Overfunding Your Retirement Plan

Information about plan limits and issues surrounding overfunding your 401(k) or other Defined Contribution Plan

401(k) Plans and other defined contribution plans allow employees and employers to make annual tax-favored contributions up to limits prescribed by the IRS. This document provides an overview of contribution limits and discusses procedures for correcting excess contributions.

Overview of Contribution Limits

Below are the most common limits for 2024.

Limit	Amount
Employee Salary Deferrals	$23,000
Employee Catch-Up (Age 50+)	$7,500
Employee Catch-Up (Age 60, 61, 62, 63 in calendar year)	$11,250
Total Employee Contributions	100% of Compensation (Max of $69K + $7.5K Catch-up or + $11.25K Catch-up)
Overall Plan Limit	25% of Aggregate Eligible Compensation

These amounts are indexed annually for inflation. Click here for more details on plan limits.

Reasons Plans Become Overfunded

At the end of each year, JULY calculates the maximum employer contribution and provides instructions to clients for funding these amounts. Plans can become overfunded, however, when an employer decides to pre-fund contributions and the amounts funded are in excess of one of the liits mentioned above (most commonly the amounts funded exceed 25% of Aggregate Eligible Compensation).

Correcting an Overfunded Plan

When a plan is overfunded, it must correct the excess contributions to maintain its tax-qualified status. The method of correction depends on the type of contribution in question (i.e., employee salary deferrals vs. employer contributions).

Excess Employee Deferrals – When a participant has deferred more than the allowed salary deferral limit for the year, the IRS permitted correction method is to refund the excess amounts plus any earnings attributable to the contributions. The employee will receive a Form 1099-R and must pay income tax on the distribution in the year paid.

Excess Employer Contributions - When the excess contribution is attributable to employer contributions, the excess must be applied to the next plan year and will become subject to the next plan year's limits. In addition, a plan may be required to file IRS Form 5330 to report the error and pay a 10% excise tax on the overfunded amounts.

Form 5330 – Form 5330 will be required when amounts deposited during the plan year, plus any prior year excess amounts applied to the plan year, exceed the limits for that year. In this instance, the employer must file IRS Form 5330 and pay the 10% excise tax. Form 5330 for excess contributions is due within 7 months following the plan year end for the year the limit was exceeded.

Fees for Correcting Overfunding

Following each plan year end, JULY calculates the maximum contribution limits, assists clients with correcting any overfunded amounts, and prepares any required tax returns that clients must file. The fees and costs for these services (if needed) include:

Service	To JULY	To IRS
IRS Form 5330	$150	10% of Excess
Corrected Distributions	$100	

Summary

Plans are subject to annual contribution requirements prescribed by the IRS. If a plan exceeds these limits, it must correct the error by refunding excess amounts and may need to file IRS Form 5330 and pay a 10% excise tax. To avoid overfunding, employers should review the annual limits and monitor pre-funded amounts and salary deferrals closely throughout the year to be certain they are not in excess of contribution limits. Waiting until after year-end to fund employer contributions is the safest option.

Please contact JULY at 888.333.5859 for more information on these requirements.