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Compliance Module User Group Meeting

Tuesday
May 7, 2019

*Agenda

*Ways to exclude people from participation in a plan:
  *Statutory exclusion
  *Non-statutory exclusion
    *Leased employees
    *Other Class exclusion
    *Opt out
    *LDR/hours requirement
*Coverage testing – how to interpret the report
*New Releases
*Tips of the month
*Wrap-up

5/3/2019

*Ways to exclude people from participation in a plan

*Statutory Exclusions

* Those who have not met the plan's age & service requirements
* Participants who are terminated on the last day of the plan year, worked 500 or fewer hours and are not benefiting under the plan
* Union employees (coded CBA in the Exclusions section of Eligibility)
  * Regulations allow employees covered by a collective bargaining agreement to be excluded from a plan without affecting coverage testing
  * They are also excluded from other testing
* Nonresident aliens, i.e. those not resident in the US with no US income - coded in the Exclusions section of Eligibility
* Union & nonresident alien are options in the Employee Class column on the census

Non-Statutory Exclusions

* Leased employees
  * May be excluded from the plan but will be included in the coverage test as not benefiting
* Opt-out
  * Used rarely but plans may include a provision for participants to make an irrevocable election to opt out of the plan
  * Participants opting out will also be included in the coverage test as not benefiting and nonexcludable
* Both the above will be considered as nonexcludable if they have met initial eligibility and are not terminated with 500 or fewer hours
* Both are options in the Employee Class column on the census

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*Non-Statutory Exclusions

*Other Class exclusion

* Also coded in the Exclusions section of 'Eligibility Exclusions – Other' select Yes for 'Exclude other Employees from definition of Eligible Employee (any exclusion must satisfy Code section 401(a))'

* Enter the code you plan to use to identify those who are excluded, e.g. if you want to exclude interns from all participation in the plan, enter 'Intern' for each contribution type; if you want to exclude temporary workers from employer contributions but allow them to defer, enter 'Temp' for each employer contribution type but leave deferrals blank

* If entering more than one code, separate with a semi-colon – no space between & no semi-colon after the last entry. E.g. Intern;Temp

Non-Statutory Exclusions

* Other Class exclusion
  * Select 'Other' in the Employee Class column of the census
  * The Column EE Class Code (field name R:EmployeeClassOther) also has to be populated to indicate the code(s) entered in plan specs - e.g. 'Intern' or 'Temp' in the examples on the previous slide
    * Add the grid '* ftw Exclude by Class' on the Other Imports/Exports/Reports screen and add the code in the EE Class Code column
    * You can also add this column to your primary census if you prefer

*Non-Statutory Exclusions

*Other Class exclusion

  *Excluded employees will be considered as nonexcludable and not benefiting if they have met initial eligibility and are not terminated with 500 or fewer hours

  *On the Eligibility report they will show as Excluded by Class so long as they would otherwise have met initial eligibility

    *If they would not have met initial eligibility, they will be listed as not eligible due to initial eligibility

*Non-Statutory Exclusions

- Plans imposing participation requirements to receive a contribution - Last Day Rule and/or Hours requirement
  - *Most common reason for coverage failure
- *These requirements are coded in the Match & Nonelective sections of Contribution
  - *Either or both can be waived for termination due to death, disability and reaching normal retirement age - this has to be coded in the Term Reason column of the census
  - *In plan specs if you want someone terminating on the last day to receive the contribution, select 'Include Last Day' rather than Yes – this is an administrative option, not in the ftw plan document
- *Also consider the either/or option when designing a plan – e.g. a participant who is either employed on the last day, OR works 500 hours

*Coverage Testing

How to interpret the report

*410(b) Coverage Test Overview

* 410(b) Coverage Test – ensures the plan benefits a non discriminatory percentage of NHCEs

* How does a plan satisfy the 410(b) coverage rules?
    * Must pass either the Ratio Percentage Test OR the Average Benefits Test
        * The ratio percentage test compares the percentage of NHCEs benefitting to the percentage of HCEs benefitting, for each source
        * If the ratio percentage test fails, the plan may have the option to use the average benefits test (check plan document)
        * The average benefits test considers the amount of benefit rather than the number of persons benefitting
    * If the Ratio Percentage test fails, the software will automatically run the Average Benefits test

*410(b) Ratio Percentage Test Steps

1. Determine nonexcludable employees
2. Determine benefitting employees
3. Divide benefitting NHCEs by nonexcludable NHCEs
4. Divide benefitting HCEs by nonexcludable HCEs
5. Divide NHCE ratio (3) by HCE ratio (4) = Ratio Percentage
6. If Ratio Percentage >= to 70%, PASS, otherwise FAIL

Excludable Employees for 410(b)

* Who is excludable from the coverage tests?
  * Anyone who has not met eligibility due to age or service requirements
  * Union members or nonresident aliens
  * Those who terminated, worked 500 or fewer hours AND did not benefit due to termination
* Potential issues for the ratio percentage test:
  * Plans with a last day rule, 1000 hours requirement or exclusions due to class would be potentially problematic as they are not included in the 'benefitting' count, but generally are included in the 'nonexcludable' count

Benefitting Employees for 410(b)

* Deferrals
  * If a nonexcludable employee is eligible to defer, they are considered benefitting employees for purposes of the elective deferral portion of the 410(b) test, even if they did not actually make any deferrals
* Match
  * If a nonexcludable employee is eligible to defer and eligible to receive a match allocation, that employee is a benefitting employee as applicable to the match portion of the 410(b) test, even if they did not make any deferral contributions
* Nonelective
  * If a nonexcludable employee receives a nonelective contribution, then that employee is considered to be benefitting for the nonelective section

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Ratio Percentage Test – ftw Software

* ftwilliam.com Compliance Module – screen shot below shows the 410(b) Ratio Percentage Test passing

* Test is run as part of the 'Combined Test'

* Green check icon indicates all the tests have passed

* Detailed results show breakdown by source

Compliance Tasks - Expand All Applicable / Expand All / Collapse All / Run All Tests!			Print Package
▸ Scrub/Eligibility	Run: 🟢	Reports:
▸ Allocation	Run: 🟢	Reports:
▸ Combined Test	Run: 🟢	Reports:
▸ ADP/ACP Test	Run: ❌	Reports:
▸ General Test	Run: ⚠️	Reports:
▸ Top Heavy Test	Run: ⚠️	Reports:

410(b) Ratio Percentage

Component	NHCE NonExcl	NHCE Ben	NHCE %	HCE Non Excl	HCE Ben	HCE %	Ratio %	Status
410(b) Test Elective:	12	10	83.33	7	7	100.00	83.33	PASS
410(b) Match:	12	10	83.33	7	7	100.00	83.33	PASS
410(b) NonElective:	12	9	75.00	7	7	100.00	75.00	PASS

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*Ratio Percentage Test Report

2017 Demo Plan JN
410(b) Ratio Percentage Test
12/31/2018

Non Highly Compensated Employees:

Participant Name	401(k) Benefit	401(k) Non-Excl	Match Benefit	Match Non-Excl	Non-Elec Benefit	Non-Elec Non-Excl
Bingley, Caroline	Yes	Yes	Yes	Yes	Yes	Yes
Bingley, Charles	Yes	Yes	Yes	Yes	Yes	Yes
Collins, William	Yes	Yes	Yes	Yes	No	Yes
Darcy, Fitzwilliam	Yes	Yes	Yes	Yes	Yes	Yes
Darcy, Georgiana	Yes	Yes	Yes	Yes	Yes	Yes
Ferrars, Edward	No	Yes	No	Yes	No	Yes
Hurst, Louisa	No	Yes	No	Yes	No	Yes
Lucas, Anne	Yes	Yes	Yes	Yes	Yes	Yes
Lucas, Charlotte	Yes	Yes	Yes	Yes	Yes	Yes
Smith, Harriet	Yes	Yes	Yes	Yes	Yes	Yes
Steele, Lucy	Yes	Yes	Yes	Yes	Yes	Yes
Wickham, George	Yes	Yes	Yes	Yes	Yes	Yes
Count	10	12	10	12	9	12
Percent		83.33%		83.33%		75.00%

LDR → (Collins, William — Non-Elec Benefit: No)

Leased → (Ferrars, Edward)

Class exclusion → (Hurst, Louisa)

*New Releases

*New Releases

* We have not released anything new since the last UG meeting, but that meeting did include lots of updates
  * The Compliance User Guide has been updated with the following updates:
    * Edit participants below the grid
    * Delete participants
    * True up/down
    * Reporting only by division
  * The recording of last month's meeting is available in the Help Center – if you are uncertain as to how the updates work, the recording will help
  * Let us know (support@ftwilliam.com) if you have any issues accessing the Help Center

*Tips of the Month

Andy – Messaging on Participant Statements

* You can add custom messages and remove the default PPA language on participant statements
  * This is controlled by the print style – go to Tools/Settings=>Print Setting:
  * Global Print Settings – create/copy/edit print styles
    * Statement Options are at the bottom of the Style option screen
    * Add up to three custom messages
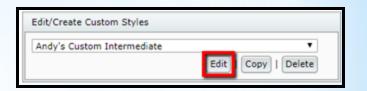   * To remove Default PPA language regarding self-direction and diversification select No to that option

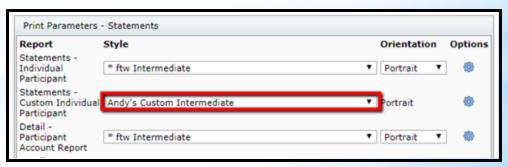# * Andy – Messaging on Participant Statements

Global

1. Edit print style, or copy if it's a 'System' style – i.e. * ftw

2. Enter any custom messaging and select whether to include PPA information

   * All statements allow Message 1 & Message 3 – M3 goes at the bottom of the statement
   * Custom statements also allow Message 2

Plan Level

3. Select a print style for your statements

*Participant Statement with Messages

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Jane – Important Fields on the Primary Census

* Reason for Termination (TermReason) – this is used if there are exceptions to LDR/Hours requirement
  * Retirement, Death, Disability are selected rather than Termination
* Family Group & Family Group Relation columns – unless BOTH these columns are completed, family members will not be picked up as HCEs/Keys

*Wrap-up

* Upcoming webinars – register on the ftw website:
  * Form 5500 Industry Update - May 15 at 2:00 PM ET - cost: $59
  * Defined Benefit Documents Update - May 29 at 2:00 PM ET
  * What We Have Here is a Failure to Communicate: Service Provider Communication Best Practices - June 13 at 2:00 PM ET - cost: $39
* Next User Group meeting – June 4, 2019
* Let us know if there are other topics you'd like to cover in the User Group, via chat now, or at support@ftwilliam.com
* Questions, thoughts, suggestions….. Please send them!

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