ftwilliam.com Compliance Software User Group Meeting

Meeting # 32 – January 5, 2016

Agenda

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

ADP/ACP Testing
Parameters

Jane Nickalls

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
✚		

4

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

Wolters Kluwer
Law & Business

5

ADP Testing Parameters

- Testing Groups – option to use two different definitions of compensation
  - May allow test to pass; example: compensation less deferrals and compensation including deferrals
  - Need to add a compensation field and adjust mapping on census grid
- 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

Wolters Kluwer
Law & Business

6

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

Wolters Kluwer
Law & Business

7

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'

Wolters Kluwer
Law & Business

Reading the Test Results

Janice Herrin

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)

Wolters Kluwer
Law & Business

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

Wolters Kluwer
Law & Business

Corrections

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

Calculating QNECs

- Not available if using Prior Year testing
- Only available if coded to go to NHCEs only
  - Unless 'Targeted' ('Bottom-up') formula selected
- Estimates only – need to allocate & re-run tests

Detailed Calculations

Name	Eligible QNEC	Compensation	QNEC Rate	QNEC Allocation
Bacall, Lauren	Yes	$106000.00	2.21%	$2342.60
Ball, Lucy	Yes	$65000.00	2.21%	$1436.50
Bogart, Humphrey	Yes	$104000.00	2.21%	$2298.40
Burton, Richard	Yes	$55000.00	2.21%	$1215.50
Davis, Bette	Yes	$35000.00	2.21%	$773.50
De Havilland, Olivia	Yes	$85000.00	2.21%	$1878.50
Kelly, Grace	Yes	$37000.00	2.21%	$817.70
Monroe, Marilyn	Yes	$25000.00	2.21%	$552.50
Tracy, Spencer	Yes	$45000.00	2.21%	$994.50
Wood, Natalie	Yes	$15000.00	2.21%	$331.50
Total		$572000.00		$12641.20

Note: These amounts are estimates only. If these QNECs are allocated, it is necessary to re-run all tests (e.g., ADP/ACP 415, etc.) to ensure the desired results.

Back to ADP results | Allocate estimated QNECs

13

FTW Calculating ADP Refunds

- 'Leveling' method steps
    1. Determine Adjusted ADR to pass test
    2. Determine Preliminary amounts to pass test
    3. 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
- Earnings calculated for refunds – posted transactions used; otherwise enter beginning balance plus contributions, earnings & calculate

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
Fonda, Henry	111-11-1117	175000.00	17500.00	10.00	6.86	5495.00	5400.81	4500.00	900.81	900.81	0.00	1000.00
Gable, Clark	111-11-1118	255000.00	12500.00	4.90	0.00	0.00	400.81	0.00	400.81	400.81	0.00	500.00
Hepburn, Audrey	111-11-1120	150001.00	11000.00	7.33	6.86	709.93	0.00	0.00	0.00	0.00	0.00	0.00
Hepburn, Katharine	111-11-1121	145000.00	16500.00	11.38	6.85	6567.50	4400.81	0.00	4400.81	4400.81	0.00	0.00
Leigh, Vivien	111-11-1123	255000.00	17000.00	6.67	0.00	0.00	4900.81	0.00	4900.81	4900.81	0.00	5000.00
Stewart, Jimmy	111-11-1126	160001.00	16500.00	10.31	6.86	5523.93	4400.81	4400.81	0.00	0.00	0.00	0.00
Wayne, John	111-11-1128	159000.00	16500.00	10.38	6.85	5608.50	4400.81	4400.81	0.00	0.00	0.00	0.00

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
  - ACP refund amounts are calculated first – may take care of associated match
  - Make sure a match formula is entered on the Set Allocation Parameters screen
  - Amount is forfeited; user should not apply vesting schedule

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

- Above screen shot shows preliminary refund calculation, actual refund amount and associated match.

Wolters Kluwer
Law & Business

16

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

17

Wolters Kluwer
Law & Business

ftwilliam.com

More on Associated Match

- Associated Match amounts are displayed in the ACP Refund block on ftwilliam.com

ACP Test Result: FAIL								
Name	SSN	Comp	Contrib	ACR	Adj ACR	Prelim $	Refund	Associated Match Forf
Bacall, Lauren	456-12-3791	115100.00	2500.00	2.17	1.46	819.54	81.03	740.99
De Havilland, Olivia	888-88-8888	115100.00	2500.00	2.17	1.46	819.54	81.03	0.00
Fonda, Henry	444-44-4444	175000.00	4375.00	2.50	1.46	1820.00	1956.03	0.00
Gable, Clark	123-45-6789	245000.00	4375.00	1.79	1.46	798.00	1956.03	0.00
Hepburn, Audrey	222-22-2222	150001.00	3750.03	2.50	1.46	1560.02	1331.06	0.00
Hepburn, Katharine	456-12-3789	45000.00	1125.00	2.50	1.46	468.00	0.00	0.00
Hudson, Rock	333-33-3333	149000.00	2500.00	1.68	1.46	324.60	81.02	0.00
Leigh, Vivien	111-11-1111	255000.00	5750.00	2.25	1.46	2027.00	3331.03	0.00
Stewart, Jimmy	555-55-5555	160001.00	4000.03	2.50	1.46	1664.02	1581.06	0.00
Wayne, John	666-66-6666	159000.00	3975.00	2.50	1.46	1653.60	1556.03	0.00

Wolters Kluwer Law & Business   ftwilliam.com

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

19

Wolters Kluwer
Law & Business

ftwilliam.com

Example #1 of Associated Match Calc.

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

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

Example #1 of Associated Match Calc.

- ADP test fails; ACP test passes
- Jane & John both need to receive ADP refunds

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

- Adjusted deferral %
  Jane - 7.736% & John - 9.667%

Example #2 of Associated Match Calc.

- Plan Matches 50% up to 8% of deferrals

- Mary HCE, age 45

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

Wolters Kluwer Law & Business   ftwilliam.com

Example #2 of Associated Match Calc.

- ADP & ACP tests both fail
- Mary needs to receive refunds

ACP Test Fails		
Name	Match Refund	Adjusted Match
Mary	$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

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

24

Wolters Kluwer
Law & Business

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

Wolters Kluwer
Law & Business

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:	⑦	○ Yes / ◉ No
Use top-paid group election:	⑦	◉ Yes / ○ No
Use calendar year data election:	⑦	◉ Yes / ○ No
In determining top-paid group for HCEs and officers for Top Heavy, exclude permitted classes:	⑦	○ Yes / ◉ No

Wolters Kluwer Law & Business   ftwilliam.com

Disaggregation of Otherwise Excludables

Jane Nickalls

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 date they would enter the plan under statutory rules – i.e. become non-excludable
- If the test is using the incorrect population, it's generally because dates are wrong.

Wolters Kluwer
Law & Business

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 ensure the years of service are correct using the gird *ftw first year supplemental

Wolters Kluwer
Law & Business

29

Eligibility Dates Grid

Software Updates and Releases

Janice Herrin

New Releases

- 5500 Data Report - updates added

- Transactions – new vendors added

- 2015 Covered Compensation - updates

- Actuarial Tables – updates and new tables added

- Contribution Calculations - updates

Wolters Kluwer
Law & Business

Vendor Updates

- Vendor Uploads added for:
  - MetLife
  - American Funds Premier (two versions)
  - The Standard

- Vendor Upload for Securian has been updated to correct an issue when using investment accounts to track participant balances

Wolters Kluwer
Law & Business

Covered Compensation & Actuarial Tables

- 2015 Covered Compensation table updated - used when permitted disparity is selected for the General Test in a 2015 plan year

  - Any General Test of a 2016 year using imputed disparity will use the 2015 table

- Actuarial Tables:

  - 1983 – IAM Female Table – updated

  - 2014 & 2015 417(e)(3) Tables – added

Wolters Kluwer
Law & Business

Contribution Calculations

- See our 'Updates' link in the upper right corner of the Compliance Module for recently released and future changes

Wolters Kluwer
Law & Business

Open Forum

- Next meeting – Tuesday, February 2, 2016
  - No March meeting

- Ideas for future agenda items?

- Questions, thoughts, suggestions…..

- Thank you for attending and Happy New Year to all our customers!

Wolters Kluwer
Law & Business