



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

October 2016



Tori Patrick
President
Progressive Strategies Financial
Group
27201 Puerta Real Suite 300
Mission Viejo, CA 92691
949.204.3800 702.893.1500
Fax: 702.549.1900
Tori@psfgwealth.com
www.psfwealth.com

CA Insurance Lic# OJ13973

Your Plan's Vesting Schedule: Tailor It to Meet Your Needs

A retirement plan's vesting schedule, which establishes when employer contributions to the plan will be owned outright by the employee, plays a role in how effective the plan is in helping to attract and retain employees. Employers will want to carefully consider their goals and the available options when selecting a vesting schedule for their plan.

Common Vesting Schedules

The simplest schedule -- from an administrative perspective -- is to allow immediate vesting in 100% of the employer contributions allocated to the employee. However, immediate vesting offers little incentive for employees to stay with the company and therefore may become more counterproductive as the rates of employee turnover increase.

For this reason, sponsors concerned about employee retention often turn to a delayed vesting schedule. Instead of allowing 100% vesting up front, they seek to maximize employee retention by tying the vesting percentage to the participant's years of service.

Generally, for defined contribution plans, such as 401(k) plans, delayed vesting is available in two forms: "cliff" vesting and "graded" vesting. With cliff vesting, a participant becomes 100% vested after a specific period of service. With graded vesting, a participant becomes vested at a percentage amount that gradually increases until he or she accrues enough years of service to be 100% vested. (It should be noted that an employee's own contributions to the plan are always 100% vested, or owned, by the employee.)

Cliff vs. Graded Vesting: Examples

Cliff Vesting		Graded Vesting	
Years of Service	% Vested	Years of Service	% Vested
1	0%	1	0%
2	0%	2	20%
3	100%	3	40%
		4	60%
		5	80%
		6	100%

Employers may choose a schedule that provides for vesting at a more rapid rate than those shown above, but they may not adopt a schedule that provides for less rapid vesting.

How do employers calculate years of service? A year of service is any vesting computation period in which the employee completes the number of hours of service (not exceeding 1,000) required by the plan. Typically, the vesting computation period is the plan year, but it may be any other 12-consecutive-month period.

Are all employer contributions subject to a vesting schedule? Several types of employer contributions must always be 100% vested. These include both nonelective and matching contributions in a SIMPLE 401(k) plan or a "safe harbor" 401(k) plan.

Can vesting schedules be changed? Generally, a vesting schedule may be changed, but the vested percentage of the existing participants may not be reduced by the amended schedule. Moreover, an employee with three or more years of service by the end of the applicable election period can choose to select the previous vesting schedule. The election period begins no later than the date of adoption of the amended schedule and ends on the latest of the following dates:

- Sixty days after the modified vesting schedule is adopted;
- Sixty days after the modified vesting schedule is made effective; or
- Sixty days after the participant is provided a written notice of the change in vesting schedule.

What situations would cause vesting of an employee's entire balance? In certain circumstances, the participant's interest in a 401(k) plan is required by law to be 100% vested. These circumstances include attainment of normal retirement age (as defined in the plan), termination or partial termination of the plan, and complete discontinuance of contributions to the plan. Additionally, though not required by law, nearly all 401(k) plans provide for 100% vesting upon the participant's death or disability.

© 2016 Wealth Management Systems Inc. All rights reserved.

1-540091

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

LPL Financial, Member FINRA/SIPC

This newsletter was created using [Newsletter OnDemand](#), powered by Wealth Management Systems Inc.