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Methods of Employer Contribution Submission

by Carol Westfall and Michael A. Van Sertima

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In the current climate of underfunded pension plans, effectiveness and efficiency are of utmost importance when collecting employer contributions to pension and other benefit plans. In addition to adhering to a sound collection and delinquency policy that includes payroll audits, using the appropriate method of collecting and processing employer contributions could work significantly to the advantage of a benefit plan. This article provides an overview of methods for collecting and processing employer contributions, with a focus on the information-processing and reporting aspects of collection.

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Methods of Employer Contribution Submission

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Employer contributions are a main source of income for employee benefit plans, including multiemployer plans. Both pension and welfare plans require adequate and timely funding in order to provide the benefits promised under their plan documents. As a result, every board of trustees should carefully consider the methods available for collecting and processing employer contributions.

The three prevalent methods used by multiemployer benefit plans to collect employer contributions are the periodic remittance reporting system (usually on a monthly basis), the stamp system and the voucher system. Additionally, some plans are now converting to Web-based systems. Regardless of the method used, the board of trustees is required to fulfill its fiduciary obligation by ensuring the plan collects in a timely manner the contributions due to it under applicable collective bargaining agreements. A choice of which of these systems to use could be a choice about collection timeliness.

Periodic Remittance Reporting System

Under this system, employers are required to prepare reports (usually on a monthly basis) and remit the contributions due therewith. The reports list covered employees, the basis on which the contribution is calculated (hours, wages or weeks), the contribution rate and the total contribution for the period. Some plans send to each employer a report prepopulated with the names of covered employees, and the employer fills in the rest of it by adding new hires, deleting terminated employees and filling in the amount of the contribution to be remitted. Other plans simply provide blank forms, which are completed entirely by the employer.

Regardless of the method used to prepare the remittance report, the contribution amount is calculated by the employer. Since employers that are subject to a collective bargaining agreement typically contribute to more than one benefit plan, the report is usually designed to accommodate remittance to all applicable plans. Some plans require employers to

remit separate checks to each plan included in the remittance report while others accept one check for the total contributions received. In the latter situation, collections would have to be allocated to the various plans covered by the collective bargaining agreements.

The primary advantage of this method is that, since it is commonly used in the multiemployer environment, it is time-tested and there are many software vendors with products to offer. A primary disadvantage is the time lag between the contribution period and the remittance of the contributions, which delays the funding of benefits. This system also requires significant manual data processing. Upon receipt of the remittance reports from employers, each participant's record must be updated to keep eligibility information current.

Another disadvantage is that employees may become aware only upon suspension of benefits that employers are not remitting contributions on their behalf.

Stamp System

This method requires the employer to purchase stamps, either in advance of work or soon after work is performed. Stamps are printed on pieces of adhesive-backed paper with dimensions of approximately three inches by two inches. Stamps are distributed with each covered employee's pay for every pay period that the employee earns credit under the collective bargaining agreement. The employee maintains stamps in a booklet provided by the plan, which is specifically designed for accumulating that employee's stamps for a specified period. Employees submit their booklets to the plan for processing in accordance with plan rules. The employer provides a remittance report to the fund office. Bar codes on the stamps are generally scanned and compared to the information provided by the employer's remittance report for consistency.

In addition to board of trustees oversight, employees are in a position to monitor whether the employer is discharging its obligation to fund plan benefits. The stamp system is common in the building trades; it gives participants some degree of assurance that contributions are being

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Bonus Term

Contribution formula—As used under a qualified profit-sharing trust or money purchase pension plan, it is the formula that spells out when and in what amounts the employer will make contributions to the trust.

Excerpted from *Benefits and Compensation Glossary*, 11th edition (International Foundation).

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Sample Voucher

Name of the Association or the Administrator
Street Address
City, State Zip Code

PROCESSING DATE
EMPLOYER ID
EMPLOYER NAME
EMPLOYER ADDRESS
EMPLOYER ADDRESS 2
EMPLOYER CITY/STATE

Credited to the benefit account of

EMPLOYEE NAME
999-99-9999
EMPLOYEE ADDRESS
EMPLOYEE ADDRESS 2
EMPLOYEE ADDRESS 3
EMPLOYEE CITY/STATE

BENEFITS
\$ 1,100.00*

NON-NEGOTIABLE

made on their behalf as they move from one covered employer to another.

This system converts the disadvantages of the previously mentioned remittance report system into the main advantages of the stamp system. Contributions are credited to participants at or around the time work is performed. The remittance of the contributions is also timely because the plan receives the dollars for stamps distributed to employees. An additional advantage is that employer funding of benefits is visible to covered employees in the form of the stamps collected with their pay. This is an added level of monitoring employer contributions to the plan.

There are three broad aspects to a stamp system: the stamps themselves, employer reporting and employee reporting.

The Stamps

Some plans outsource the printing of stamps while other plans produce their own stamps at the point of sale using specialized hardware and software. Plans that outsource printing need to consider the costs associated with the printing, along with safeguarding the valuable inventory of stamps. Proper records of stamps in inventory need to be maintained.

The typical scenario in a multiemployer environment is one in which an employer contributes to more than one benefit plan on behalf of a particular employee. The various rates of contribution (to pension, welfare and training plans, for example) are preentered into a computer system. When stamps are sold to an

employer, the system automatically calculates and allocates the amounts due to each plan. Stamps are usually established in varying denominations (40 hours, 35 hours, eight hours, seven hours, one hour, etc.), including separate denominations for overtime work. In addition, stamps represent specific work periods and contribution rates consistent with the collective bargaining agreement. A single one-hour stamp represents the required contributions for all the plans to which the employer is required to contribute. For instance, if the employer is required to contribute to three plans, then the one-hour stamp represents a contribution to all three plans at the rates stipulated by the collective bargaining agreement.

Plans usually find the ability to easily customize and produce their own stamps significantly advantageous over maintaining an inventory of preprinted stamps. Printing stamps at the point of sale eliminates the costs associated with safeguarding the inventory as there is no inventory—Stamps are printed as needed. This is an advantage in terms of internal control. Plans that print their own stamps can easily customize the look of the stamps and encode any relevant information such as the employer's name, participant's name, denomination and work period.

Care must be exercised in tracking the stamps through the plan's accounting/information system and in establishing adequate internal controls over the printing device and the stamp-coding software. Blank stock is loaded into the

printer, and stamps are printed based on the stamp order from the employer. At the same time, the system automatically calculates the amount of money to be collected and allocates the amounts due to each plan. This is an important internal control in that the cash to be collected is logged into the system. This can then be compared to actual collections. A bar code capturing all relevant information is printed at the bottom of each stamp. Stamps can be encoded with various features, such as invisible watermarks and holograms to help prevent the printing of counterfeit stamps.

Employer Reporting

Employers still need to report to the plan office in much the same way as under the periodic remittance reporting system, as the burden of providing information to the plan to update eligibility should not be placed on participants. The information transmitted by the employer sometimes fulfills a need when the participant has lost or misplaced stamps. The employer's records can serve to validate a participant's claims regarding such stamps.

Employee Reporting

Probably better described as employee monitoring, this is an extremely valuable function of the stamp system. Employees are monitoring the contributions due them under the terms of the collective bargaining agreement. Each pay period, employees receive stamps evidencing the contributions made on their behalf. In ad-

dition, as required by plan rules, they periodically turn the stamps received in to the plan's contribution department to ensure that the information maintained by the plan agrees with their documentation. The bar code on stamps that are turned in (redeemed) is read, and the encoded data is fed into the plan's computer system. This is then compared to information provided by the employers' remittance reports.

Voucher System

This system represents a twist on the stamp system. It requires employers to purchase vouchers (see page 14) specifically identifying the participants for whom the benefits are paid at the time the vouchers are purchased. Vouchers are included in each covered employee's pay envelope each pay period. The employee accumulates the vouchers and either turns them into the plan office or logs them into a secure Web site for processing and comparison to the information provided by the employer at the time of purchase.

The advantages of this method are the same as those of a stamp system with the added value of identifying the participant who is given credit at the time of purchase. As a consequence, participants' eligibility records can be updated on a timelier basis. Additionally, voucher systems can be implemented to enable the entire transaction to be done electronically, without any special devices used by the employer.

Web-Based Systems

Some plan offices are closing the technology gap by using Web-based systems for contribution reporting and remittance. Employers and plan staff access a Web site through a secured Internet portal. Participants also access their records to monitor contributions made on their behalf or may receive vouchers, as shown, with their paychecks. These systems do not require hardware or software installation at the plan or employer offices and can be customized to meet the needs of virtually any plan. In most cases, an employer's existing payroll system is used to upload employees' information (hours worked, contributions made, etc.). Additionally, the total contribution is allocated among the various plans to which employers contribute. A Web-based system could also dump eligibility data (hours, etc.) into plan participants' records.

Employers can choose between different reporting and payment methods. The reporting methods include:

- File import—Employers can export information from their payroll system, save it in a format provided by the vendor of the Web-based system and import it into the vendor's system.
- Direct entry—Employers can key payroll data directly into the vendor's system.
- Telephone entry—Employers that do not want to use the Internet can use this option.

Payment options include:

- Automated clearinghouse (ACH) payment—The vast majority of employers use electronic fund transfers through an ACH. All necessary bank account information is stored at the vendor.
- Direct pay or lock box—Employers enter the information electronically using one of the three methods listed above. When the employer selects the "pay" button, the system will generate a payment voucher or remittance advice, which has mailing instructions for the payment. When received by the plan or bank, the check number and amount are entered into the system. If paid in full, the transaction is complete. If there is an underpayment, the system will generate an e-mail to notify and guide the employer back into the system. The transaction will remain open until the obligation has been paid in full. Interest could be automatically applied.

Before deciding to outsource this function, as with any other transaction processing function, it is imperative that the board of trustees get a comfort level with the internal controls at the processing organization. We recommend that the existence of a Type II Statement on Auditing Standard (SAS) No. 70 report on the organization's internal controls be a key consideration. While this is no guarantee against mishaps in processing or remitting contributions, it nevertheless provides some degree of assurance on the integrity of the system output.

A Web-based system:

- Strengthens plan office internal controls with a definite and clear-cut segregation of collection of employer contributions from recording those contributions in the books of account.
- Eliminates certain processing activi-

ties at the plan office. Staff can focus more on the needs of participants and enhanced customer service.

- Ends investment in contribution processing software and upgrades and maintenance costs of such software.
- Provides notification of employers that did not submit contribution reports or submitted a report but not a payment.
- Ensures real-time access to information on employer contributions and remittances and to participant data.

Transitioning

Transitioning from the conventional periodic remittance reporting system to any of the others requires a detailed and reliable systems analysis, with input from all key users. This should assist in providing a smooth changeover. Nevertheless, the entire process could run anywhere from three months to a year. The plan office has to set up the information-processing and accounting systems, employers have to be notified of the change and trained on the new procedure, and employees have to be educated. Some points to keep in mind:

- Most plans would find it useful to form a committee or subcommittee charged with examining, among other things, the cost/benefit of switching from a conventional system, overseeing a detailed systems analysis, identifying potential vendors and drafting a request for proposal.
- The committee should include plan professionals, such as the certified public accountant, attorney, actuary and computer consultant; employers; and internal users drawn from information technology, contributions processing, etc.
- The impact on the plan's collection and delinquency policies and procedures, in particular with respect to the timing of receipt of contributions and determination of delinquent contributions. Remember that under the stamp, voucher or Web-based systems, employer funding of benefits is expected to coincide with employee pay periods and would be more current than under the periodic remittance reporting system. Under the latter system, contributions might have

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been remitted once a month for weekly pay periods in the preceding month. The question of when a contribution becomes delinquent may have to be revisited.

- The policies and procedures should also address timely reporting by employers. Having funded the benefits, employers may not see the importance of the timely submission of their reports.

Conclusion

Regardless of the remittance method used, the plan must ensure that employee records are updated in a timely manner as contributions are earned and the necessary reports are received from both the employee and employer. Obviously, before changing from one system to another, the board of trustees must carefully weigh costs versus benefits. **B&C**

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For information on ordering reprints of this article, call (888) 334-3327, option 4.



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