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User Group Meeting
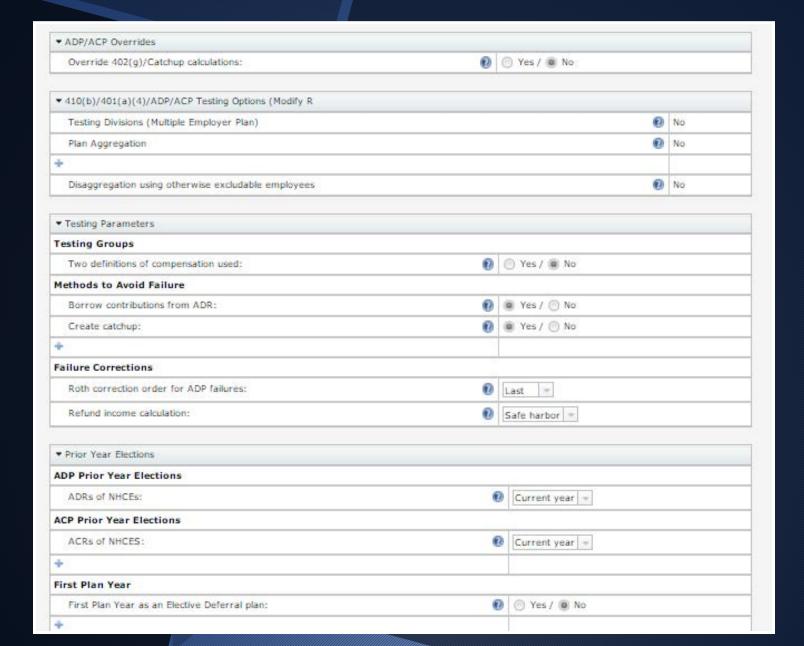
Meeting # 40 – January 10, 2017

Agenda

- ADP/ACP testing parameters
- Reading the ADP/ACP test results
- Disaggregation of otherwise excludables
- Software updates and releases
- Open forum

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Jane Nickalls
ADP/ACP Testing Parameters

ADP Testing Parameters

▼ ADP/ACP Overrides

Override 402(g)/Catchup calculations:	❓	○ Yes / ◉ No

▼ 410(b)/401(a)(4)/ADP/ACP Testing Options (Modify R

Testing Divisions (Multiple Employer Plan)	❓	No
Plan Aggregation	❓	No
✦		
Disaggregation using otherwise excludable employees	❓	No

▼ Testing Parameters

Testing Groups

Two definitions of compensation used:	❓	○ Yes / ◉ No

Methods to Avoid Failure

Borrow contributions from ADR:	❓	◉ Yes / ○ No
Create catchup:	❓	◉ Yes / ○ No
✦		

Failure Corrections

Roth correction order for ADP failures:	❓	Last ▾
Refund income calculation:	❓	Safe harbor ▾

▼ Prior Year Elections

ADP Prior Year Elections

ADRs of NHCEs:	❓	Current year ▾

ACP Prior Year Elections

ACRs of NHCES:	❓	Current year ▾
✦		

First Plan Year

First Plan Year as an Elective Deferral plan:	❓	○ Yes / ◉ No
✦		

ADP Testing Parameters

- Aggregation and disaggregation of otherwise excludable employees
  - These options are selected on the Set Combined Test Parameters screen – will apply to all testing
  - Multiple Employer Plan and Division functionalities not yet available

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ADP Testing Parameters

- Testing Groups – option to use two different definitions of compensation
  - May allow test to pass; example: e.g. compensation less deferrals and compensation including deferrals
  - Need to add an additional compensation field to the primary census grid and adjust the mapping

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ADP Testing Parameters

- Methods to avoid failure
  - Borrow contributions from ADR ('Shifting')
  - Create catchup – moves $ to catchup if available, rather than refunding
  - Recharacterize (as after-tax) – used rarely; requires the after-tax source to be active

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ADP Testing Parameters

- Failure Corrections
  - Roth correction order for ADP failures – indicates how Roth deferrals are refunded vis-à-vis pre-tax
    - First, **Last** or Pro-rate
  - Refund income calculation
    - **Safe Harbor**, Percent or Dollar
    - Safe Harbor basis = Beg Bal +contributions

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ADP Testing Parameters

- Prior Year Elections
  - Select 'Prior Year' – allow the screen to refresh
  - Numbers will pull from the prior year if the tests were run; otherwise add the numbers
    - Need to populate all three rows if using disaggregation
    - Add data and click 'Update'
  - For first year plan, if using 3%, select 'Prior Year'

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Janice Herrin
Reading the Test Results

Results Using Disaggregation

ADP/ACP Testing Results

Group		ADP					ACP						
Union/Non-Union	Disaggregation	NHCE Cnt	NHCE ADP	MAX	HCE ADP	ADP Result	NHCE Cnt	ACP Orig	From ADP	ADJ NHCE ACP	ADJ MAX	HCE ACP	ACP Result
N/A	DisaggOver	9	4.55	6.55	8.71	FAIL	9	1.25	0.00	1.25	2.50	2.25	PASS
N/A	DisaggUnder	0	0.00	0.00	0.00	PASS	0	0.00	0.00	0.00	0.00	0.00	PASS
N/A	ExclNHCE	9	4.55	6.55	8.71	FAIL	9	1.25	0.00	1.25	2.50	2.25	PASS

Group	Shows Test Results For
DisaggOver	Those who are non-excludable
DisaggUnder	Those who do not meet statutory eligibility
ExclNHCE	All HCEs and non-excludable NHCEs (sometimes referred to as the 'Carve-out' method)

Corrections

- Need to select how correction amounts should be calculated; using disaggregation, options are:
  - One test - excludes NHCEs who do not meet statutory eligibility
  - Two tests – those meeting statutory eligibility and those not meeting - need to pass both
- Test results screen shows all three but corrections are calculated on the option you select
- Using 2 definitions of compensation would produce similar options. Example: 2 definitions of comp and disaggregation of OEE would produce 6 result rows

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Corrections

Run ADP/ACP Test

Company:	ABC Company Inc	ID:
Plan:	JN 2014 Demo Plan	ID:
Year End:	12/31/2014	

Group		ADP					ACP						
Union/Non-Union	Disaggregation	NHCE Cnt	NHCE ADP	MAX	HCE ADP	ADP Result	NHCE Cnt	ACP Orig	From ADP	ADJ NHCE ACP	ADJ MAX	HCE ACP	ACP Result
N/A	DisaggOver	10	7.97	9.97	12.84	FAIL	10	1.16	0.00	1.16	2.32	2.00	PASS
N/A	DisaggUnder	2	5.45	7.45	0.00	PASS	2	2.00	0.00	2.00	4.00	0.00	PASS
N/A	ExclNHCE	10	7.97	9.97	12.84	FAIL	10	1.16	0.00	1.16	2.32	2.00	PASS

Test Fails

Select testing combination to correct: ExclNHCE:1 ▼

ExclNHCE:1
Two tests:1

Select Test Option

Please select which test option to correct.

OK

- If no option is selected, typically will see error messages or no results on the test report

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Calculating QNECs

- QNEC is not available if:
  - Prior Year testing used
  - QNECs coded to go to all participants rather than NHCEs only and formula is pro-rata or fixed amount
    - Okay if 'Targeted' ('Bottom-up') formula selected
- Calculated amounts are estimates only – need to allocate QNEC & re-run tests

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FTW Calculating ADP Refunds

- 'Leveling' method steps
  - Determine Adjusted ADR to pass test
  - Determine Preliminary amounts to pass test
  - Apportion amount between HCEs based on highest amount deferred – refund prelim amount
- All or part is moved to catchup if possible
- Actual refund in bold

ADP Test Result: FAIL

Name	SSN	Comp	Contrib	ADR	Adj ADR	Prelim $	Refund Prelim	CatchUp ADP	Total Refund	Elective Refund	Roth Refund	CatchUp 402g Prev. used
Bennett, Elizabeth	111-11-1111	75000.00	17500.00	23.33	11.57	8822.50	3405.67	0.00	3405.67	3405.67	0.00	0.00
Bennett, Jane	111-11-1112	83000.00	7500.00	9.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dashwood, Elinor	111-11-1114	85000.00	17500.00	20.59	11.57	7665.50	3405.66	0.00	3405.66	0.00	3405.66	0.00
Dashwood, Mary	111-11-1115	265000.00	18000.00	6.79	0.00	0.00	3905.67	0.00	3905.67	3905.67	0.00	6000.00
Bennett, Henry	111-11-1116	265000.00	18000.00	6.79	0.00	0.00	3905.67	0.00	3905.67	3905.67	0.00	6000.00
De Bourgh, Catherine	111-11-1119	130000.00	18000.00	13.85	11.58	2946.00	3905.67	3000.00	905.67	905.67	0.00	3000.00
Gardiner, George	111-11-1122	150000.00	15000.00	10.00	0.00	0.00	905.66	905.66	0.00	0.00	0.00	0.00

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FTW Calculating ADP Earnings

■ Earnings calculated for refunds – posted transactions used; otherwise enter beginning balance, contributions & earning for each HCE and click Update Earnings button

ADP Refund Earnings

Name	SSN	Beg Bal + Contrib	Earnings	Percent	Refund	Refund Earn
Bennett, Elizabeth	111-11-1111	0.00	0.00	0.0000	3405.67	0.00
Dashwood, Elinor	111-11-1114	0.00	0.00	0.0000	3405.66	0.00
Dashwood, Mary	111-11-1115	0.00	0.00	0.0000	3905.67	0.00
Bennett, Henry	111-11-1116	0.00	0.00	0.0000	3905.67	0.00
De Bourgh, Catherine	111-11-1119	0.00	0.00	0.0000	905.67	0.00

[Update Earnings]

Update ADP/ACP refund earnings with transaction data
Note: Elective Deferrals and Roth will be combined for ADP Corrections

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FTW Calculating ACP Refunds

- Calculated separately from ADP refund

- Same methodology as ADP refund calculation
  - No catch-up or 402(g) limits
  - User will need to apply vesting schedule

- Associated Match – from ADP refunds – is displayed on this screen
  - Make sure a match formula is entered on the Set Allocation Parameters screen

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ACP Refunds

- Screen shot below shows preliminary refund calculation, actual refund amount and associated match.

ACP Test Result: FAIL

Name	SSN	Comp	Contrib	ACR	Adj ACR	Prelim $	Refund	Associated Match Forf
Fonda, Henry	111-11-1117	175000.00	14000.00	8.00	5.75	3937.50	3217.90	0.00
Gable, Clark	111-11-1118	255000.00	16650.00	6.53	5.75	1987.50	5867.90	0.00
Hepburn, Audrey	111-11-1120	150001.00	10000.03	6.67	5.75	1374.97	0.00	0.00
Hepburn, Katharine	111-11-1121	145000.00	11600.00	8.00	5.75	3262.50	817.90	382.50
Leigh, Vivien	111-11-1123	255000.00	18900.00	7.41	5.75	4237.50	8117.91	0.00
Stewart, Jimmy	111-11-1126	160001.00	12800.08	8.00	5.75	3600.02	2017.98	0.00
Wayne, John	111-11-1128	159000.00	12720.00	8.00	5.75	3577.50	1937.90	0.00

More on Associated Match

- Associated match is match that a participant is no longer entitled to because of refunded deferrals
  - Also referred to as 'Orphaned Match'
- Is NOT the non-vested portion of the ACP refund!
  - Amount is forfeited; no vesting applied
- ACP refund amounts are calculated first – refunds may take care of associated match

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Associated Match Calculation

- Step 1: Calculate ADP refund
- Step 2: Calculate ACP refund
- Step 3: Calculate Adjusted Deferrals
  - Adjusted Deferral = original deferrals less ADP refund
- Step 4: Calculate Maximum Match permitted
  - Apply the match formula to Adjusted Deferrals
- Step 5: Calculate Adjusted Match
  - Adjusted Match = original match less ACP refund
- If the remaining match is greater than Max Match then the difference is Associated Match that is forfeited

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Calculation Example #1

- Plan Matches 50% up to 8% of deferrals
  - Catch-up Contributions (CUC) also matched
- Martha HCE, age 55; total deferrals = $22,500
- Ian HCE, age 45; total deferrals = $18,000

Name	Comp	Deferrals	402(g) CUC	% Deferred	Match
Martha	$265,000	$18,000	$4,500	8.302%	$10,600
Ian	$150,000	$18,000		12.000%	$6,000

- ADP test fails; ACP test passes
- Martha & Ian both need to receive ADP refunds
- Adjusted deferral % Martha - 7.736% & Ian - 9.667%

Name	Refund	ADP CUC	Final Refund	Adjusted Deferrals	Max Match	Original Match	Associated Match Forfeiture
Martha	$3,000	$1,500	$1,500	$20,500	$10,250	$10,600	$10,600-$10,250 = $350
Ian	$3,000	0	$3,000	$14,500	$6,000	$6,000	0

Calculation Example #2

- Plan Matches 50% up to 8% of deferrals
- Norma, HCE, age 45
- ADP & ACP tests both fail
- Norma needs to receive refunds

Name	Comp	Deferrals	% Deferred	Match
Norma	$210,000	$10,000	4.762%	$5,000

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Calculation Example #2

ACP Test Fails		
Name	Match Refund	Adjusted Match
Norma	$1800	$5000 - $1800 = $3,200

ADP Test Fails					
Original 401(k) Deferral	ADP Refund	Adjusted Deferrals	Max Match	Adjusted Match	Associated Match Forfeiture
$10,000	$4,000	2.857%	$3,000	$3,200	$3,200 - $3,000 = $200

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Using Top Paid Group Election

- Top paid group is the highest paid 20% of non-excludable employees – based on prior year compensation

- The first year the plan is in ftwilliam.com the user needs to indicate who was in the TPG the prior year

  - 'Top Paid Grp Prior' field on standard first year supplemental grid

- After year 1 the software will determine who was in the TPG

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Using Top Paid Group Election

- The following may be excluded:
  - Less than six months of service
  - Scheduled to work less than 17½ hours per week, or less than six months per year
  - Age under 21
  - Employees in a collective bargaining unit
  - Non-resident aliens with no U.S. source income
- The software uses the 'Employee Type' and 'Employee Class' columns on the census to determine who should be excluded

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Using Top Paid Group Election

■ Need to indicate that TPG is being used and that permissible classes should be excluded under scrub parameters

▼ HCE KEY Overrides		
Override automatic determination of HCEs and Keys:	?	○ Yes / ◉ No
Use top-paid group election:	?	◉ Yes / ○ No
Use calendar year data election:	?	◉ Yes / ○ No
In determining top-paid group for HCEs and officers for Top Heavy, exclude permitted classes:	?	○ Yes / ◉ No

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Jane Nickalls
Disaggregation of Otherwise Excludables

How Disaggregation Works

- Disaggregation eligibility dates are calculated, or uploaded, for all participants

  - Disaggregation met – the date the participant meets statutory eligibility; one year with 1000 hours and age 21

  - Entry date - the next entry date under statutory rules – i.e. when someone becomes non-excludable

- If the test is using the incorrect population, it's generally because dates are wrong.

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Why Might Disagg Dates be Wrong?

- Conversion plan – dates were not imported

- Takeover plan:
  - No hours on census
  - Did not correct prior years of service for disaggregation

- Add * ftw Override Initial Eligibility Grid on Other Imports screen to see the dates and correct & override if necessary

- Or in the first year in ftw make sure the prior years of service for disagg are correct using the *ftw first year supplemental grid

Eligibility Dates Grid

Janice Herrin
Software Updates and Releases

- Improved rounding functions in the Gateway Test

- E.g. a 3% PS allocation to an NHCE based on $5,001.11 comp is $150.0333. This was rounded down to $150.03

- $150.03 / $5,001.11 = 2.999934% so the Gateway Test failed if the highest HCE received an allocation of 9% or greater

- Now rounds to four decimal places and we added an acceptable difference factor

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Vendor Updates

- Enhancement added for Empower version 2, AKA PAS2

- Now can include loan activity – loan transactions will be shown separately

- Need to use investment accounts – two accounts, a vendor account and a loan account

- Full instructions in update email sent 12/21/2016

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COLAs & New Actuarial Tables

- Software was updated for 2017 Cost of Living Adjustments (COLAs) in November

- Two new actuarial tables added:
  - 2016 417(e)3 Table
  - 2017 417(e)3 Table

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Tip of the Month from Janice

- 1) In November we released an enhancement that added a new ppt service history record that stores the hours worked in the first plan year as well as the hours in the first employment year for eligibility purposes. Tip - rerun the 2015 scrub to get the record created for ppts who worked 1000 hours by 12/31/2015 but worked fewer than 1000 in 2016.

- 2) Remember the new Tool - recalc initial elig

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Tip of the Month from Jane

- Remember when uploading census data for a second or later year in the system there's an option on the upload screen to retain prior year codes

- Default is Yes - this will copy Ownership %, Family Code, Family relationship, Officer, Cross Test group codes, EE class, and EE class other from the prior year census even if these items are different on the file you are uploading

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Open Forum

- No regular meeting in February:
  - Refresher webinar is on Thursday, February 2, 2017
  - No March meeting due to the testing deadline
- Ideas for future agenda items?
- Questions, thoughts, suggestions…..
- Thank you for attending and Happy New Year to all our customers!

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