

ftwilliam.com Compliance Module User Group Meeting

MEETING # 56 – JANUARY 8, 2019

AGENDA

- Recent software enhancements - divisions
- ADP/ACP testing parameters
- Reading the ADP/ACP test results
- Disaggregation of otherwise excludables
- Wrap-up

JANICE HERRIN

RECENT SOFTWARE ENHANCEMENTS

DIVISION FUNCTIONALITY – PHASE I

- The software can now be coded to use divisions
 - Indicate that you are using divisions on the Combined Test Parameters screen

The screenshot displays the 'Combined Test Parameters' interface. At the top, there is a title bar with 'Combined Test' on the left, and 'Run: [Warning Icon]' and 'Reports: [Print Icon]' on the right. Below the title bar is a section titled 'Aggregation/Disaggregation'. Within this section, the 'Divisions' subsection is highlighted with a red rectangular box. The 'Divisions' subsection contains a label 'Testing Divisions used:' followed by a help icon (question mark in a circle) and two radio buttons: 'Yes' (which is selected) and 'No'. Below this, there is a section titled 'MEP - APA - Not used' with a label 'Indicate status as MEP/APA (Not used):' and a dropdown menu currently set to 'None'. Further down is a section titled '410(b)/401(a)(4)/ADP/ACP Testing' with a label 'Testing Aggregation used:' and a dropdown menu set to 'No', accompanied by a 'Help' link. At the bottom, there is a label 'Disaggregation using otherwise excludable employees:' with a help icon and two radio buttons: 'Yes' (selected) and 'No', also with a 'Help' link. There are several plus signs (+) on the left side of the form, indicating expandable sections.

DIVISION FUNCTIONALITY

- Use the field R:DivisionCode on the census grid – either the primary grid or a supplemental grid
- Most tests & reports will be split by division
 - See the communication that went out on December 19, 2018 for details
 - Additional reports & tests will be added in the future



ANDY SCHOMMER

ADP/ACP TESTING PARAMETERS


ADP TESTING PARAMETERS

- Certain options are set on the Combined Test Parameters screen – apply to most testing
 - Using divisions
 - Aggregation of two or more plans
 - Disaggregation of otherwise excludable employees
- MEP - APA functionality not available





ADP TESTING PARAMETERS

▼ ADP/ACP Test Run:  Reports: 

▼ ADP/ACP Overrides


Override 402(g)/Catchup calculations:  Yes / No

▼ 410(b)/401(a)(4)/ADP/ACP Testing Options (Modify Responses in Combined Test)


| | | |
|---|---|-----|
| Testing Divisions (Multiple Employer Plan) |  | Yes |
| 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

- 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
 - Add an additional compensation field to the primary census grid and adjust the mapping – contact support@ftwilliam.com if you need help with this

GRID MAPPING

- Go to Edit Grid screen
- Add another compensation field, e.g. 'Compensation_FromEntry2'
- Click 'Update & Edit Mapping'
- Select the new field for Compensation_ACPTesting2 and Compensation_ADPTesting2
- Update

Description: **Sample Census (comp and comp after elig)**

| System Field | Grid Field | Custom |
|----------------------------------|----------------------------|--------|
| Service_EligibilityHours | On data entry grid | N/A |
| Service_EligibilityHoursInitial | Service_EligibilityHours ▼ | |
| Service_VestingHours | Service_EligibilityHours ▼ | |
| Service_ParticipationHours | Service_EligibilityHours ▼ | |
| Compensation_ElectiveDeferral | Compensation_FromEntry1 ▼ | |
| Compensation_Matching | Compensation_FromEntry1 ▼ | |
| Compensation_MatchingSH | Compensation_FromEntry1 ▼ | |
| Compensation_NonElective | Compensation_FromEntry1 ▼ | |
| Compensation_NonElectiveSH | Compensation_FromEntry1 ▼ | |
| Compensation_TopHeavy | Compensation_Statutory ▼ | |
| Compensation_ACPTesting1 | Compensation_FromEntry1 ▼ | |
| Compensation_ACPTesting2 | Compensation_FromEntry1 ▼ | |
| Compensation_ADPTesting1 | Compensation_FromEntry1 ▼ | |
| Compensation_ADPTesting2 | Compensation_FromEntry1 ▼ | |
| Compensation_NonElectiveTesting | Compensation_FromEntry1 ▼ | |
| Compensation_Statutory | On data entry grid | N/A |
| Compensation_Statutory_FromEntry | Compensation_Statutory ▼ | |
| Compensation_Statutory_PriorYear | None ▼ | |
| Compensation_Statutory_CalYr | Compensation_Statutory ▼ | |
| Compensation_ExclDeferrals | Compensation_FromEntry1 ▼ | |
| Compensation_Deduction | Compensation_Statutory ▼ | |

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

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
 - Options in red indicate the default setting

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 you can 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'

JANE NICKALLS

READING THE TEST RESULTS

CORRECTIONS

Compliance Tasks - [Expand All Applicable](#) / [Expand All](#) / [Collapse All](#) [Go To Top](#) [Print Package](#)

Company: ABC Company Inc ID:
 Plan: 2017 Demo Plan JN ID:
 Year End: 12/31/2017

Errors:
None

Overrides:
None

[Clear All Participant Errors/Overrides](#)

Summary of Participant Errors/Warnings/Overrides
None

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 | 8.94 | 11.18 | 12.88 | FAIL | 9 | 1.90 | 0.00 | 1.90 | 3.80 | 3.00 | PASS |
| N/A | DisaggUnder | 3 | 3.63 | 5.63 | 0.00 | PASS | 3 | 1.96 | 0.00 | 1.96 | 3.92 | 0.00 | PASS |
| N/A | ExclNHCE | 9 | 8.94 | 11.18 | 12.88 | FAIL | 9 | 1.90 | 0.00 | 1.90 | 3.80 | 3.00 | PASS |

Test Fails
 Select testing combination to correct: ExclNHCE:1
Two tests:1

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

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 | 8.94 | 11.18 | 12.88 | FAIL | 9 | 1.90 | 0.00 | 1.90 | 3.80 | 3.00 | PASS |
| N/A | DisaggUnder | 3 | 3.63 | 5.63 | 0.00 | PASS | 3 | 1.96 | 0.00 | 1.96 | 3.92 | 0.00 | PASS |
| N/A | ExclNHCE | 9 | 8.94 | 11.18 | 12.88 | FAIL | 9 | 1.90 | 0.00 | 1.90 | 3.80 | 3.00 | 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

RESULTS SCREEN – REFUNDS AND/OR QNEC

ADP/ACP Testing Results

| Group | ADP | | | | | ACP | | | | | | |
|-----------------|----------|----------|------|---------|-------------|----------|----------|----------|--------------|---------|---------|-------------|
| Union/Non-Union | 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 | 12 | 7.62 | 9.62 | 12.88 | FAIL | 12 | 1.92 | 0.00 | 1.92 | 3.84 | 3.00 | PASS |

Test Fails

Select testing combination to correct:

[Do Refunds/Calculate Catch-ups](#) | [Estimate QNECs](#)

| Report | Format |
|---------------|---|
| ADP ACP Test |     |
| Estimate QNEC |     |

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 QNEC amounts are estimates only – need to allocate the QNEC & re-run the tests

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 |

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 | <input type="text" value="0.00"/> | <input type="text" value="0.00"/> | 0.0000 | 3405.67 | 0.00 |
| Dashwood, Elinor | 111-11-1114 | <input type="text" value="0.00"/> | <input type="text" value="0.00"/> | 0.0000 | 3405.66 | 0.00 |
| Dashwood, Mary | 111-11-1115 | <input type="text" value="0.00"/> | <input type="text" value="0.00"/> | 0.0000 | 3905.67 | 0.00 |
| Bennett, Henry | 111-11-1116 | <input type="text" value="0.00"/> | <input type="text" value="0.00"/> | 0.0000 | 3905.67 | 0.00 |
| De Bourgh, Catherine | 111-11-1119 | <input type="text" value="0.00"/> | <input type="text" value="0.00"/> | 0.0000 | 905.67 | 0.00 |

[Update ADP/ACP refund earnings with transaction data](#)

Note: Elective Deferrals and Roth will be combined for ADP Corrections

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 |

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

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' or 'Hanging 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

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

CALCULATION EXAMPLE #1

- Plan Matches 50% up to 10% of deferrals
 - Catch-up Contributions (CUC) also matched
- Mary HCE, age 55; total deferrals = \$24,500
- Vincent HCE, age 45; total deferrals = \$18,500

| Name | Comp | Deferrals | 402(g) CUC | % Deferred | Match |
|---------|-----------|-----------|---------------|------------|----------|
| Mary | \$275,000 | \$18,500 | \$6,000 | 8.91% | \$12,250 |
| Vincent | \$150,000 | \$18,500 | | 12.33% | \$7,500 |

CALCULATION EXAMPLE #1

- ADP test fails; ACP test passes; Mary & Vincent both need to receive ADP refunds
- Adjusted deferral %
Mary - 7.818% & Vincent – 10.333%

| Name | Refund | ADP CUC | Adjusted Deferrals | Max Match | Original Match | Associated Match Forfeiture |
|---------|---------|---------|--------------------|-----------|----------------|--------------------------------|
| Mary | \$3,000 | 0 | \$21,500 | \$10,750 | \$12,250 | \$12,250-\$10,750 = \$1,500 |
| Vincent | \$3,000 | 0 | \$15,500 | \$7,500 | \$7,500 | None |

CALCULATION EXAMPLE #2

- Plan Matches 100% up to 4% 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% | \$8,400 |

CALCULATION EXAMPLE #2

| ACP Test Fails | | |
|----------------|--------------|----------------------------|
| Name | Match Refund | Adjusted Match |
| Norma | \$1800 | \$8,400 - \$1800 = \$6,600 |

| ADP Test Fails | | | | | |
|--------------------------|------------|--------------------|-----------|----------------|---|
| Original 401(k) Deferral | ADP Refund | Adjusted Deferrals | Max Match | Adjusted Match | Associated Match Forfeiture |
| \$10,000 | \$3,000 | 3.333% | \$7,000 | \$6,600 | \$7,000 > 6,600 No assoc. match forfeiture |

HCE - USING TOP PAID GROUP ELECTION

- Top paid group is the highest paid 20% of non-excludable employees – based on prior year compensation
 - >5% owners always have to be HCEs regardless of 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 first year supplemental grid
- After year 1 the software will determine who was in the TPG
- ‘HCE Next Year (TPG)’ report is available from the Scrub reports – this projects HCEs for next year assuming that the plan would be using TPG

HCE - 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

HCE - 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: |  <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| Use top-paid group election: |  <input checked="" type="radio"/> Yes / <input type="radio"/> No |
| Use calendar year data election: |  <input checked="" type="radio"/> Yes / <input type="radio"/> No |
| In determining top-paid group for HCEs and officers for Top Heavy, exclude permitted classes: |  <input type="radio"/> Yes / <input checked="" type="radio"/> No |

ANY SCHOMMER

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 – semi-annual (most common); first day of the plan year (closest)
- If the test is using the incorrect population, it's generally because dates are wrong.

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

UD Grid 1 | [Edit Data](#) | [Download](#) | [Print](#) | [Upload no Map](#) | [Upload with Map](#)

UD Grid 2 | [Edit Data](#) | [Download](#) | [Print](#) | [Upload no Map](#) | [Upload with Map](#)

| | Last_Name | First_Name | Disagg_Elig_Override | Disagg_Date_Met | Disagg_Entry_Date | Eligible_Disagg |
|---------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Help | Help | Help | Help | Help | Help |
| 4 | Burton | Richard | No ▾ | 02/01/2010 | 07/01/2010 | No ▾ |
| 5 | Davis | Bette | No ▾ | 01/01/2009 | 07/01/2009 | No ▾ |
| 6 | De Havilland | Olivia | No ▾ | 02/08/2001 | 07/01/2001 | No ▾ |
| 7 | Fonda | Henry | No ▾ | 02/04/2001 | 07/01/2001 | No ▾ |
| 8 | Gable | Clark | No ▾ | 02/01/2001 | 07/01/2001 | No ▾ |
| 9 | Hepburn | Audrey | No ▾ | 02/02/2001 | 07/01/2001 | No ▾ |
| 10 | Hepburn | Katharine | No ▾ | 01/31/2010 | 07/01/2010 | No ▾ |
| 11 | Leigh | Vivien | No ▾ | 01/31/2001 | 07/01/2001 | No ▾ |
| 12 | Monroe | Marilyn | No ▾ | 12/31/2008 | 01/01/2009 | No ▾ |
| 13 | O'Toole | Peter | No ▾ | 01/01/2113 | 07/01/2113 | Yes ▾ |
| 14 | Stewart | Jimmy | No ▾ | 02/05/2001 | 07/01/2001 | No ▾ |
| 15 | Tandy | Jessica | No ▾ | 01/01/2113 | 07/01/2113 | Yes ▾ |
| 16 | Tracy | Spencer | No ▾ | 02/01/2007 | 07/01/2007 | No ▾ |
| 17 | Wayne | John | No ▾ | 02/06/2001 | 07/01/2001 | No ▾ |
| 18 | Wood | Natalie | No ▾ | 07/31/2009 | 01/01/2010 | No ▾ |
| Totals: | | | | | | |

WRAP-UP

- No regular meetings in February & March:
 - Refresher webinar scheduled on Tuesday, February 5, 2019
 - No March meeting due to the testing deadline
 - Next regular meeting will be Tuesday April 2
- Please share any ideas for future agenda items, questions, or suggestions using the Q&A or chat feature now, or contact support@ftwilliam.com
- Thank you for attending and Happy New Year to all our customers!