

# Plan audit requirements



## DO YOUR EMPLOYEE BENEFIT PLANS NEED AUDITING?

### Form 5500 reporting requirements for retirement benefit plans vary.

It all depends on whether Form 5500 is being filed for a "large plan" or a "small plan." A plan's classification determines which schedules need to be filed with Form 5500 and which schedules affect its audit requirement.

### Counting participants

Generally, a large plan is a retirement plan (pension, profit sharing, 401(k), 403(b), money purchase, etc.) that has 100 or more participants as of the beginning of the plan year. For new plans, the count is determined as of the end of the plan year.

A participant is defined as follows:

- **Active participants:** Individuals currently employed with the Plan sponsor, who are covered under the Plan and receive credited services. Active participants include those employees who have elected to participate in a plan, as well as those who are eligible to participate but have elected not to do so.
- **Retired or separated participants:** Individuals who are no longer employed by the employer, but who receive benefits or are entitled to receive benefits under the Plan. A common example is a former employee who maintains an account balance in the Plan.
- **Deceased participants:** Individuals who are deceased and have one or more beneficiaries receiving or entitled to receive benefits.

For plan years beginning on or after January 1, 2023, only participants with an account balance are counted for purposes of determining whether a defined contribution plan is a small or large plan.

If the Plan qualifies as a large plan and is funded, it must file Schedule H to Form 5500 and have the Plan audited by a qualified independent public accountant. If the Plan has fewer than 100 participants at the beginning of the Plan year (or end of the Plan year for new plans), it will file Schedule I with its 5500 for a small plan, which does not require an audit if the small plan waiver requirement is satisfied. Since the audit requirement is solely dependent on the number of participants, an accurate participant count is critical.

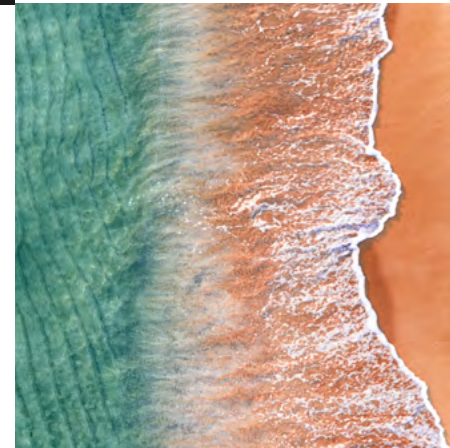
## Exceptions to the audit requirement

### The short plan year rule

If the Plan had a short year of seven months or less for either the prior plan year or the plan year being reported on the Form 5500, then an election may be made to defer the filing of the accountant's report. If such an election was made in the prior year, the Plan must file as a large plan in the current year, regardless of the number of participants.

### The 80-120 participant rule

If the number of participants is between 80 and 120 and a Form 5500 was filed in the prior year, the filer may elect to complete the current year's Form 5500 in the same category (large or small plan) as it was filed in the previous year. For example, if the number of participants at the beginning of the Plan year is 110, and a Form 5500 was filed in the previous year as a small plan (Schedule I was filed instead of Schedule H), the filer may elect to continue to file Schedule I and forego the audit requirement. However, if the participant count is 121, then regardless of what plan category was filed in the previous year, the current year's Form 5500 must include Schedule H and the Plan must be audited.



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