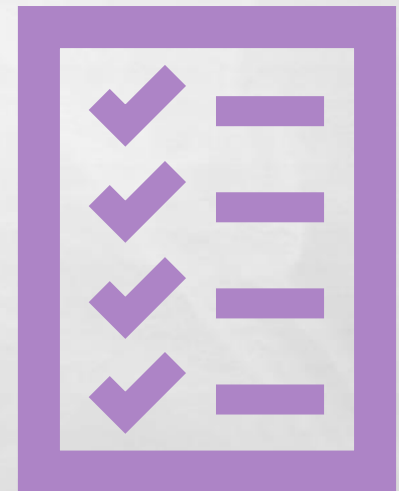


**ftwilliam.com Compliance
User Group Meeting #70
August 4, 2020**

Today's Agenda

- The ADP/ACP Tests
- Tips of the Month
- Wrap-up



The ADP/ACP Tests



Before Running the Tests

- On the census, make sure that:
 - There are no prior year terms unless they have a rehire date
 - The Plan Compensation column is populated for all eligible participants
- Verify eligibility and HCE status
- If using disaggregation, OEE participants can easily be verified on the 410(b) Coverage test
- Ensure that coverage testing is passing
- Check that the contributions, both deferrals and match, are correct

What the Tests Include

- Results for each test
 - Summary on the results screen; details in the test report
- Correction options
 - Refunds amounts for each HCE impacted
 - Amounts moved to catchup if the plan allows and there's capacity
 - Includes the option to calculate earnings
 - QNEC amounts - availability depends on QNEC formula and who get a QNEC

ADP/ACP Testing Parameters

- Certain options are set on the Combined Test Parameters screen - these apply to most testing, including the ADP & ACP tests
 - 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: 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: compensation less deferrals and compensation including deferrals
 - Add an additional compensation field to your primary census grid and adjust the mapping – contact support@ftwilliam.com if you need help with this
 - If you're using one of our system grids (* ftw), copy the grid, rename & edit; then select the new grid as your primary grid
- If using Otherwise Excludables, results there will be six lines of results!



Grid Mapping

- Below is a screenshot of the Edit Mapping screen in the new UI – includes the option to enter a custom calculation compensation less deferrals

Map

Description: 2 Comp for ADP * ftw Primary 1 Census (comp and comp after elig)

System Field	Grid Field	Custom map
Service_EligibilityHours	On data entry grid	N/A
Service_EligibilityHoursInitial	Service_EligibilityHours	
Service_VestingHours	Service_EligibilityHours	
Service_ParticipationHours	Service_EligibilityHours	
Compensation_ElectiveDeferral	Compensation_FromEntry1	None
Compensation_Matching	Compensation_FromEntry1	None
Compensation_MatchingSH	Compensation_FromEntry1	None
Compensation_NonElective	Compensation_FromEntry1	None
Compensation_NonElectiveSH	Compensation_FromEntry1	None
Compensation_TopHeavy	Compensation_Statutory	None
Compensation_ACPTesting1	Compensation_FromEntry1	None
Compensation_ACPTesting2	Compensation_Statutory	None
Compensation_ADPTesting1	Compensation_FromEntry1	None
Compensation_ADPTesting2	Custom Calculation	Compensation_FromEntry1 - Contribution_ElectiveDeferral

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 when the plan year end was added; otherwise you can enter 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
- Subsequent years the data will feed from last year's test – this happens when the new year is added, so you may need to adjust if there were changes after that

▼ Prior Year Elections

ADP Prior Year Elections

ADRs of NHCEs: ? Prior year ▼

ACP Prior Year Elections

ACRs of NHCEs: ? Prior year ▼

? [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	0	0.00	0	0.00
N/A		DisaggOver/ExclNHCE	0	0.00	0	0.00
N/A		DisaggUnder	0	0.00	0	0.00

Close
Update

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 – these refunds may take care of associated match

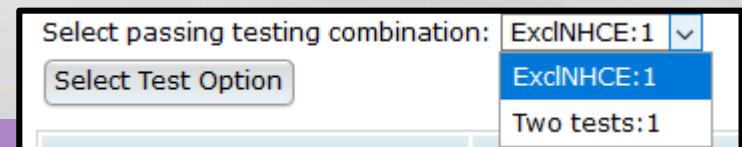


Associated Match Calculation

- 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

Test Results

- Summary results are on the screen; details are in the reports
- If using disaggregation of otherwise excludables, there will be three rows of results for each test
 - DisaggOver are those who are not excludable
 - DisaggUnder are those who are excludable
 - ExclNHCE includes all HCEs and nonexcludable NHCEs (Carve-out method)
- Select Test Option is for corrections - EXCLNHCE or Two tests
 - Two tests runs separate tests for excludable & nonexcludable



Select passing testing combination: ExclNHCE: 1

Select Test Option

ExclNHCE: 1

Two tests: 1

Test Results

- Using two different definitions of compensation and disaggregation otherwise excludables

ADP/ACP Testing Results														
Group			ADP					ACP						
Union/Non-Union	Comp	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	1	DisaggOver	10	2.95	4.95	10.95	FAIL	10	1.95	0.00	1.95	3.90	4.00	FAIL
N/A	1	DisaggUnder	0	0.00	0.00	0.00	PASS	0	0.00	0.00	0.00	0.00	0.00	PASS
N/A	1	ExclNHCE	10	2.95	4.95	10.95	FAIL	10	1.95	0.00	1.95	3.90	4.00	FAIL
N/A	2	DisaggOver	10	2.95	4.95	10.95	FAIL	10	1.95	0.00	1.95	3.90	4.00	FAIL
N/A	2	DisaggUnder	0	0.00	0.00	0.00	PASS	0	0.00	0.00	0.00	0.00	0.00	PASS
N/A	2	ExclNHCE	10	2.95	4.95	10.95	FAIL	10	1.95	0.00	1.95	3.90	4.00	FAIL

Test Fails

Select testing combination to correct:

Please select which test option to correct.

Please select which test option to use.

ADP/ACP Reports

- Three reports are potentially available:
 - ADP ACP Test – shows detailed test results
 - ADP ACP Corrections – shows refund amounts, amounts moved to catch-up, and earnings
 - Estimate QNEC – shows breakdown of QNEC amounts
- Reports will only be available when the task is run – if you don't see the QNEC or corrections report, run the calculation again



QNEC

- The QNEC option will not be available if:
 - The QNEC formula is Pro rata, or Fixed Amount AND the QNEC goes to all participants – must be NHCEs only
 - Bottom Up (Targeted) formula is okay for either all or just NHCEs
- If the Disproportionate test fails on a targeted QNEC, the formula will switch to pro rata
- To allocate, click the [Allocate estimated QNECs](#) link on the QNEC results screen, then re-run the ADP test
 - Remember that the amounts are estimates; you may have to run the QNEC calculation again and re-allocate if the test still fails

Troubleshooting the ADP/ACP Tests

- See the ADP/ACP Test section of the Troubleshooting Guide
 - Access from the Help Center, Compliance User Group Materials section – it's the first article listed

Tips of the Month



Tip of the Month #1

- Vendor files – we have recently updated the vendor spreadsheet; it's available in the Transaction section of the Help Center
- You may want to keep a copy, but the copy in the Help Center will be the most up to date

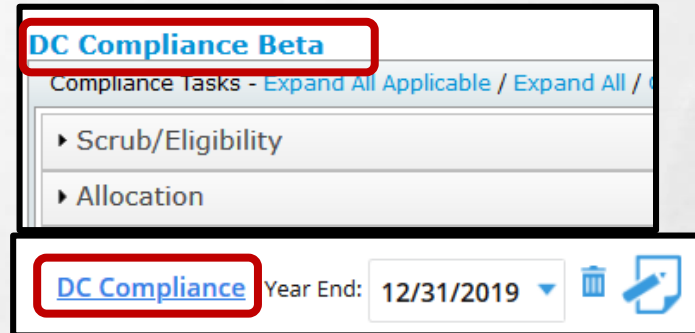
Tip of the Month #2

- Special Testing Requirements
 - After-tax contributions
 - Must be included in ACP testing (even if the plan is Safe Harbor)
 - Can be stand-alone or combined with safe harbor matching contributions
 - Different eligibility for deferrals and safe harbor
 - ADP/ACP testing is required for participants who are eligible to defer but not for safe harbor during the plan year
 - Consider using divisions to get separate test for these participants
 - The software will include any matching contributions included in the census in the test; to exclude, remove from the census and run test

Tip of the Month #3

- Please use the user interface – lots of new or improved features:

- Sorts and filters
- Exports and imports
- Grid custom calculation
- Message option



- Click the links shown to switch to & from the the new UI
- We are still looking for feedback - please let us know your suggestions
- Demo of the new UI included in the July UG meeting - look at the recording to see more

Wrap-up

- Next meeting - Tuesday, September 1
 - Planning to continue our Task series – the General Test task is next
- Please share ideas for future agenda items - submit via chat now, or email to support@ftwilliam.com
- Stay safe and thank you for attending

