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Everything You Wanted to Know About Form 5500

The Form 5500 is a foundational document for all qualified retirement plan clients; advisers can expect the document to be shared among regulators for potential review.

By Lee Barney **EDITORS@ASSETINTERNATIONAL.COM** | January 20, 2017

very retirement plan, regardless of size, needs to file a Form 5500 with the Internal Revenue Service (IRS), says Richard Rausser, senior vice president of client services at Pentegra Retirement Services in White Plains, New York.

Although qualified plans only need to file one document, the IRS shares these forms with the Department of Labor (DOL), he says.

The form is due seven months after the end of the plan year, explains Jim Vanburen, a director in the human capital services practice at Grant Thornton LLP in Albany, New York. Thus, if a plan's calendar year ends on December 31, it is due July 31, Vanburen says. Should a plan need additional time to complete the form, it can file a Form 5558 for a 2-1/2-month extension, as long as it is filed before the original deadline, he says.

It is important for retirement plan advisers and sponsors to realize that the purpose of these forms is to gather basic information about a plan, as opposed to being a tax return, notes Adam Bergman, a senior tax attorney with IRA Financial Group in New York. That is, undoubtedly, why the IRS audited only 8,706, or less than 1%, of the 908,000 Form 5500s that it processed in 2014, he says.

A plan's recordkeeper or third-party administrator typically fills out the form, according to Vanburen and Mark Klein, CEO of PCS, a recordkeeper in Philadelphia. However, "the form is signed by the plan administrator under penalty of perjury, so sponsors and their advisers can and should verify the accuracy of the form before it is filed," Klein says. "To verify the information and confirm accuracy, sponsors and their advisers should review the completed form against the plan's trust report, employer census information, plan document and other plan information."

Michael Savage, retirement services compliance manager for Paychex in Rochester, New York, says that errors that are typically found on Form 5500 "include participant counts, beginning asset balance, employer tax ID numbers, financial reconciliations with prior plan years and missing service providers on Schedule C."

What does the Form 5500 ask plans about? "The Form 5500 requires information regarding the number of participants, financial information about the assets held in the plan and the service providers involved with the plan," Rausser says. In other words, Savage says: "Current value of assets, liabilities, contributions, fees, transfers, changes in net assets during the plan year and participant count."

"The Form 5500 is the primary source of information about the operations, funding and investments of private-sector, employment-based pension and welfare benefit plans in the U.S." Rausser says. "The information is reported on various schedules attached to the Form 5500. In addition, if the plan covers 100 or more participants at the beginning of the plan year, the plan administrator must attach an audited financial report on the plan assets."

Who uses the Form 5500? Not only is "the Form 5500 Series an important compliance, research and compliance tool for the DOL, [but it can serve as] a disclosure document for plan participants and beneficiaries, and a source of information and data for other Federal agencies, Congress and the private sector in assessing employee benefit, tax and economic trends and policies," Rausser says.

These forms are filed electronically and can be viewed on the DOL's website, Vanburen says. The information is traditionally viewed as quite helpful for advisers looking to pitch new business or sponsors looking to benchmark their plan against those at companies of similar size or business

For the DOL's part, it has "become very savvy at data mining" the information, and potential reforms to the Form 5500 will only increase the regulator's capability to look closely at qualified plans, Vanburen says. The DOL "looks for certain patterns that would indicate that a plan is not compliant with IRS or DOL rules, and those data mining efforts have increased in the past seven to eight years."

Savage adds: "DOL and IRS auditors conduct data mining searches to evaluate the overall health of the nation's private sector retirement plans. Since employers are permitted to deduct the majority of their retirement plan's contributions, the IRS utilizes Form 5500 data to substantiate this tax-qualification claim and proof of the plan's compliance. The DOL also uses Form 5500 data to identify which areas of the country have employers offering retirement plans and their participation rates, and [both IRS and DOL] ERISA [Employee Retirement Income Security Act] investigative units analyze Form 5500 data to identify trending plan errors in order to improve their future plan guidance and determine target areas when conducting plan audits."

There are three types of Form 5500s, Bergman says. Those who are self-employed, have no employees and have $250,000 or more in plan assets are required to file a short form called Form 5500-EZ, which is submitted by mail, he says. These employers can file the form themselves, without having to hire a certified public accountant (CPA), he notes. In this sense, Bergman believes, “the IRS got it right by not forcing small businesses to spend thousands of dollars to get the information.”

Plans with fewer than 100 employees file the 5500 Short Form. Comprising three or four pages, it typically costs plans $1,500 to file, he says. The third form is the long Form 5500, which also asks for numerous schedule attachments, Bergman says. A more complicated form than the other two versions, it typically costs a company $5,000 to file.

On July 21, 2016, the DOL, IRS and Pension Benefit Guaranty Corporation (PBGC) proposed changes to the Form 5500, effective for 2019 Forms that would be filed in 2020, Vanburen says. The report took up more than 700 pages, and laid out plans for five major goals, he says.

The first is to modernize Schedule H, the financial statement, with more detailed reporting on the types of assets that plans invest in, Vanburen notes. Second, instead of filing one Schedule C that lists all of a plan’s provider fees, a plan would have to file a separate Schedule C for “each service provider to allow a deeper dive into each of these relationships,” he says.

Third is to enhance the accessibility and usefulness of the data. Fourth, it would eliminate Form 5500-EZ and 5500 Short Form—requiring plans of all sizes to file the more detailed, long Form 5500.

Finally, Vanburen says, in an effort to improve compliance, the form would ask “more questions on plan operations and financial management. They are going to get more granular.”

“The bottom line,” he concludes, “is that as complex as these forms are currently, they will become even more complex in the coming years, so plan advisers and sponsors need to ensure that their service providers can capture all of the new types of data that are going to be required.”