



ftwilliam.com
Compliance User
Group Meeting #71
September 1, 2020

Today's Agenda

- ▶ The General Test
- ▶ The Top Heavy Test
- ▶ Enhancements
- ▶ Tip of the Month
- ▶ Wrap-up



Before Running the Tests

- ▶ On the Tasks menu, make sure that:
 - ▶ The scrub is run, and you have verified eligibility/entry dates and HCE/Key status
- ▶ For the General Test, make sure that:
 - ▶ The allocation is run, and the numbers on the Allocation Report are correct – these are the numbers used in the tests
 - ▶ The Combined Test is run and any corrections for the included tests are made, e.g. for coverage
- ▶ For the Top Heavy Test, make sure that transactions are posted

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The General Test



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When is the General Test Required?

- ▶ There are two options:
 - ▶ Cross test (EBAR) - typically just for a plan using New Comparability as the profit sharing formula
 - ▶ Standard test
- ▶ There may be other circumstances that require the general test, e.g.
 - ▶ Profit sharing that uses an Age Weighted formula and has other nonelective contributions
 - ▶ Compensation testing is failing

What is the General Test?

- ▶ Cross Test - three Separate tests are performed
 - ▶ The Gateway Test – looks at contribution rates for HCEs vs non HCEs; is required to pass
 - ▶ The Rate Group Test – tests contributions; can also be run based on account balances. Is required to pass at least at the mid-point
 - ▶ The Average Benefits Test – test all benefits under the plan. If the rate group test passes at the midpoint, the average benefits test is also required to pass; but if the rate group test passes at 70% the average benefits test is not required
- ▶ Standard Test – does not include the gateway

Trickiness of the Gateway Test
















- ▶ In general, any employee benefitting under the nonelective source has to be brought up to the Gateway minimum, so Safe Harbor Nonelective contributions, QNECs etc. can mean participants who would not otherwise be eligible for a PS contribution have to get one
- ▶ You may be able to test using disaggregation of otherwise excludables to avoid this

Using Disaggregation

- ▶ The option is selected on the Combined Test screen – select yes to Disaggregation using otherwise excludable employees. For general testing, it will apply to the Gateway Test and the Rate Group Test, but not to the Average Benefits Test
- ▶ There's an option in the General Test section of the Tasks menu to change this

| ▼ Average Benefits Test | |
|--|--|
| Disaggregation using otherwise excludable employees: | <input checked="" type="radio"/> Yes / <input type="radio"/> No Help |
| If disaggregation entry date used: | <input type="radio"/> Value is identical to 'If disaggregation entry date used:' value under combined test and can be changed there. |

Other General Test Parameters

| ▼ General Test | | |
|--|---|---|
| Type of General Test: |  | Cross Test RG at Midpoint  |
| Testing Period: |  | Current Year  |
|  | | |
| Override NRA: |  | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
|  | | |
| Determination of age: |  | Last  |
| Impute Disparity (May not be Yes if Cross Test and NRA < 55): |  | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| Interest: |  | 8.50%  |
| Actuarial Table: |  | UP-1984  |
| Override Gateway Test: |  | <input type="radio"/> Yes / <input checked="" type="radio"/> No |

Other General Test Parameters

- ▶ Type of General Test – default is None – typically for a cross-tested plan, start with Cross Test RG at Midpoint
- ▶ Testing Period – default is Current Year; to test based on account balances, switch to that option
 - ▶ Make sure you have an ending balance batch posted on the Transaction screen
 - ▶ See section 6.5 of the User Guide for detailed instructions.
- ▶ Override NRA – defaults to the age in the Distribution section of Plan Specifications

Other General Test Parameters

- ▶ Determination of Age – defaults to Last (i.e. the age at the last day of the plan year) but you can change to Nearest
- ▶ Impute Disparity – default is No
- ▶ Interest – default is 8.50%
- ▶ Actuarial Table – default is UP-1984, but there are many others
- ▶ Override Gateway Test – default is No

Running the General Test

- ▶ Click the Run icon
- ▶ If everything passes, you're in good shape
- ▶ If not, you should see links to run the Autosolves for the Gateway, and/or the Rate Group tests – these provide suggestions for adjustments that would pass the test
 - ▶ We recommend starting with the gateway if that is failing

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Demo of the Autosolves



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The Top Heavy Test



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When is a Plan Top Heavy?

- ▶ Over 60% of accounts/benefits belongs to key employees on the determination date
 - ▶ Defined Contribution: Market value of account
- ▶ Does not apply to governmental plans or 403(b) plans
- ▶ The determination date is generally the last day of the previous plan year
 - ▶ For first year plans, it's the last day of the current plan year

Top Heavy Ratio for DC Plans

- ▶ Sum of fair market value of key employees' accounts ÷ Sum of fair market value of all employees' accounts
- ▶ Vested and unvested portions of an account are included
- ▶ Related rollovers are included in determining top-heavy ratio (60% limit); unrelated rollovers are not included
- ▶ Pension Plans (Money Purchase/Target Benefit): Include contributions that are due by the determination date, even if they are not made by then
- ▶ Non-Pension Plans: Generally only contributions that are actually made to the plan by the determination date are included in the top heavy ratio
 - ▶ Exception for first plan year

Top Heavy Ratio Adjustments

- ▶ **One-Year Distribution Rule**
 - ▶ Any part of an employee's account balance/PVAB distributed in the one-year period ending on the determination date is generally added back to the top heavy ratio calculation
- ▶ **Five-Year In-Service Distribution Rule**
 - ▶ Distributions made for reasons other than termination, death or disability are added back if the distribution occurred within the five-year period ending on the determination date
- ▶ **Former Key Employees**
 - ▶ A former key employee is an employee who is currently a non-key employee, but who was a key employee during any prior plan year
 - ▶ The balance of a former key employee is completely excluded from the top heavy ratio (both numerator and denominator)

Top Heavy Allocation

- ▶ The TH test that you run in the current year determines the plan's TH status for the following year
- ▶ When the plan is top heavy, all non-Key employees who are participants in the plan are eligible for a TH minimum
 - ▶ Contribution may also be allocated to key employees
 - ▶ Last day requirement is allowed but hours requirement is not

Top Heavy Allocation

- ▶ Minimum employer contributions are required when a plan is top heavy
- ▶ Generally the lesser of 3% of statutory compensation or the same percentage of allocation as that of the Key employee with the highest allocation rate
 - ▶ Includes salary deferrals made by a Key employee, but excludes catch-up contributions
- ▶ If the employer also sponsors a DB plan, and TH contributions are made to the DC plan, the minimum will generally be 5%

Safe Harbor Plans

- ▶ A Safe Harbor 401(k) plan is deemed to not be top heavy if:
 - ▶ The plan only consists of a Safe Harbor 401(k) arrangement;
AND
 - ▶ Any matching or nonelective contributions that are made to the plan satisfy Safe Harbor
- ▶ No TH waiver if:
 - ▶ Any other employer contributions are made, e.g. PS, forfeiture reallocation
 - ▶ Eligibility for deferrals and Safe Harbor contributions is different
 - ▶ Plan changes to not Safe Harbor during the year

Top Heavy Test Parameters

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| | |
|---|---|
| ▼ Top Heavy Overrides | |
| Top Heavy Determination Override: | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| ▼ Top Heavy as of Determination Date | |
| Plan is Top Heavy as of the Determination Date: | <input checked="" type="radio"/> Yes / <input type="radio"/> No |
| Top Heavy asset percent for Determination Date year: | <input type="text" value="0.0000"/> |
| Top Heavy Balance this plan Key for Determination Date year: | <input type="text" value="0.00"/> |
| Top Heavy Balance this plan Non-Key for Determination Date year: | <input type="text" value="0.00"/> |
| Top Heavy Balance other plan Key for Determination Date year: | <input type="text" value="0.00"/> |
| Top Heavy Balance other plan Non-Key for Determination Date year: | <input type="text" value="0.00"/> |
| Top Heavy Balance Key total for Determination Date year: | <input type="text" value="0.00"/> |
| Top Heavy Balance Non-Key total for Determination Date year: | <input type="text" value="0.00"/> |
| ▼ Top Heavy for Next Year | |
| Plan is Top Heavy for next year: | <input checked="" type="radio"/> Yes / <input type="radio"/> No |
| Transactions to use when calculating Participant balances: | <input type="text" value="All transactions other than ending balance"/> |
| Top Heavy asset percent for next year: | <input type="text" value="62.5643"/> |
| Top Heavy Balance this plan Key for next year: | <input type="text" value="1714649.96"/> |

Top Heavy Test Parameters

- ▶ Top Heavy Determination Override – only use if you don't want the system to determine TH status
- ▶ Top Heavy as of Determination Date:
 - ▶ Plan is Top Heavy as of the Determination Date – used to indicate the plan's TH status when the test was not run in the previous plan year, e.g. the first year the plan was in ftw
 - ▶ The next seven fields will populate if the test was run in the prior year - no need to populate them if the test was not run, but you can enter the data

Top Heavy Test Parameters

- ▶ Top Heavy for Next Year
 - ▶ All these fields will populate when you run the TH test in the current year, using current year transactions
 - ▶ You may need to change 'Transactions to use when calculating Participant balances' – this determines which transactions are used. If you have beginning balances and other activity posted, use All Transactions; if you only have an ending balance batch posted, then switch to Ending Balance Only

Adjusting for Prior Year Distributions

- ▶ The first year the plan is in ftw, enter prior year distribution amounts in the first year supplemental grid
 - ▶ TH Inserv Distrib Yr 1 would be the current year, Yr 2 the previous year and so on
 - ▶ Enter the amounts as positive numbers
- ▶ Note the this only works if you add the amounts the first year in ftw
- ▶ After the first year the software will pull distributions from posted transactions
 - ▶ Distributions have to be coded as Inservice

Top Heavy Allocation

- Below is from the Top Heavy section of the Allocation section of the Tasks menu

| ▼ Top Heavy Allocation | |
|---|---|
| Top Heavy as of Determination Date: | <input checked="" type="radio"/> Yes |
| Plan to which Top-Heavy allocations are made: | <input type="text" value="This Plan"/> |
| Design of Plan automatically meets top heavy allocation requirements | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| 3. If Top-Heavy made in "This Plan", type of other plan maintained by the Company that covers employees eligible to participate in this Plan: | <input type="text" value="N/A - No other plan"/> |
| Include Match in Top Heavy minimums for Non Keys: | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| Participants who share in Top-Heavy minimum allocations: | <input type="text" value="Non-Key only"/> |
| Aggregation required: | <input type="radio"/> Yes / <input checked="" type="radio"/> No |
| + | |
| 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"/> |

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Enhancements



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Vendor Uploads

- ▶ American Funds Premier v2 and Lincoln v2 vendor uploads now have the option to include loan activity
 - ▶ In Plan Specifications, select the option to use investment accounts to track participant balances
 - ▶ Add a vendor account and a loan account
 - ▶ Detailed instructions are included in the note sent out on June 25
- ▶ We continue to review and improve our vendor uploads for issues such as social security numbers with lead zeros, names containing apostrophes, and for Mac users
 - ▶ These were most recently improved on the uploads for Alerus, Aspire, AUL One America, and Lincoln

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Tip of the Month



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Tip of the Month

- ▶ When uploading your census file, make sure that date fields only contain correctly formatted dates
 - ▶ If there's no date, e.g. the termination and rehire date columns, leave the field blank
- ▶ If anything else is entered, e.g. a dash or N/A, the software will default that entry to the last day of the plan year

Wrap-up

Next meeting - Tuesday, November 3

- We don't meet in October because of the 5500 deadline

Please share ideas for future agenda items - submit via chat now, or email to support@ftwilliam.com

Stay safe and thank you for attending