

ftwilliam.com Compliance Module User Group Meeting

Meeting # 65
January 7,
2020

AGENDA

- ADP/ACP testing parameters
- Reading the ADP/ACP test results
- Disaggregation of otherwise excludable employees
- Tips of the month
- Wrap-up

ADP / ACP TESTING PARAMETERS



ADP TESTING PARAMETERS

Certain options are set on the Combined Test Parameters screen - these apply to most testing

- Using divisions
- Aggregation of two or more plans
- Disaggregation of otherwise excludable employees

ADP TESTING PARAMETERS

▼ ADP/ACP Test Run: Reports:

▼ ADP/ACP Overrides

Override 402(g)/Catchup calculations:		<input type="radio"/> Yes / <input checked="" type="radio"/> 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:		<input type="radio"/> Yes / <input checked="" type="radio"/> No
---------------------------------------	--	---

Methods to Avoid Failure

Borrow contributions from ADR:		<input checked="" type="radio"/> Yes / <input type="radio"/> No
Create catchup:		<input checked="" type="radio"/> Yes / <input type="radio"/> No
+		

Failure Corrections

Roth correction order for ADP failures:		Last <input type="text"/>
Refund income calculation:		Safe harbor <input type="text"/>

▼ Prior Year Elections

ADP Prior Year Elections

ADRs of NHCEs:		Current year <input type="text"/>
----------------	--	-----------------------------------

ACP Prior Year Elections

ACRs of NHCEs:		Current year <input type="text"/>
+		

First Plan Year

First Plan Year as an Elective Deferral plan:		<input type="radio"/> Yes / <input checked="" type="radio"/> No
---	--	---

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
- 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 'Current Year'

ADP TESTING PARAMETERS

Adding prior year data

Add manually the first year in ftw

In subsequent years the data will feed

▼ Prior Year Elections

ADP Prior Year Elections

ADRs of NHCEs:

ACP Prior Year Elections

ACRs of NHCEs:

[Review/Edit Prior Year Data](#)

ADP/ACP Prior Year

Division:

Group			ADP		ACP	
Union/Non-Union	Comp	Disaggregation	NHCE Cnt	NHCE ADP	NHCE Cnt	NHCE ACP
N/A		All	<input type="text" value="0"/>	<input type="text" value="0.00"/>	<input type="text" value="0"/>	<input type="text" value="0.00"/>
N/A		DisaggOver/ExclNHCE	<input type="text" value="0"/>	<input type="text" value="0.00"/>	<input type="text" value="0"/>	<input type="text" value="0.00"/>
N/A		DisaggUnder	<input type="text" value="0"/>	<input type="text" value="0.00"/>	<input type="text" value="0"/>	<input type="text" value="0.00"/>

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	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

CORRECTIONS - REFUNDS/CATCH-UPS

Run ADP/ACP Test

Company: ABC Company Inc ID:

Plan: 2019 Demo Plan JN ID:

Year End: 12/31/2019

Plan Errors/Overrides

Errors:
None

Overrides:
None

[Clear All Participant Errors/Overrides](#)

Summary of Participant Errors/Overrides

None

[Download Spreadsheet - Sort by Participant](#)

ADP/ACP Testing Results

Union/Non-Union	Group	ADP					ACP						
		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	8.05	10.06	13.02	FAIL	10	1.71	0.00	1.71	3.42	3.00	PASS
N/A	DisaggUnder	2	3.57	5.57	0.00	PASS	2	1.50	0.00	1.50	3.00	0.00	PASS
N/A	ExclNHCE	10	8.05	10.06	13.02	FAIL	10	1.71	0.00	1.71	3.42	3.00	PASS

Test Fails

Select testing combination to correct: ExclNHCE:1

Select Test Option

ExclNHCE:1

Two tests:1

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

OK

The first time you run, select a test option for corrections

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

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

Estimated QNEC amounts are initial estimates - need to allocate the QNEC & re-run the tests

FTW CALCULATING ADP REFUNDS

‘Leveling’ method steps

- Determine Adjusted ADR (Adj ADR) to pass test
- Determine Preliminary amounts (Prelim) to pass test
- Apportion amount between HCEs (Refund Prelim) based on highest amount deferred - refund prelim amount

All or part is moved to catchup if possible

Actual refund is 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

Click the Update ADP/ACP refund earnings with transaction data - posted transactions used

Otherwise enter beginning balance, contributions & earning for each HCE and click the 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 Earnings](#)

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

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

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

ACP REFUNDS

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

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’ 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 = \$25,000

Vincent HCE, age 45; total deferrals = \$19,000

Name	Comp	Deferrals	402(g) CUC	% Deferred	Match
Mary	\$280,000	\$19,000	\$6,000	8.93%	\$12,500
Vincent	\$150,000	\$19,000		12.67%	\$7,500

CALCULATION EXAMPLE #1

- ADP test fails; ACP test passes; Mary & Vincent both need to receive ADP refunds
- Adjusted deferral %
Mary - 7.86% & Vincent – 10.67%

Name	Refund	ADP CUC	Adjusted Deferrals	Max Match	Original Match	Associated Match Forfeiture
Mary	\$3,000	0	\$22,000	\$11,000	\$12,500	\$12,500-\$11,000 = \$1,500
Vincent	\$3,000	0	\$16,000	\$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

Select the option to exclude permitted classes in the Scrub/Eligibility section of the Tasks menu

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

DISAGGREGATION OF OTHERWISE EXCLUDABLES



HOW DISAGGREGATION WORKS

Disaggregation 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 these 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 * ftw First Year Supplemental Census Grid (a79ad3f) | [Edit Data](#) | [Download](#) | [Print](#) | [Upload no Map](#) | [Upload with Map](#)

UD Grid 2 * ftw Override Initial Eligibility (58a0e0d) | [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:						

TIPS OF THE MONTH



#1 HOW TO EXCLUDE A CLASS OF EMPLOYEES

- Plan Specifications -> Eligibility -> Exclusions - Other
 - Set “Exclude other Employees from definition of Eligible Employees” to “Yes”
 - Enter unique code that will later be used to identify specific participants that are part of that classifications for deferrals, match and/or non-elective (example: HCE)
 - If more than one type of excluded class, separate the codes with a semi-colon (;) with no spaces
- Census
 - Option 1 - When using * ftw system grids, select “Other” under the Employee Class column in the primary census grid. Then, use the * ftw Exclude by Class grid on the Other Import/Export/Report screen and enter the code (example: HCE) in the EE Class Code column (EE Class will already be set to Other from the primary census upload).
 - Option 2 - Edit you primary census grid to include R:EmployeeClass and R:EmployeeClassOther. Code EE Class as “Other” and EE Class Code with the code set in plan specs (example: HCE)

#2 WHEN A PS CONTRIBUTION WON'T CALCULATE

Possible reasons are:

- There's no plan compensation on the census
- No one is eligible
 - E.g. there's an hours requirement for profit sharing, but not for the other contributions, and there are no hours on the census
- The plan uses New Comparability for the PS formula and the groups are not entered, or entered incorrectly, on the census
- There's a problem with the PS formula, e.g. non compliant Integrated formula
- The Nonelective source is not listed, or listed and suppressed

WRAP-UP

No regular meetings in February & March:

- Refresher webinar scheduled on Tuesday, February 4, 2020
- No March meeting due to the testing deadline
- Next regular meeting will be Tuesday April 7

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!