

ftwilliam.com Compliance Module User Group Meeting

Tuesday August 6, 2019



Agenda

- ▶ Top Heavy plans
- ▶ Processing Balance Forward plans
- ▶ Tips of the Month

Top Heavy Plans

Running the TH test & Allocating TH
Minimums

Definition of a Top Heavy Plan

- ▶ A Defined Contribution plan is considered to be top heavy if more than 60% of the account balances are attributable to key employees, as of the Determination Date
- ▶ The determination date is generally the last day of the prior plan year
 - ▶ For a brand new plan, it's the last day of the first plan year
 - ▶ E.g. The determination date for a plan starting up 1/1/2018 would be 12/31/2018 for both the 2018 and 2019 plan years

Definition of a Key Employee

- ▶ More than 5% owner - compensation not taken into account
- ▶ More than 1% owner with compensation of more than \$150,000 - comp is not indexed
- ▶ Officer with compensation exceeding a limit, which is indexed - \$175,000 in 2018 and \$180,000 in 2019
- ▶ Family attribution rules apply
- ▶ All the above are as of the determination date

Top Heavy Plans in ftwilliam.com

- ▶ The test you run in any plan year uses account balances at the end of that year and determines the top heavy status for the next plan year
- ▶ There are two data scrub reports showing key employees
 - ▶ Key for Next Year report - key employees in this report are those who are used in the current year's top heavy test, which identifies the top heavy status for the next plan year
 - ▶ HCE/Key report - those who are key as of the determination date; it impacts who gets a top heavy minimum contribution in the current plan year

Top Heavy Plans in ftwilliam.com

- ▶ There are three classifications of key employees on the system
 - ▶ **Key Employee** - who is key for next year
 - ▶ **Key EE Determ Date** - who was key as of the determination date, i.e. the last day of the prior plan year
 - ▶ **Key EE Prior Yr** - anyone who is a former key - these participants are excluded from the top heavy test
- ▶ You can check the status of all participants by adding the * ftw Override HCE Key grid on the Other Imports/Exports/Reports screen

Top Heavy Plans in ftwilliam.com

▶ First year in ftwilliam

- ▶ Manually code the plan as ‘Top Heavy as of the Determination Date’ - Tasks/Top Heavy Test



▼ Top Heavy as of Determination Date

Plan is Top Heavy as of the Determination Date: Yes / No

- ▶ In subsequent years, the top heavy status will feed from the prior year's top heavy test
- ▶ You can code former key employees, and anyone who is key as of the determination date on the first year supplemental grid

Top Heavy Plans in ftwilliam.com

- ▶ Self-employed participants in a top heavy plan
 - ▶ If there are self-employed people on the census & the plan is top heavy, set 'Override Top Heavy minimum allocation percent override' - to yes and enter % (normally 3.0; or 5.0 if there's also a DB plan); this is in the Top Heavy Allocation section of Tasks/Allocation

Override Top Heavy minimum allocation percent	<input checked="" type="radio"/> Yes / <input type="radio"/> No
Override Top Heavy allocation percent:	<input type="text" value="3.000000"/>

- ▶ If this override is not set, you'll get an error message on the allocation results screen, and the nonelective allocations will be zero

Top Heavy Troubleshooting

- ▶ Key employees not identified correctly
 - ▶ Make sure the Ownership, Family Group and Family Group Relation columns are correctly populated on the census in ALL plan years
 - ▶ If someone is a more than a 5% or 1% owner, make sure that the ownership percentage is entered as such - e.g. 5.1 rather than 5.0

Top Heavy Troubleshooting

- ▶ Top heavy minimums are not calculating
 - ▶ The plan is not coded as top heavy as of the determination date - this is set under Top Heavy Test parameters
 - ▶ ‘Design of plan automatically meets TH requirements’ is set to YES - in allocation parameters; review and change if appropriate
 - ▶ The profit sharing source is suppressed or was deleted - correct on the source setup screen
 - ▶ There are no key employees or no keys have contributions - review data

Processing Balance Forward plans

Setup & Earnings Allocation

Definition

- ▶ A Balance Forward plan is one that is valued periodically
 - ▶ Annually, quarterly etc.
- ▶ Investments are typically:
 - ▶ Trustee directed, e.g. in a pooled account, and/or
 - ▶ Individual brokerage accounts
- ▶ May set up participant loans as an investment account
 - ▶ Required if using the ftw loan module

Plan Set-up

- ▶ Sources & Investment Accounts
 - ▶ Add/modify sources
 - ▶ Select Yes to ‘Use Investment Accounts to Track Participant Balances’
 - ▶ Add at least one investment account, more as needed & add to sources as appropriate
- ▶ Make sure that account/source setup is complete before adding transactions - i.e. no caution or error messages

Setting up Sources & Accounts

- ▶ Select 'yes' to use investment accounts to track participant balances
- ▶ Click on Work With Investment Accounts to add accounts

Home > Edit Company > Edit Plan > Compliance > Plan Specifications > Work with Sources/Inv Accounts [Updates](#) [Help](#)

Company: ABC Company Inc ID:
 Plan: 2018 Demo Plan JN ID:

Use Investment Accounts to track Participant balances: Yes / No [Work With Investment Accounts](#)

Compliance Menu

- ◀ Census
- Tasks
- ◀ Transactions
- ◀ Miscellaneous
- ◀ Tools/Settings
- ◀ Plan Specifications

[Loan/Distribution/Fee Hierarchy](#) | [Add Default Sources](#) ⓘ

Source Name	Source External ID	Vesting	Vest Other	Contribution Source	Earnings Alloc Meth	Curr Yr Factor	Curr Yr Contrib Factor	Account Information
Elective Deferral	01;02;03;04;	100% ▾	N/A	ElectiveDeferral	Bal Forward - Trad ▾	100.00	50.00	3 Accounts
Roth Deferral		100% ▾	N/A	Roth	Bal Forward - Trad ▾	100.00	50.00	3 Accounts
Matching Contribution		2-6 Year Graded ▾	N/A	Matching	Bal Forward - Trad ▾	100.00	50.00	3 Accounts
QMAC		100% ▾	N/A	QMAC	Bal Forward - Trad ▾	100.00	0.00	Add
QNEC		100% ▾	N/A	QNEC	Bal Forward - Trad ▾	100.00	0.00	3 Accounts
Profit Sharing	00	2-6 Year Graded ▾	N/A	NonElective	Bal Forward - Trad ▾	100.00	0.00	3 Accounts
Rollover Related		100% ▾	N/A	RolloverRel	Bal Forward - Trad ▾	100.00	0.00	Add
Rollover Unrelated	06	100% ▾	N/A	RolloverUnrel	Bal Forward - Trad ▾	100.00	0.00	4 Accounts
Rollover Roth NonTaxable		100% ▾	N/A	RolloverRothNonTax	Bal Forward - Trad ▾	100.00	0.00	Add
Rollover Roth Taxable		100% ▾	N/A	RolloverRothTax	Bal Forward - Trad ▾	100.00	0.00	Add

Adding Investment Accounts

- ▶ Account type can be ‘Cash’ or ‘Brokerage’
 - ▶ Use brokerage when one or more participants have their own self-directed brokerage account
 - ▶ System can allocate earnings to individuals
 - ▶ Only one brokerage type account can be added to a plan

End of Year

- ▶ Before closing out a plan year, add an ending balance transaction batch
 - ▶ This allows you to add a populated beginning balance batch the following year
- ▶ If anything changes, e.g. transactions added or deleted, you should delete the ending balance batch and re-add it

Earnings Formula

- ▶ The earnings formula is coded on the Source Setup screen
- ▶ Earnings are allocated based on beginning balance:
 - ▶ Minus X% of money going out
 - ▶ X = Current Year Factor
 - ▶ Plus Y% of contributions coming in
 - ▶ Y = Current Year Contribution Factor
- ▶ If using all transactions method X% of money coming in, other than contributions, is also added

Earnings Formula

- ▶ Earning Alloc Method - select Traditional or All Transactions
- ▶ Curr Yr Factor- weights activity other than contributions
- ▶ Curr Yr Contrib Factor - weights contributions

Contribution Source	Earnings Alloc Meth	Curr Yr Factor	Curr Yr Contrib Factor
ElectiveDeferral	Bal Forward - Trad ▼	100.00	50.00
Roth	Bal Forward - Trad ▼	100.00	50.00
Matching	Bal Forward - Trad ▼	100.00	50.00
NonElective	Bal Forward - Trad ▼	100.00	0.00
QNEC	Bal Forward - Trad ▼	100.00	0.00
RolloverUnrel	Bal Forward - Trad ▼	100.00	68.00
None	Bal Forward - Trad ▼		

Earnings Allocation - Basis Methods

Current Year Factor = 100%; Current Year Contribution Factor = 50%

All Transactions

Beginning Balance Adjusted by	
Subtracting 100% of	Distributions In-service distributions ADP/ACP Corrective distributions Insurance premium payments Transfers Out, Forfeitures Loan Distributions
Adding 100% of	Transfers In Loan Repayments Forfeiture Allocations
Adding 50% of	Contributions

Traditional Method

Beginning Balance Adjusted by	
Subtracting 100% of	Distributions In-service distributions ADP/ACP Corrective distributions Insurance premium payments Transfers Out, Forfeitures Loan Distributions
Adding 50% of	Contributions

Allocating Earnings

Transaction Batch Actions

- Create Beginning Balance
- Compare Beginning & Prior Year Ending
- Create New Batch
- Allocate Bal Frwd Earnings**
- Create Ending Balance
- Calculate Earnings

Enter amounts

Create Balance Forward Earnings

Period Beginning: 01/01/2018 Batch Description:

Period Ending: 12/31/2018

AcctID	Inv Account Name	Inv Account Description	Type	Alloc Amount
VENDOR	John Hancock	John Hancock	Cash	<input type="text"/>
POOLED	XYZ Bank	Pooled Account	Cash	14293.00
LOAN	Loan Account	loan	Cash	0.00
BROKERAGE	Brokerage	Bennet, Henry	Broker	2316.00

Cancel Update Update & Create Batch

Allocating Earnings

- ▶ Note that the earnings are calculated at the time you create the batch, not when it is posted
- ▶ If anything changes, e.g. transactions added or removed, you should delete the earnings batch and re-create it

Troubleshooting Earnings Allocation

Problem	Possible Solution
No link to allocate earnings is available	<ul style="list-style-type: none">• You need a posted beginning balance batch and no ending balance batch to be able to allocate earnings
No earnings batch is created when you click 'Update and Create Batch'	<ul style="list-style-type: none">• Beginning balances are all zero and contributions are not weighted• No assets in the accounts you entered earnings for
Some participants are not getting earnings	<ul style="list-style-type: none">• Their beginning balance is zero and contributions are not weighted
A participant who took a 100% distribution is still receiving earnings	<ul style="list-style-type: none">• Distribution batch was not posted when earnings were allocated• Distribution is less than 100%• Distribution date was later than earnings allocation period

FAQs on Earnings Allocation

Problem	Possible Solution
How do I allocate earnings as of the end of the quarter?	You need to enter the date range that you want to use in the Begin Date and End Date fields at the top left of the Transaction screen. Batches with dates within that range will be included
How do I show fees separately on statements, rather than having them deducted from earnings?	There's an option on all the financial reports to show fees separately - go to Global Print Settings & select the report from the Global Report Options drop-down
Is there a way to see the basis of the earnings calculations?	Yes - the basis is shown in the 'TransUnits' column - the last column on the earnings batch
The forfeiture account is sharing in the earnings and I don't want it to	Set up an investment account just for the forfeiture account

Tips of the Month & Wrap-up

Tip #1 Running ADP/ACP Testing During the Year

- ▶ Users often want to check to see how a plan is doing to see if HCE contributions need to be adjusted before the year end
- ▶ Suggestion - adjust the numbers to what they would be for the full year, e.g. if you are working on a calendar year plan and looking at contributions through June 30, just double the contributions and compensation
 - ▶ Note that you may miss some participants, e.g. those meeting eligibility after June 30
- ▶ You may prefer to clone the plan and use the clone to run the numbers

Tip #2 Changing the Order of Sources or Accounts

- ▶ The order that sources are listed in defaults to the order in which they were added
- ▶ To change, place your cursor on the SourceID of the source you want to move and drag it to where you want it
 - ▶ Click the Update button
- ▶ Accounts work exactly the same
 - ▶ The account listed first on the list will be the one selected when you create transaction batches

<input type="checkbox"/>	SourceID	Suppress
<input type="checkbox"/>	401K	No ▾
<input type="checkbox"/>	ROTH	No ▾
<input type="checkbox"/>	MATCH	No ▾
<input type="checkbox"/>	PS	No ▾
<input type="checkbox"/>	ROLLUNREL	No ▾
<input type="checkbox"/>	QNEC	No ▾
<input type="checkbox"/>	QMAC	Yes ▾
<input type="checkbox"/>	ROLLREL	Yes ▾
<input type="checkbox"/>	ROLLROTHNT	Yes ▾
<input type="checkbox"/>	ROLLROHTAX	Yes ▾

Wrap-up

- ▶ Next User Group meeting - September 10, 2019
 - ▶ We're delaying it a week because of the Labor Day Holiday
 - ▶ We'll be covering non-calendar year plans and a topic TBD - let us know if there's something you'd like to cover, via chat now, or at support@ftwilliam.com
 - ▶ No meeting in October because of the 5500 deadline
 - ▶ We'll cover RMDs in the November meeting
- ▶ Questions, thoughts, suggestions..... please send them!