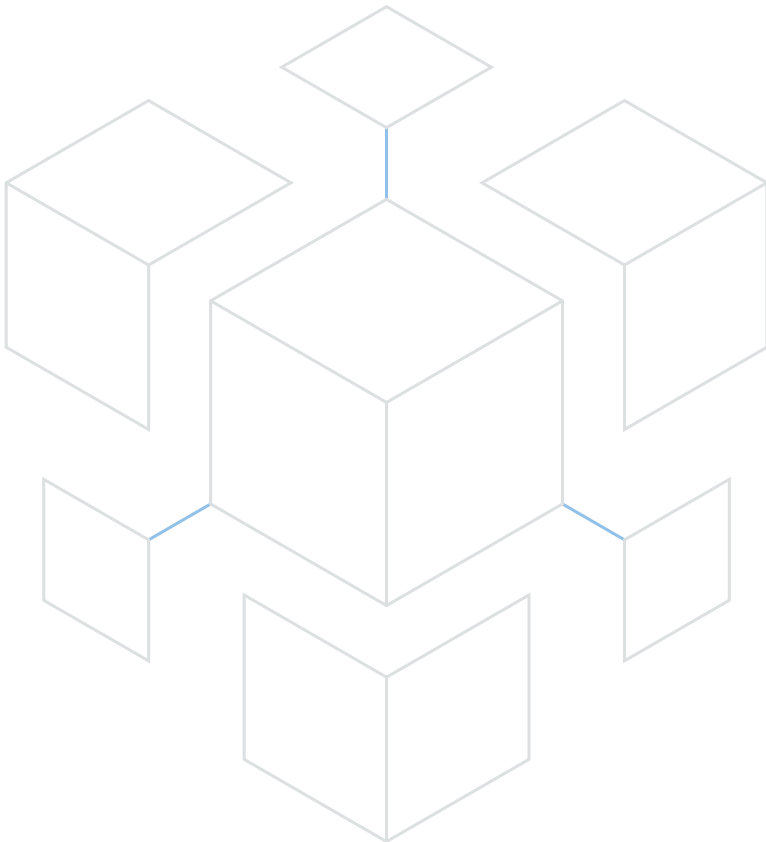
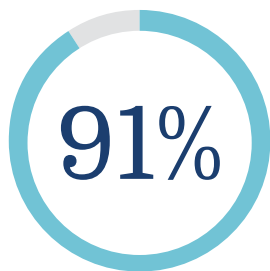


# Improving Retirement Plan Access by Reducing Complexity



The Employee Plans Compliance Resolution System (EPCRS) has become a hot topic in Washington in recent weeks, and the ongoing discussion provides an important opportunity to focus on the importance of retirement security for small business owners and employees.

The responses from 369 of our advisors were striking:



91% of advisors reported that if inadvertent plan errors were allowed to be corrected without involving the IRS, their small business clients would be more likely to adopt a 401(k) plan.

Starting or maintaining a retirement plan can be a major undertaking for small businesses. A survey of small business owners completed by LPL Financial in 2017 revealed that cost and complexity were cited as the top two reasons that small businesses decided not to offer a plan for their employees. However, research has shown that employees are more likely to save, and save more, when they have access to and are automatically enrolled in an employer-sponsored retirement plan. (See [“The Small Business Retirement Savings Challenge”](#) for more on this topic.)

Given that rules for retirement plans can be extremely complex, mistakes can happen. If an employer maintaining a plan, such as a 401(k), inadvertently violates one of the IRS’ rules for keeping that plan qualified, the tax penalties can be significant. The IRS offers EPCRS to help correct mistakes made in retirement plans, including those offered by small businesses. Under this program, there are two main ways to correct plan errors, the Self-Correction Program (SCP) and the Voluntary Correction Program (VCP).

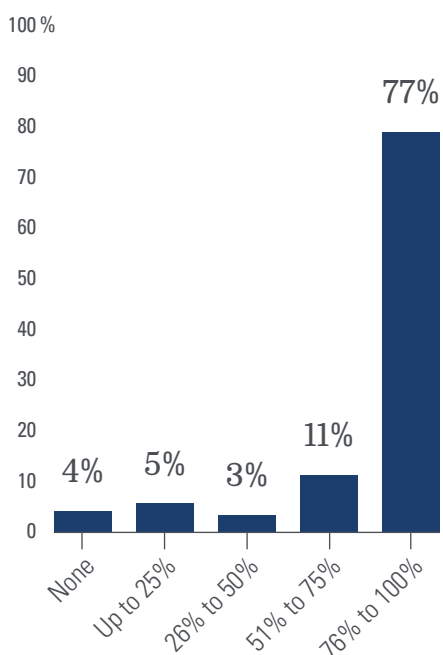
SCP, which allows the correction of errors without a fee and without contacting the IRS, is the least onerous method for everyone involved. However, more complex issues may require the usage of VCP, where the plan sponsor has to make a submission to the IRS and is subject to fees. Beginning in 2018, the IRS increased VCP fees for small businesses significantly, adding a greater burden on those who are trying to offer retirement options for their employees.

These changes have spurred conversation in Congress and within the IRS about the possibility of expanding SCP, to increase the number of errors that can be corrected without fees or any submission to the IRS. On April 17, 2018, a House subcommittee held a hearing to examine the fee changes. During this hearing, Sunita Lough, a commissioner with the IRS, acknowledged the importance of SCP: “There’s no downside [to pursuing expansion of that program].” Lough referred to the program as “good for us and good for [small business]” and noted that the IRS will be meeting in May with small business groups to explore ways to expand and improve SCP.

LPL is supportive of these proposals, and as a result of the many discussions happening within the retirement community, we set out to determine the effect of changing these programs by conducting a survey of our advisors that work with small business retirement plans.

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Among those clients that would be hesitant to identify a failure to the IRS, what percentage would be likely to correct the failure on their own if that option were available?



- In fact, 93% of advisors reported that at least some of their small business clients would likely consider adopting a plan for the first time under those circumstances, even higher than the 91% reporting a materially higher comfort level with the ability to self-correct mistakes.
- In addition, compliance with IRS rules would increase dramatically if opportunities for self-correction are expanded.
  - 85% of advisors reported that at least some of their small business clients would be very hesitant to make a formal submission to the IRS to correct a violation.
  - On the other hand, 77% reported that the vast majority of the small business clients who would be hesitant to report violations to the IRS would be likely to correct the violation on their own if that option was permitted.

These survey results underscore the importance of the proposals to expand opportunities for self-correction. Congressman Richard Neal, a Democrat from Massachusetts, has long championed these efforts. He has written twice to the IRS on this topic (see [here](#) and [here](#)), and has also introduced a [bill](#) to require the IRS to expand its self-correction in certain situations. Congressman Neal said, “It is critical that we provide solutions that improve compliance, eliminate onerous penalties for inadvertent mistakes, and remove barriers to broader retirement coverage. This study reinforces the importance of expanding the opportunity for companies to self-correct errors, as I have suggested in a letter to the IRS.”

## Conclusion

Based on our previous research, we know small business owners want to offer retirement plans for their employees, but say they can’t provide this benefit due to financial constraints and what they call unrealistic and challenging red-tape from Washington. It’s our hope that the IRS will continue to hear from lawmakers like Congressman Neal, about the importance of the government’s support for businesses that offer retirement plans.

Expanding the opportunities for self-correction can offer real solutions. Simplifying the process will open the door for business owners to establish plans and provide for a brighter future for employees. ■

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