

Payroll Processes and Timely 401(k) Contributions: Avoiding Late Deposit Issues

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One of the most common compliance issues identified during retirement plan audits involves payroll processes and the timing of employee contribution remittances. Because employee deferrals are withheld directly from payroll, the Department of Labor (DOL) places a strong emphasis on ensuring these amounts are deposited into the plan as soon as administratively feasible.

A frequent area of confusion involves the 15-business-day rule. While plan sponsors may hear that employee contributions must be deposited within 15 business days after the end of the month, this is not a safe harbor for most plans. In practice, contributions are expected to be remitted *as soon as they can reasonably be segregated from the employer's general assets*—often within just a few business days after payroll is processed. Deposits made within 15 business days may still be considered late if the plan has historically been able to remit contributions sooner.

Late deposits often occur unintentionally. Changes in payroll providers, staffing transitions, holidays, or manual processing steps can create delays that go unnoticed. Even short delays can be identified during an audit or regulatory review and may require corrective action, including disclosure on the Form 5500 and potential follow-up with the DOL.

Establishing clear and consistent payroll procedures can significantly reduce this risk. This includes understanding who is responsible for initiating contribution transfers, how soon after payroll they are processed, and whether backup procedures are in place when normal workflows are disrupted.

We recommend plan sponsors take time to review their payroll and contribution remittance processes to ensure employee deferrals and loan repayments are being deposited promptly and consistently. A brief review now can help prevent avoidable compliance issues later.

If you have questions about contribution timing or would like assistance reviewing your payroll processes, please don't hesitate to reach out to our team.

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