vesting schedule.

Vesting over a period of years provides:

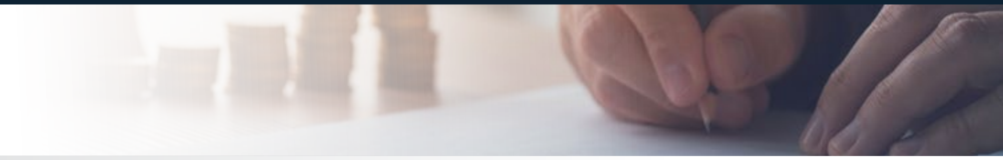
- Incentive for employees to stay with their company
- Flexibility for how the company chooses to share the wealth

When an employee leaves before being fully vested, the non-vested portion of their account is forfeited back to the plan.

Generally, an employer has three options for how they can distribute these forfeited monies:

1. Redistribute the forfeited amount to the remaining eligible participants
2. Apply the forfeited money toward plan expenses, reducing the net expense of maintaining the retirement plan
3. The forfeited money can be used by the employer to reduce future contributions

The company's 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 should be clear to both the employer and all plan participants.



As a plan design feature, vesting and forfeiture rules associated with employer contributions can be an important tool to help the employer offer a potentially lucrative employee benefit while maintaining 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 client’s unique objectives
- Help design a plan that fits your client’s specific needs and goals

If you have any questions about forfeitures, don’t hesitate to reach out to chat. We’re here to support you.