

RESOURCE

Plan Sponsor Guide

SAVING : INVESTING : PLANNING

VALIC[®]

Contents

Chapter 1: Introduction	5
Overview	6
Employee Retirement Income Security Act (ERISA)	6
Defined Contribution Plans	7
Defined Benefit Plans	7
Chapter 2: Administrative Roles and Responsibilities	8
Plan Administrator Responsibilities	9
Three Primary Roles of the Plan Administrator	9
Plan Fiduciary Roles	9
Fiduciary Duties Chart	10
Plan Document	11
Maintain Participant Data	11
Providing Employee Census Data	12
Calendar of Dates and Deadlines	12
Plan Administrator Checklist	12
Chapter 3: Eligibility	13
Consequences of Processing Eligibility Incorrectly	14
Entitlement	15
Enrolling Participants	15
Investment Elections and Allocations	16
Beneficiary Designations	16
Chapter 4: Compensation	17
Chapter 5: Contributions	19
Types of Contributions	20
Employee Contributions	20
Employer Contributions	20
Contribution Limits	20
Remitting Contributions to VALIC	21
Chapter 6: Vesting	22
Vesting	23
Employer Contributions	24
Forfeitures	25
Chapter 7: Distributions	26
Common Distribution Types That May Be Allowed	27
Cash Out	27
Disability	27
Hardships	27
Hardship Withdrawal	27
Qualified Domestic Relations Order (QDRO)	27
Required Minimum Distributions	27
Separation from Service	27

Contents

Chapter 8: Loans	29
Loan Program Requirements	30
Action Items Required in Loan Policy Statements	31
Managing a Loan Program	31
Chapter 9: Compliance Services	32
Non-Discrimination Testing	33
Operational Requirements	33
Non-Discrimination or Compliance Testing	33
Individual Compliance	34
Group Compliance	34
Chapter 10: Annual Audit and Form 5500 Filing	37
Financial Reporting and Audits	38
Chapter 11: Correcting Plan Errors	41
Employee Plans Compliance Resolution System (EPCRS)	42
Self-Correction Program (SCP)	43
Voluntary Correction Program (VCP)	43
Audit Closing Agreement Program (CAP)	43
Common Mistakes	44
Late Remittal of Deferrals	44
ADP and ACP Errors	44
Plan Amendments	44
Eligibility	44
Compensation	45
Contributions	45
Distributions and Loans	46
How to Avoid Common Mistakes	48
Consequences	48
Chapter 12: Plan Termination	49
Participant Communication	50
Plan Document	50
Distribution of Assets	50
Loans	50
Forfeiture	50
Final 5500	51
Partial Plan Termination	51
Chapter 13: Forms, Tools and Resources	52
Plan Administrator Master Checklist	53
Annual Events in Plan Administration	55
Due Date Charts	59
Explanation of VALIC Annual Plan Questionnaire	63
Tips for Overcoming Common Audit Pitfalls	65
Helpful References	67
Glossary	68



Introduction

Introduction

Overview

The Employee Retirement Income Security Act (**ERISA**) requires that employee retirement plans name a **plan administrator** to control and manage the operation and administration of the plan. Since this entails special responsibilities and a certain level of authority, this person is also considered a **fiduciary**.

The **plan administrator** is critical to the success of your organization's retirement plan. VALIC understands many individuals have this responsibility in addition to other duties. Therefore, we created this guide to help make this part of your job easier.

Note: This guide is not intended to provide, and should not be relied upon as, legal advice or guidance. You should consult your legal advisor regarding your plan's specific circumstances. It is the plan sponsor's responsibility to determine whether their organization's retirement plan is covered by ERISA.

Employee Retirement Income Security Act (ERISA)

ERISA, originally enacted in 1974 and as amended from time to time, sets standards of protection for participants in most voluntarily established, private-sector retirement plans.

ERISA Legislation

- > Requires plan sponsors to provide participants with plan information, including important facts about plan features and funding.
- > Sets minimum standards for participation, vesting, benefit accrual, and funding.
- > Defines fiduciary responsibilities for those who manage and control plan assets.
- > Requires plans to establish a claims and appeals process for participants to apply for benefits from their plans.
- > Gives participants the right to sue for benefits and breaches of fiduciary duty.

Introduction

Defined Contribution Plans

Defined Contribution Plans provide for individual accounts for each participant, and benefits based solely on the amount contributed to the participant's account plus any income, expenses, gains, losses and allocated forfeitures (if applicable). These plans are established and maintained in accordance with certain Internal Revenue Code (IRC) sections (e.g., 401(a)/(k), 403(b)). Plan types may be limited to certain types of employers (e.g., for-profit, governmental, and tax-exempt entities).

Please note that plans sponsored by governmental entities and certain non-profit organizations generally are not considered ERISA covered plans.

The majority of these plans provide individual accounts for each participant where he/she chooses from a broad range of investment options as to how his/her account is invested. This is why these plans are sometimes called individual account plans.

Defined Contribution Plan Attributes

- > Employee and/or employer may contribute to the individual's account under the plan.
- > Employee bears risks associated with gains or loss based on investments selected.

Defined Benefit Plans

Defined Benefit Plans are established based on the promise that the employer provides a specified retired benefit amount when an employee reaches a specified retirement date sometime in the future.

These plans are sometimes referred to as traditional pension plans.

Defined Benefit Plan Attributes

- > The benefit amount is usually based on factors such as your salary, your age and the number of years worked for the employer.
- > Instead of defining a contribution and allocating that amount to individual accounts for each employee, these plans use formulas that calculate a specific retirement benefit to be paid upon attainment of the normal retirement age.
- > Generally the employer bears risks associated with gains or losses based on investments selected.

(All contents of this manual are subject to the following disclaimer: VALIC, its financial professionals and other representatives are not authorized to give legal, tax or accounting advice. Applicable laws and regulations are complex and subject to change. Any tax statements in this material are not intended to suggest the avoidance of U.S. federal, state or local tax penalties. No information contained herein should be construed as an offer of either tax or legal services. Plan sponsors must consult with their own professional tax and legal advisors on any tax or legal issue relevant to the operation of their plan.)

Individual words or a set of words contained in the text portions of the manual that are underlined indicate that the word or phrase is defined and can be found in the glossary. Other terms are also included.



Administrative Roles and Responsibilities

Administrative Roles and Responsibilities

The ***plan administrator*** is critical to the retirement plan administration process. As a result, the Department of Labor (DOL) has delegated special authority and discretionary oversight to the plan administrator, and he/she is considered a “named” ***Plan Fiduciary*** provided he/she is designated by name or position in the ***Plan Document***. The plan administrator is generally responsible for the following activities:

Plan Administrator Responsibilities

- > Ensures all filings with the Federal government (IRS Form 5500), etc. are made timely.
- > Provides important disclosures to plan participants.
- > In some cases, hires service providers and executes service provider agreements if authorized by the plan sponsor and no other fiduciary has the responsibility.
- > Fulfills other responsibilities as set forth in the plan document.

Checklists and other useful reference tools for managing the day-to-day operations of your retirement plan are provided in chapter 13 of this manual.

Three Primary Roles of the Plan Administrator

The plan administrator typically assumes three different functional roles:

1. Day-to-day management of the organization’s retirement plan.
2. Oversight of the non-discrimination testing process to ensure all employees have an equal opportunity to share in the benefits of the employer’s retirement plan.
3. Management of all aspects of the reporting and disclosure functions (including audits and IRS Form 5500 series reports) to regulatory agencies and to participants and beneficiaries.

Failure to perform any of these roles correctly and fairly can adversely impact plan participants and the retirement plan itself.

Plan Fiduciary Roles

ERISA, Section 3(21) states that a plan fiduciary is any individual who:

- > Exercises any discretionary authority or control over the management of the retirement plan, or disposition of its assets.
- > Provides investment advice for a fee or other forms of compensation with respect to the funds or property of the retirement plan, or has the authority to do so.
- > Has discretionary authority or responsibility in the administration of a plan.

The DOL distinguishes between fiduciary functions that have a specific legal responsibility and accountability that cannot be delegated, and ministerial functions that are duties a plan fiduciary can delegate to other individuals. The plan sponsor and plan administrator are considered fiduciaries because they exercise discretionary control over the management, administration, and disposition of plan assets. However, individuals or entities performing ministerial functions are generally not considered fiduciaries. The following chart describes the most common duties (it is not intended to be an all inclusive list).

Chapter 2

Administrative Roles and Responsibilities

Fiduciary Duties Chart

The information contained in this chart was taken directly from data contained on the IRS website regarding plan fiduciary duties.

Duty of loyalty:

- > Act solely in the interest of plan participants and their beneficiaries, with the exclusive purpose of providing benefits to them.

Duty to disclose:

- > Respond fully and accurately to all participant inquiries.
- > Tell the truth and deal honestly with all plan participants on all transactions.
- > Avoid misrepresenting plan provisions by failing to provide all material information participants need. Ensuring a copy of the **summary plan description**, outlining the plan document terms is available to all participants will help in this area.
- > Provide participants with summarized financial reporting of the plan at least annually.

Duty of prudence:

- > Perform all tasks and duties with skill, prudence, and diligence.
- > Consider obtaining **fidelity bond** protection to protect against losses due to fraudulent or dishonest actions in handling plan funds.
- > Ensure plan related investments are prudent and solely in the interest of the plan participants and beneficiaries.
- > Complete all due diligence required for evaluating the risks associated with the investment selections offered in the plan.
- > Select investment providers (like VALIC) and investment options. Monitor the performance of each on a routine and ongoing basis.
- > Avoid any activity that can be construed as a conflict of interest between the plan, the **plan administrator** or its participants.
- > Ask for expert advice when needed. Ignorance is not necessarily regarded as a sufficient reason by the IRS or the DOL for failing to perform fiduciary duties appropriately.

Duty to diversify:

- > Select plan investments from a variety of categories and risk levels to minimize the risk of large losses.

Duty to follow the plan document provisions:

- > Maintain copies of all correspondence including: **plan document**, **summary plan description**, **amendments** to the **plan document** and the **service provider agreement**.
- > Ensure all contributions are remitted timely.
- > Pay only reasonable expenses for plan administration and asset investments.

Duty to not engage in prohibited transactions:

- > Do not use plan assets for your own interest.
- > Do not use plan assets to pay any expenses not specifically authorized in the plan document.
- > Assets and earnings cannot enrich the plan fiduciary.
- > Do not associate with or engage in activities related to political campaigns.

Additionally, recent changes in pension legislation now require plan fiduciaries to fully disclose all fees related to the management of the plan sponsor's retirement plan. More information about fee disclosure and how it relates to your plan is available in the VALIC Fee Disclosure Guide, available on our Plan Sponsor Online (PSO) website.

Plan fiduciaries maintain their roles and responsibilities until duly relieved by the governing board, the IRS or the DOL, or after all assets of the plan are distributed and the plan is terminated with the IRS Form 5500 Series report filed.

Administrative Roles and Responsibilities

Plan Document

ERISA covered retirement plans must be established and maintained pursuant to a written document that describes how the plan should operate. VALIC plan documents are created in one of three ways:

1. **Prototype document** — consists of a basic document describing features common to all plans, and an adoption agreement outlining the specific provisions selected in your plan.
2. **Volume submitter document** — similar in structure to a prototype document, except the basic document and adoption agreement are merged into one document.
3. **Custom documents** (including 403(b) documents) — created by employee benefit attorneys specifically tailored to include special features and provisions the plan sponsor requested.

VALIC plan document packages are similar but vary slightly based on whether the plan is qualified and uses a prototype document, or if it is a 403(b) plan using a custom document. Prototype plans usually contain a basic document and an **adoption agreement**. Any changes to the **plan document** are made via an amendment process. Amendments are primarily designed to update plans for legislative changes or changes initiated by the plan sponsor to make the plan document provisions consistent with the day-to-day operations of the plan. Plan document packages also contain a **Summary Plan Description** (SPD) that explains the terms and provisions contained in the plan document. The **plan administrator** is the person that facilitates these types of changes.

Maintain Participant Data

To operate the retirement plan effectively, the **plan administrator** must ensure that participant data is accurately maintained. Important participant data items include:

- > Significant dates:
 - Date of birth
 - Date of hire
 - Date of termination
 - Date of rehire
 - Date of death
- > Employee's years of service
 - Years of service for eligibility to participate in the plan
 - Years of service for vesting credit
- > All participant related contribution data
 - Copy of plan enrollment form
 - Copy of participant Salary Reduction Agreement (SRA)

Incorrect data in any item listed above may result in a participant entering the plan at the wrong time, which potentially causes employer contributions to be missed or paid too early. If vesting data is inaccurate, a participant may get more or less than what he/she is entitled to when a distribution of employer contributions is made.

Administrative Roles and Responsibilities

Providing Employee Census Data

Census data is used to complete the non-discrimination testing required for **ERISA** covered plans. Most of this information is maintained by your Human Resources or Payroll department. Participant data items most commonly needed include:

- > Name, SSN and age
- > Compensation earned
- > Hours worked
- > Dates of birth, hire, termination, rehire
- > Date oriented events like retirement or a disabled status
- > Identify excluded employee classes

In order to complete the non-discrimination testing process efficiently, it is important that the **plan administrator** determine the appropriate items needed and the proper file format in which to submit the file.

Calendar of Dates and Deadlines

Since ERISA covered retirement plans are regulated by both the IRS and the DOL, there are statutory deadlines that must be met to maintain the plan's qualified and tax-favored status. The types of deadlines vary by type of retirement plan used and the types of contributions remitted. A more detailed discussion of the various deadlines is provided in chapter 13 of this guide, along with a sample calendar of events.

Plan Administrator Checklist

Plan administrators are required to complete certain actions related to the retirement plan throughout the year. Some actions are the result of regulatory requirements while others are suggestions to more effectively manage the plan sponsor's retirement plan. Chapter 13, entitled **Forms, Tools and Resources** contains a sample checklist.

A large, stylized number '3' is the central graphic. It is composed of two overlapping, rounded shapes. The top shape is white with a light blue shadow, and the bottom shape is light blue with a darker blue shadow. The background is divided into three horizontal bands of blue: light blue at the top, medium blue in the middle, and a darker blue at the bottom.

Eligibility

Eligibility

The **plan administrator** must engage in the ongoing process of identifying which employees meet the age and service requirements outlined in the **plan document** to begin participating in the plan. The plan document also outlines when employees can actually enter the plan after meeting the eligibility requirements, by defining **plan entry dates**. An eligible employee may enroll in the plan on the first available entry date after meeting eligibility. **Plan administrators** must ensure eligible employees are properly identified throughout the year. Failure to enforce this process may cause costly errors.

Eligibility Requirement Guidelines

- > Plan sponsors cannot establish an age requirement greater than 21 years old (certain education organizations may substitute age 26 for age 21).
- > Plan sponsors cannot establish a service requirement greater than two years.
- > Organizations maintaining a 401(k) arrangement cannot require more than one year of service before allowing elective deferrals to be made.

Consequences of Processing Eligibility Incorrectly

- > If an employee's eligibility and entry into the plan is delayed, this could result in missed contributions, requiring that the employer catch up on missed contributions along with any associated earnings.
- > If an employee enters the plan prior to meeting all requirements, there is a potential to give an employer contribution to someone who is not eligible to receive it.

The employee indicative census data, along with your plan document are the key tools used in managing the eligibility process. For plan sponsors who have contracted with VALIC to administer this process, it is very important to have clear, concise and current data as that directly impacts the accuracy of the non-discrimination tests performed on your plan(s).

The eligibility process is simplified by categorizing employees into two groups:

1. Active employees

- > Newly hired employees, joining the organization in the current plan year.
- > Employees hired in a previous year who still work for the organization.
- > Employees who previously worked for the organization, who left and have been subsequently rehired.

2. Excluded employees

- > Employees belonging to a group identified in the plan document as not able to participate in the plan. As long as they remain associated with this group, it does not matter whether he/she meets the age and service requirements.

Eligibility

Entitlement

The ***plan document*** may specify additional conditions for receiving employer contributions, called entitlements. This requires additional steps in the eligibility process. ***Eligibility*** is met one time unless the employee has a ***break in service***. ***Entitlement*** must be met every year in order to receive an employer contribution for that plan year. Careful consideration must be given to employees separating from service during the plan year. The three most common forms of entitlements are:

1. Work the last day of the plan year.
2. Complete 1,000 hours of service in the plan year.
3. Combination of the two above requiring the employee be employed on the last day of the plan year and also completes 1,000 or more hours of service.

Entitlement requires detailed tracking of employee data and while it can reduce plan expenses, it is generally difficult to administer.

Enrolling Participants

Once an employee meets the age and service eligibility requirements outlined in the plan document, it is the plan administrator's responsibility to ensure the employee has the opportunity to enroll in the plan unless he/she is a member of an excluded class. The ***adoption agreement*** or ***plan document*** specifies the age and service requirements. However, the following guidelines generally apply to ERISA covered retirement plans.

Chapter 3

Eligibility

Years of Service

This calculation used for eligibility purposes is specified in the **plan document** and generally falls into two types:

1. **Hours of service** – a year is generally defined as 1,000 hours of service.
2. **Elapsed time** – a year of service is credited based on months of service.

An additional provision, sometimes included in plan documents, known as **anniversary switch**, provides an eligibility calculation from the date of hire until the first anniversary of the date of hire, and then switches to the plan year the document is maintained on.

Enrolling an employee requires completing the three step process outlined below.

1. The eligibility requirements must be met.
2. Employees enter the plan at specified entry dates that are also outlined in the **plan document**. Potentially, a time gap between meeting the requirements and actually entering the plan may occur.
3. Upon enrolling in the plan, an employee will receive an enrollment kit which generally covers the following topics:
 - Completing various forms to indicate:
 - The start date and the amount of contributions to be made.
 - Investment choices for contribution allocation. There may also be some fund performance data included to assist in an employee’s selection of funds.
 - Designation of a beneficiary.
 - A copy of the plan sponsor’s **Summary Plan Description** (SPD).

Note: If your plan has an automatic enrollment feature, more information can be provided at the time of eligibility.

Investment Elections and Allocations

Under **ERISA**, plan sponsors must establish a diversified investment portfolio allowing many participants with differing objectives the opportunity to reach their retirement plan goals.

One of the **plan administrator’s** fiduciary responsibilities is to help select funds consistent with the demographics of the group and the investment strategy of the plan sponsor. In addition to selecting the funds offered under the plan, a plan sponsor also selects an investment option the organization uses when an employee fails to make an investment election on their own. This type of fund is called the “default fund” for the plan.

Beneficiary Designations

Employees should provide current information regarding their beneficiary designation to ensure their desires for how funds should be distributed are in accordance with their selections (as consistent with plan provisions and applicable laws).



Compensation

Compensation

Compensation

Compensation directly influences some of the non-discrimination tests a retirement plan is required to complete. Additionally, compensation also influences the calculations used to determine contributions into the plan.

Various definitions of compensation exist, because different forms of compensation can be used for different situations in the same retirement plan. The **plan document** defines the type of compensation used. Since compensation can be calculated on a fiscal year or calendar year basis, it is important to know the determination period, also known as the **limitation year**. The plan document indicates what the determination period is.

IRS Code Section 414(s) requires that a retirement plan's definition of compensation must be non-discriminatory. Three sets of compensation definitions automatically recognized by the Internal Revenue Service as qualifying are listed below:

- > **IRC 415(c)(3) compensation** — generally means all federal taxable compensation plus any pretax contributions made to an IRC 401(k) plan, IRC 125 Cafeteria Plan, or other qualified plan. It should be noted that an employer may elect to exclude those pretax contributions from the definition of compensation as well.
- > **IRC 3401(a) compensation** — generally means wages within the meaning of IRC 3401(a) plus amounts that would be included in wages, but for an election under an IRC 401(k) plan, IRC 125 Cafeteria Plan, IRC 132 Qualified Transportation plan or certain other qualified plans.
- > **W2 compensation** — generally means 3401(a) compensation, described above, plus all other payments to an employee by an employer for which the employer is required to furnish the employee a written statement under IRC 6041(D), 6051(a)(3) and 6052.

If **plan administrators** use any of the above definitions, they do not have to conduct the 414(s) compensation test. If other forms of compensation are elected, then the plan must pass the 414(s) compensation test.

Compensation is also influenced by the eligibility process. When an employee first meets eligibility, a determination must be made as to what amount of compensation is considered when calculating the first year employer contribution. The portion of an employee's salary earned prior to meeting the eligibility requirements is called pre-entry compensation. The plan document stipulates whether the first year employer contribution is based on pre-entry compensation being included or excluded.

Failure to follow the compensation definition outlined in the plan document may result in incorrect contribution calculations and non-discrimination testing failures that require extensive corrective activity.

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Contributions

Contributions

Contributions

The IRS has set different employer and employee contribution limits for the different types of retirement plans. These limits are periodically updated to account for Cost of Living Adjustments (COLA).

Types of Contributions

Contributions are generally categorized as employee or employer contributions.

Employee Contributions:

- > **Pretax** — usually consists of matched or unmatched elective deferrals that reduce the current amount of taxable income.
- > **After-tax** — usually consists of contributions to a designated Roth account in the plan. These contributions do not reduce current taxable income.

Employer Contributions:

- > Employer contributions are almost always made on a pretax basis.
- > Employer contributions fall into the following categories:
 - **Match** — matches a percent or dollar amount of contributions made by the employee.
 - **Profit sharing** — contributions may change based on the operating profits of the plan sponsor.
 - **Discretionary** — employer can decide within certain limits, on an annual basis whether or not to contribute to the plan.
 - **Forfeitures** — residual amounts of employer contributions due to an employee separating from service who did not attain a 100% ownership right in the employer contribution. Many plans use forfeitures as a billing credit against future contributions. Some plans reallocate forfeitures to existing participants. The plan document states how forfeitures are handled.

Contribution Limits

There are three basic limits associated with contributions.

1. 402(g) elective deferral limit
2. 414(v) age-based catch up limit
3. 415(c) annual additions limit

All three of these limits are indexed for Cost of Living Adjustments (COLA) and are declared annually. The contribution limits can be accessed from the IRS website at www.irs.gov.

Contributions

Remitting Contributions to VALIC

One of the biggest fiduciary responsibilities a ***plan administrator*** has is to ensure contributions are remitted timely and are properly allocated to all eligible participants. Providing the correct contribution amounts to the appropriate employees at the right time is critical for employees to achieve their retirement goals and for the employer to retain quality employees.

VALIC accepts remittances in either of the following methods:

1. Electronic transfer
2. Automated Clearing House (ACH) debit

In addition to preparing specially formatted files for remittances, the plan administrator must:

- > Notify eligible employees when they can start making salary deferrals or receiving employer contributions.
- > Ensure remittance files are accurate and supporting documentation is complete and submitted on a timely basis to VALIC for all contributions remitted.
- > Follow DOL rules requiring that the employer make elective deferrals on the earliest date the employer can reasonably segregate the amount from the employer's general assets, but not later than the 15th business day of the following month. Historical audit data shows the DOL considers the average processing time each organization takes to remit contributions. Based on this information, the DOL may consider a remittance as late when an organization takes longer than a previously established pattern. (For example, if you always made remittances within eight calendar days in the past, the DOL could consider one remittance made at 10 calendar days as a late remittance subject to legal action.)
- > Ensure the appropriate definition of ***compensation*** is used when calculating employer contributions.
- > Correct contribution errors when necessary. Chapter 11 provides more detailed information about correction of contribution related errors.
- > Contributions are posted to participant accounts on date received in good order. Good order means that the amount received is equal to the amount to be allocated for each participant via the documentation provided. Generally by 3 p.m. central time unless special circumstances apply.



Vesting

Vesting

Vesting

Vesting is a calculation process that determines the portion of employer contributions actually owned by the participant. It is typically based on ***years of service***, which is defined in the ***plan document***. The plan document stipulates the annual requirement employees must meet to be credited with a year of service for vesting. For each year the requirement is not fully met, the employee does not receive credit for a year of vesting service during that plan year. It is critical that ***plan administrators*** correctly calculate the vested percentage each employee has in employer contributions made on their behalf.

Failure to do so can cause employees to receive more money than they are entitled to, which is very hard to recover, once distributed.

An employee can acquire vested years of service prior to meeting the eligibility requirements. For example:

Susie begins full-time employment at age 18, but won't meet eligibility requirements to receive employer contributions until she reaches age 21. Upon reaching age 21, Susie already has 3-4 years of service for vesting purposes.

Vesting

Employer Contributions

Section 904 of the Pension Protection Act of 2006 accelerated vesting schedules for employer contributions.

- > Seven-year graded schedules were changed to a six-year graded schedule.
- > Five-year cliff schedules were changed to a three-year cliff schedule.

Graded vesting schedules provide for partially vested benefits during the course of an employee’s service. The new ERISA standard six-year graded schedule is shown below.

Standard ERISA 6-Yr. Graded Schedule

Year 2	20%
Year 3	40%
Year 4	60%
Year 5	80%
Year 6	100%

Plan sponsors can choose to use a more generous vesting schedule, allowing employees to vest even faster than this standard schedule. However, **plan administrators** must ensure that at no specified timeframe is the modified vesting schedule less generous than the standard schedule. An example of this pitfall is displayed below:

Standard ERISA 6-Yr. Graded Schedule

Year 2	20%
Year 3	40%
Year 4	60%
Year 5	80%
Year 6	100%

Modified Graded Vesting (Invalid)

Year 2	20%
Year 3	40%
Year 4	50%
Year 5	100%

Although this modified schedule provides full vesting in five years, it violates IRC and ERISA vesting rules, because year 4 only provides 50% vesting where year 4 of the standard vesting schedule provides for 60% vesting.

Cliff vesting schedules do not provide any partial vesting benefit. Until all the required years of vesting service are attained, a participant is 0% vested. When the three-year vesting service period is met, the participant becomes 100% vested.

Vesting

Forfeitures

Vesting schedules are used to determine the amount of ownership rights an employee has to employer contributions. Employees who do not meet the vesting schedule requirements as outlined in the plan document are considered not fully vested. These unvested amounts are returned to the plan sponsor as **forfeitures** when an employee takes a distribution from his/her account. Since unvested employees are not entitled to these forfeited amounts, they are returned to the plan sponsor and remain part of the plan's assets.

The **plan document** stipulates how forfeitures are managed. Two common options are listed below.

1. **Billing credit:** allows employers to use plan assets from the forfeiture account to pay for future employer contributions made to the plan.
2. **Reallocation:** provides for a pro-rata calculated contribution of the forfeitures to be allocated to all active plan participants.

One of the fiduciary responsibilities of **plan administrators** is to properly manage **forfeiture** account assets. This can be done by:

- > Ensuring new forfeitures are properly applied each year.
- > Distributing forfeiture related plan assets in accordance with the **plan document** provisions.

Employee Contributions

Vesting primarily relates to employer contributions, since it measures an ownership percentage of that type of contribution. Employee contributions nearly always represent a 100% ownership right.

Some of the more common employee contributions, which are always 100% vested are:

- > After-tax employee contributions
- > Rollover contributions from other plans where a distributable event has already occurred
- > Designated Roth contributions
- > Employee elective deferrals

Miscellaneous Vesting Information

Other instances where an individual may be 100% fully vested in employer contributions include:

- > If the employer adopts a 100% immediate vesting schedule for employer contributions.
- > Upon death of the participant employee.
- > If the employee becomes disabled to the point he/she can no longer perform the duties he/she was hired to do.

Additional vesting related activities the **plan administrator** must complete on an ongoing basis are:

- > Identify all employees whom an additional year of vesting service should be credited to, per the **plan document**.

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Distributions

Distributions

Distributions

Distributions are governed by specific rules outlined in the plan document, and generally fall into various categories. Each plan sponsor must determine the type of distributions allowed and stipulate those as specific provisions in the plan document. The chart below provides a description of the more common types of distributions available.

Common Distribution Types That May Be Allowed

<u>Cash out</u>	Allows employers to close accounts and distribute small balances to employees who have separated from service, without first obtaining the participant's consent.
<u>Disability</u>	Payments allowed when an employee becomes unable to engage in substantial gainful activity due to a medically determinable permanent physical or mental impairment.
<u>Hardship</u>	<p>In-service distribution allowed in some plans that is necessary to satisfy an employee's immediate or heavy financial need that cannot be relieved by other resources reasonably available to the employee. Costs related to the following are generally recognized by the IRS as valid reasons for hardship distributions.</p> <ul style="list-style-type: none"> > Unreimbursed medical expenses > Funeral expenses > Purchase of a principal residence (excluding mortgage payments) > To prevent foreclosure on or eviction from a principal residence > Post-secondary education tuition and certain related expenses > Certain repairs for damage to principal residence <p>Generally, an employee will be prohibited from making elective deferrals to the plan for at least six months after receipt of a hardship distribution.</p>
<u>In-service</u>	<p>Withdrawals taken while actively employed. These come in a variety of forms. Some of the more common types include:</p> <ul style="list-style-type: none"> > Qualified active reservist distributions > Attainment of age 59½ for ERISA-covered plans
<u>Qualified Domestic Relations Order (QDRO)</u>	An assignment of benefits frequently ending in a distribution transaction to an alternate payee. It usually results from a court order in a domestic relations case requiring contributions/earnings accrued in a participant account are made available and divided/withdrawn.
<u>Required Minimum Distributions</u>	Mandatory participant payments designed to distribute the employee's entire account over the life expectancy of the employee or the joint life expectancy of the employee and a designated beneficiary. Payments are based on a calculated formula using life expectancy tables published by the IRS.
<u>Separation From Service</u>	<p>Withdrawals made after the employee no longer works for the employer. Some common distributions in this category are:</p> <ul style="list-style-type: none"> > Normal retirement > Early retirement > Terminated > Disability

Distributions

Managing Distribution Requests is Usually a Two-Fold Process:

1. Does the plan allow the type of distribution requested?
2. Has the employee met the criteria/conditions needed to request the distribution?

Although this process seems fairly straightforward and easy, mistakes are frequently made in this area. The list below provides a simple guide to the more common responsibilities plan administrators have related to distributions:

- > Ensure only distributions specifically outlined in the plan document are approved.
- > Validate all paperwork is complete:
 - As appropriate, ensure spousal signature and any notary signatures are provided.
 - The participant's request meets the criteria of the distribution requested.
 - Ensure vesting/hours worked calculations are provided on distribution requests involving employer contributions.
- > Monitor deferral processing for hardship requests.
 - Coordinate with the payroll department to stop deferral contributions when the hardship distribution is started.
 - Coordinate with the payroll department to ensure deferral contributions are restarted when the hardship processing period is over.



Loans

Loans

Loans

According to the IRS, when retirement plans allow loans, each loan is considered an investment of plan assets. Therefore, plan sponsors should give careful consideration when deciding whether or not to allow loans in their retirement plan.

The DOL relies on two sections of **ERISA**, sections 406 and 408, to base its standards for how loan programs are administered. Failure to adhere to the requirements outlined in these sections can result in prohibited transactions that could potentially disqualify the plan.

Loans provide flexibility for plan participants, but employees must remember the goal of the plan is to save for retirement, not to use it like a personal savings account. Plan sponsors must structure any loan program to ensure it is administered fairly and consistently to all employees. Loans are made from the participant's vested account balances.

Loan Program Requirements

A plan sponsor can generally avoid problems with prohibited transactions by complying with the following guidelines outlined in **ERISA** sections 406 and 408:

- > Loans must be made available to all participants on a reasonably equal basis.
- > Loans cannot be made in a way that discriminates in favor of **Highly Compensated Employees** (HCE) versus **Non-Highly Compensated Employees** (NHCE).
- > Loans must be adequately secured using the participant's vested account balance.
- > Maximum loan amounts are the lesser of the following two options.
 - 50% of the value of the participant's vested account balance
 - Up to a maximum of \$50,000
- > Unless the loan is used to purchase a principal residence, it must be repaid within five years.

Loans

Action Items Required in Loan Policy Statements

If the plan document allows loans, an additional document, called a ***loan policy statement*** is required. This document provides guidance on how the loan program is administered and it must contain the following items:

- > Identify the specific conditions under the plan allowing a loan to be taken.
- > Establish the minimum and maximum amounts for loans under this plan. Generally \$1,000 is the minimum threshold, while the maximum cannot exceed the ERISA standard.
- > Identify the terms under which the loan is to be repaid.
- > Specify what collateral is needed to secure the loan.
- > Define a reasonable interest rate for the loan.
- > Specify the number of loans that can be outstanding at any one time.
- > Establish procedures for identifying loans as defaulted or foreclosed.
- > Establish the loan request package required for obtaining a loan.
- > Establish procedures for how a loan is terminated.

Managing a Loan Program

The ***plan administrator*** is responsible for ensuring the loan program runs smoothly and is operated consistently and fairly for all employees.

VALIC uses two different terms to identify the types of loans a plan may have. ***Plan loans*** are used in mutual fund plans, and ***policy loans*** are used in annuity plans. Reporting requirements differ slightly as a result of how the contractual obligations of the loan are established. More information regarding this topic can be found in your copy of the VALIC Audit Guide, located on Plan Sponsor Online.

A large, stylized white letter 'C' is positioned on the left side of the page. The 'C' is composed of a thick white outline and a solid light blue interior. The background is divided into three horizontal bands of blue: a light blue top band, a medium blue middle band, and a darker blue bottom band. The 'C' overlaps these bands.

Compliance Services

Compliance Services

Non-Discrimination Testing

Maintaining a retirement plan's qualified status requires employers to satisfy the Internal Revenue Code both in the plan's design and its operation. The IRS sponsors a determination letter program enabling plan sponsors to obtain an advance assurance that the plan's design meets the required standards. This program is not available for 403(b) plans.

However, plan sponsors must also establish procedures that ensure the plan is operated in accordance with the **plan document** and that participants receive their proper retirement benefits. Non-discrimination tests are part of the requirement imposed by both the IRS and the DOL to ensure all employees receive an equal opportunity to benefit under the retirement plan.

Operational Requirements

Qualified plans, like 401(k), **money purchase**, **profit sharing** and pension plans, generally qualify under section 401 of the Internal Revenue Code (IRC). These plans have a variety of required tests. Section 403(b) plans containing employer contributions need some, but not all of the same tests required for qualified plans. There is a chart titled Testing For ERISA Plans in chapter 13 that provides a brief description of each test and which plans are generally required to perform them on an annual basis.

Non-Discrimination or Compliance Testing

It is important for all **plan administrators** to have a general knowledge of the testing process regardless of who prepares the annual compliance testing for them.

Compliance tests generally fall into one of two categories.

Individual Compliance

- Restrictions and/or limits imposed at the individual participant level
- Usually tied to a periodically adjusted indexed dollar amount

Group Compliance

- Restrictions imposed on the plan as a whole
- Some requirements use formula based tests
- Some have periodically adjusted indexed dollar amounts

The various limits associated with these compliance tests are periodically updated by the IRS, based on Cost of Living Adjustments (COLA). Please see the COLA chart found in the Forms, Tools and References section located in chapter 13 of this guide.

Compliance Services

Individual Compliance

Retirement plans generally use two tests to measure the controls maintained in the plan regarding individuals' contribution amounts.

402(g) Limit

- > Statutory limit restricting the amount of employee contributions an individual can make to a retirement plan.
- > Individuals age 50 or older may be able to defer an additional amount under an age-based catch-up limit.
- > Both limits are declared annually and indexed for Cost of Living Adjustments (COLA).
- > Contributions in excess of these limits must be refunded by April 15th.

415(c) Annual Additions Test

- > Limits the total amount of employee/employer contributions that can be made to a plan sponsored by the employer.
- > Limit is declared annually and indexed for Cost Of Living Adjustments (COLA). Please see the COLA chart found in the Forms, Tools and References section located in chapter 13 of this guide.
- > Excess amounts must be returned to employees within twelve months after the plan year end date. However, the plan sponsor may be assessed a penalty if excess amounts are not refunded prior to 2½ months after the plan year end.

Group Compliance

There are numerous group compliance tests. Depending on the type of plan your organization sponsors, some or all of the tests listed below may be required.

- > 401(a)(17) compensation limit
- > 410(b) group coverage test
- > IRC 401(k) Actual Deferral Percentage (ADP) test
- > IRC 401(m) Actual Contribution Percentage (ACP) test
- > IRC 416 top heavy test (***key employees***)
- > IRC 414(s) excluded compensation test
- > IRC 401(a)(4) benefits rights and features test

Each test helps the plan sponsor identify any operational issues that may not meet the IRS and DOL standards related to how the plan provisions are administered under the ***plan document***. Group compliance tests are required for the plan as a whole and usually are based on comparisons made between the ***Non-Highly Compensated Employees*** (NHCE) and ***Highly Compensated Employees*** (HCE).

Compliance Services

401(a)(17) Compensation Limit

- > Sets the maximum amount of compensation considered for testing purposes.
- > Declared annually and indexed for Cost of Living Adjustments (COLA). Please see the COLA chart found in the Forms, Tools and References section located in chapter 13 of this guide.

410(b) Coverage Test

- > Establishes rules for who the plan must cover.
- > Must pass one of two tests:
 - > **Ratio percentage test** — requires that the percentage of NHCEs benefitting under the plan be at least 70% of the percentage of HCEs benefitting under the plan.
 - > **Average benefit test** — the average benefit percentage of the NHCEs must be at least 70% of the average benefit percentage of the HCEs.
- > Plan may exclude union and/or non-resident alien employees for purposes of this test.

Actual Deferral Percentage (ADP) Test

- > This test limits the average amount of deferrals of the HCE group.
- > Used in qualified plans with a Cash or Deferred Arrangement (CODA).
- > Includes Roth contributions but not age based contributions.
- > Test can be passed in two ways:
 - **1.25 test:** ADP of the HCE group must be no more than 1.25 times the ADP value of the NHCE group.
 - **2% spread test:** HCE group ADP is not more than two percentage points above the ADP of the NHCE group, and ADP for HCE group is not more than two times the ADP for the NHCEs. Both calculations must be completed and the smaller value is the one that must be used.
- > Plans that use safe harbor rules are deemed to “pass” the ADP test. Notices to participants must be made no earlier than 90 days prior to the plan year end and no later than 30 days prior to the plan year end.

Actual Contribution Percentage (ACP) Test

- > This test limits the average amount of employer matching and associated forfeiture contributions of the HCE group.
- > Uses the same testing methodology used for the ADP test.
 - **1.25 test:** ACP of the HCE group must be no more than 1.25 times the ACP value of the NHCE group.
 - **2% spread test:** HCE group ACP is not more than two percentage points above the ACP of the NHCE group **and** ACP for HCE group is not more than two times the ACP for the NHCEs. Must complete both calculations of this test and the smaller value is the one that must be used.
- > Plans that use **safe harbor** rules are deemed to “pass” the ACP test. Notices to participants must be made no earlier than 90 days prior to the plan year end and no later than 30 days prior to the plan year end.

Compliance Services

416 Top-Heavy Test

- > Ensures that the accrued benefits under the plan are not discriminatory in favor of owners and certain other HCEs over the NHCEs.
- > Plan is considered top-heavy if aggregate value of accounts for **key employees** under the plan exceeds 60% of the aggregate value of all employee accounts under the plan.

414(s) Excluded Compensation Test

- > Ensures that if compensation other than an IRS approved safe harbor definition is used, it does not discriminate in favor of HCEs.

401(a)(4) Benefits, Rights and Features Test

- > Ensures that plan provisions like those listed below are provided in a non-discriminatory manner.
 - Loans
 - Right to direct investments
 - Right to purchase certain ancillary benefits
 - Right to make rollovers and transfers
- > Can be used as an alternate method of passing coverage if the plan fails the 410(b) coverage test.
- > Commonly used in plans with tiered contribution schedules based on years of service.

Some plans such as church and governmental plans are exempted from most or all of the group compliance tests. Plans where there are no HCEs or where no HCEs are participating receive a “deemed pass.” Each plan must be reviewed individually to determine if any of the tests may be excluded. Testing failures or missed testing deadlines may cause penalties and fines to be levied against the plan. In some cases testing failures can cause the plan to lose its qualified status. Plans losing their qualified status encounter high monetary costs to administer correction programs and may be required to pay various fines and penalty fees. Additionally, when an employer’s retirement plan loses its qualified status, all plan assets become immediately taxable.

The IRS publishes annual updates to all compliance limits on their website, which is extremely helpful in enabling plan administrators to proactively manage various limits and prevent excesses. Please refer to the IRS website, www.irs.gov for more details.

Some plan sponsors have other professionals like third party administrators, attorneys or CPAs conduct their compliance testing. While this is certainly an acceptable practice, it requires careful coordination to ensure all parties know who performs what function. Careful coordination must also be made in situations where a retirement plan changes service providers.



Annual Audit and Form 5500 Filing

Annual Audit and Form 5500 Filing

Financial Reporting and Audits

The Department of Labor (DOL) and the Internal Revenue Service (IRS) require ERISA-covered plans to complete and file the Form 5500 series. The Form 5500 series is part of ERISA's overall reporting and disclosure framework, which is intended to assure that the employee benefit plans are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and benefits of participants and beneficiaries under employee benefit plans.

The Form 5500-SF, Short Form Annual Return of Small Employee Benefit Plan is a simplified annual reporting form for use by certain small pension and welfare benefit plans. To be eligible to use the Form 5500-SF, the plan must:

- > Be a small plan (i.e., generally have fewer than 100 participants at the beginning of the plan year),
- > Meet the conditions for being exempt from the requirement that the plan's books and records be audited by an independent qualified public accountant (IQPA),
- > Have 100% of its assets invested in certain secure investments with a readily determinable fair value,
- > Hold no employer securities, and
- > Not be a multiemployer plan

Plans required to file an annual return/report that are not eligible to file the Form 5500-SF, must file a Form 5500, Annual Return/Report of Employee Benefit Plan, with all required schedules and attachments (Form 5500) or Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan.

The deadline for filing is seven months after the end of the plan year unless an extension for an additional two and one-half months is filed (Form 5558). For example, a calendar year plan's deadline for filing is July 31st, and the extended deadline is October 15th. Otherwise penalties may be incurred by the plan. (Please refer to the chart entitled Regulatory Due Dates for ERISA Plans in chapter 13.)

VALIC generally prepares the Form 5500 for review and signature for plan sponsors who have contracted for these services. Filing is now simplified through an electronic filing portal. The ***plan administrator*** is integrally involved and should be familiar with the filing and associated audit process.

These are the things a plan sponsor should be concerned with related to the Form 5500 filing:

- > Identify if an independent audit is required. (Based on number of active employees on the first day of the plan year.) Generally an employer sponsoring a qualified plan or 403(b) plan with more than 100 participants as of the beginning of the plan year will be subject to an audit.
 - For a new plan, or when an auditor changes, secure an independent auditor if applicable. (Begin this process at the start of the plan year.)
 - Serve as liaison between service provider (VALIC) and auditor to obtain necessary forms and documentation required to complete the audit.
- > Review trust report packages.
- > Review financial reports from service provider(s) against those from your payroll office(s) and resolve any discrepancies.
- > For newly created plans, obtain electronic signing/filing credentials from the DOL for the electronic filing of the Form 5500.
- > Review/approve/file the completed Form 5500 series.

Chapter 10

Annual Audit and Form 5500 Filing

Audits are an integral part of the annual Form 5500 filing process. The audit focuses on a review of the retirement plan's internal controls and operating procedures. It ensures the plan sponsor's adherence to the ***plan document*** and the consistent and fair application of benefits to all retirement plan participants. It is important for the plan sponsor to engage an auditor for their plan in ample time (suggested immediately following plan year end) to complete the annual audit prior to the Form 5500 filing deadline.

To facilitate the Form 5500 filing process, VALIC provides additional resources through the Plan Sponsor Online (PSO) website. The website is located at <https://groups.valic.Com/PSO/>. PSO allows plan sponsors and auditors to view financial reports, retrieve plan documents, and review reference materials.

Reports are available on PSO through two different options; 1) system-generated reports that VALIC places on PSO for each plan sponsor, and, 2) the capability to create reports on an ad-hoc basis. These reporting options allow plan sponsors to review transaction data affecting all aspects of their retirement plan.

Annual Audit and Form 5500 Filing

The reports listed below comprise the VALIC 5500 report package:

- > **Certification statement**
- > **Fund Activity Report** — plan-level transaction summary sorted by the various funds used by the plan sponsor processed during the reporting period.
- > **Plan Summary Report** — plan-participant-level summary report of all account transactions processed during the reporting period.
- > **Contribution Report by Process Date** — plan-level report of all contributions that were actually processed during the specified reporting period.
- > **Contribution Report by Payroll Date** — plan-level report of all contribution payroll dates, regardless of when the contribution was actually processed.
- > **Distribution Report** — plan-level report of various types of disbursements paid to participants. The report also contains a summary by transaction type of each distribution type reported.
- > **Capital Transfer Report** — report displaying any transfers or rollovers coming into the plan during the specified reporting period.
- > **Group Charges Report** — report providing a summary of any fees, adjustments and expenses related to participant accounts or the group's forfeiture account during the reporting period.
- > **Mutual Fund Plan Loan Detail Report** — provides detailed data about participant loan status and activity.
- > **Internal Transfer Report** — report displaying any information related to transfers made among various investment funds approved by the plan sponsor.
- > **Schedule A** — report providing data including commissions, necessary to complete the Schedule A of the Form 5500.
- > **Mutual Fund Forfeiture Report** — provides detailed data at the participant level of transactions that impacted the plan sponsor's forfeiture account due to partially vested participants.
- > **Schedule C Fee Disclosure** — this is a link that provides product specific information necessary to complete Schedule C of the 5500.

Similar to compliance testing, some plan sponsors have an outside firm prepare their Form 5500. This is also acceptable but requires careful coordination to avoid duplication of effort. For further information, please contact your VALIC Compliance Administrator or the Plan Sponsor Service Team.



Correcting Plan Errors

Correcting Plan Errors

Correcting Plan Errors

In a constantly changing environment, retirement plan administration can be challenging. No matter how simple or sophisticated your plan may be, mistakes can be made. Fortunately, the IRS and the DOL recognize this fact and have created corrective programs to get your plan back on track, should an error occur. These programs include the Employee Plans Compliance Resolution System (EPCRS), Delinquent Filer Voluntary Correction (DFVC), and Voluntary Fiduciary Correction Program (VFCP).

Each program is discussed below in more detail. However, if you are aware of an error, or believe an error has occurred, you should seek legal counsel before proceeding with any corrective action.

Employee Plans Compliance Resolution System (EPCRS)

The specifics of EPCRS, outlined in **Revenue Procedure 2008-50**, are designed to correct any plan defects or operational failures that may occur. The rules are complex and the following is intended to be a general guide only.

The basic principles on which EPCRS is founded are as follows:

- > To encourage plan sponsors to establish best practices and procedures, facilitating the correct operation of their plan(s).
- > To promote plan document compliance with the Internal Revenue Code.
- > To facilitate timely correction of any plan defects or errors.
- > To encourage consistent and uniform application of corrective activity and in a way that most closely returns the plan to a state as if the error had not occurred.
- > To promote voluntary compliance and reduce uncertainty with regard to tax consequences and qualified status of the plan.

EPCRS is comprised of the following three basic elements:

- > Self Correction Program (SCP)
- > Voluntary Correction Program (VCP)
- > Audit Closing Agreement Program (CAP)

Each element has a different application, according to the particular circumstances of the error. As long as the error does not include misuse of plan assets, your plan will probably be eligible for one of the correction programs. To determine which program element applies, the plan sponsor must evaluate the error against the criteria outlined in **Revenue Procedure 2008-50**. The most favorable outcome is to qualify under SCP since this program does not call for any financial penalties or filings to the IRS.

Correcting Plan Errors

Self Correction Program - SCP

To qualify for SCP, the error must be considered an operational failure in following the terms of the plan. The error can be “significant” (not for SEP and SIMPLE IRA), but must not be considered “egregious.” The definition of what is significant and what is egregious is included in Revenue Procedure 2008-50. Some questions that need to be answered to determine if the error is significant include:

- > Did other failures occur during the same period?
- > What percent of assets and/or contributions were involved?
- > How many years did the failure occur?
- > How many participants were affected?
- > How many participants were affected in relation to the number of participants that could have been affected? Was correction made in a reasonable time after discovery? Why did the failure occur?

In order to use SCP for errors that are considered significant, the plan must receive a favorable determination letter from the IRS.

Finally, the plan must not be currently under examination by the IRS. If all these criteria are met, then the correction under SCP must be made **within two years of the end of the plan year in which the failure occurred** and in accordance with the general correction principles set forth by the procedure.

Voluntary Correction Program - VCP

A second correction method is the Voluntary Correction Program (VCP). This method is used when the plan sponsor identifies the error and it does not qualify for SCP. With VCP the plan must submit an application and fee to the IRS. The application must identify the qualification failures, outline the correction method, and show proof of a plan to implement necessary changes in administrative procedures to ensure failures do not reoccur.

If the correction is accepted under VCP, then the IRS agrees not to pursue the sanction of plan disqualification, provided all required corrective actions and changes are completed within 150 days of the execution of the “compliance statement.” Like SCP, VCP is not available if the plan is currently under examination by the IRS.

VCP can be used to correct all categories of qualification failures including plan document, operational, demographic, and eligibility. The fee is based on the number of participants in the plan and can range from \$750.00 (<20 participants) to \$25,000.00 (>10,000 participants).

Audit Closing Agreement Program - CAP

In this corrective program, an outside examiner, such as the IRS, DOL or an auditor, has identified your plan as having significant operational failures. In this scenario, the SCP and VCP methods are no longer available and your plan is subject to sanction and possibly even disqualification. The end result is that your plan will emerge with documented best practices and procedures that will minimize the risk of errors going forward, as this is a requirement of the program.

Correcting Plan Errors

Common Mistakes

Late Remittal of Deferrals

The most common error seen in today's retirement plans is missed or late remittal of elective deferrals. DOL rules require employers remit elective deferrals to the trust on the earliest date the employer can reasonably segregate the amount from the employer's general assets. However, it can never be later than the 15th business day of the following month. Failure to do this causes an operational failure and/or a prohibited transaction. While operational failures can be corrected through **EPCRS**, a prohibited transaction cannot.

Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) Errors

Another common mistake is the failure to timely correct ADP or ACP mistakes. These errors would include classifying employees incorrectly as Highly Compensated Employees (HCEs) or Non-Highly Compensated Employees (NHCEs), applying an incorrect compensation definition for non-discrimination tests, or running the tests incorrectly. These errors can be corrected under **EPCRS** using either **SCP** or **VCP**, depending upon the particular circumstances. If the error is corrected within two years, it is most likely that the SCP can be used.

Plan Amendments

Legislative changes to the Internal Revenue Code often require an amendment(s) to your plan document.

Eligibility

Plan sponsors are required to provide eligible employees with the opportunity to make elective contributions according to the provisions of the plan document. Responsibilities in this area include providing the eligible participants with all of the plan information and materials required to enroll at the earliest time they are eligible to participate.

It is not uncommon for these plans to provide an automatic enrollment feature, also known as a negative election provision. In these instances, enrollment is automatic unless the participant proactively takes a step to decline participation in the plan. Still, even with such a provision, errors can occur.

Errors related to eligibility can be corrected using **EPCRS** and will include the employer making corrective contributions in the amount of 50% of the missed deferrals, on behalf of affected employees. To avoid this mistake, it would be wise to periodically review employees who are eligible and not making elective deferrals to the plan.

Correcting Plan Errors

Compensation

In determining the amount of the employer’s contributions to the plan, the amount of an employee’s compensation is used. Multiple definitions of compensation can be used in the same plan, depending on the various types of contributions. For instance, deferral contributions may be based on salary plus bonuses and commissions, while employer discretionary contributions may be based upon base salary only. This is spelled out in the plan document and should be well understood to avoid errors.

Errors in this area could take many forms and the specific correction is contingent upon the details. Generally, if an error occurs, EPCRS is the most likely correction program.

To avoid errors, plan sponsors should periodically review their plan’s operations, throughout the year, to ensure the correct compensation amounts are being used for any calculations. This is especially critical in the event of a plan amendment or restatement. Of course, the simpler the plan definition of compensation, the less likely there will be errors.

Contributions

The topic of contribution errors is very broad and complex. However, from a high level there are three areas to be concerned about: excess deferrals, excess contributions, and exclusions.

- > **Excess deferrals** - Internal Revenue Code limits the amount of elective deferrals that an employee can make each year to a qualified plan. Exceeding these limits is one of the most common errors discovered during examinations of 401(k) plans. The limits, including current and past three years, are as follows:

2013	\$17,500.00
2014	\$17,500.00
2015	\$18,000.00
2016	\$18,000.00

Employees who exceed the limits must report the excess on their tax return as income during the calendar year that the deferral was made and report it on their tax return during the calendar year the excess is withdrawn. To avoid double taxation and possible disqualification of the plan, the excess amounts plus earnings must be returned to the employee during the same tax reporting period in which the deferrals were made. In other words, excess deferrals made in 2015 must be returned by April 15, 2016.

To avoid plan qualification issues, it is recommended that plan sponsors monitor deferral amounts for each employee, limitations based on calendar year, and employees who transfer between divisions or plans of the same employer. A plan may avoid disqualification for excess deferrals under EPCRS (SCP or VCP) by correcting the errors.

Correcting Plan Errors

- > **Total contributions** - Internal Revenue Code limits the amount of contributions (including forfeitures) allocated to a participant's account in a qualified plan, as detailed under code section 415(c). This limit is subject to periodic cost of living increases and is the lesser of \$53,000.00 or 100% of compensation for 2015. The following are the limits, including the past three years:

2012	\$50,000.00
2013	\$51,000.00
2014	\$52,000.00
2015	\$53,000.00

In calculating the limit, the plan must include: elective, after-tax employee, Roth, 457(b), employer matching, and employer profit sharing contributions. Errors related to exceeding contribution limits can be corrected using the programs detailed in Revenue Procedure 2008-50.

- > Exclusion of employees to make contributions - the plan document dictates how an employee may enroll in the plan. It is extremely important that these rules are followed to the letter. If an employee is excluded in error, it can lead to disqualification of the plan and the adverse tax consequences that would follow.

However, the employer may be able to correct the error through one of the EPCRS programs, thus avoiding the adverse tax consequences of disqualification. The correction method may include the employer making 50% of the missed elective deferrals on behalf of the affected employee(s). This amount would be based on the employee's salary multiplied by the Average Deferral Percentage (ADP) of the plan. If there is a match, the employer would be required to make 100% of the matching contribution on behalf of the affected employee. Keep in mind that the correction methods can vary depending upon the types of deferrals involved and the rules of the plan.

Distributions and Loans

Distributions and loans are also very complex. However, there are some high level tips below that should help you steer away from trouble. Areas for common mistakes: hardship withdrawals, Required Minimum Distributions (RMDs), loans, and vesting.

- > **Hardship withdrawals** - if your plan allows hardship withdrawals the rules for taking the withdrawal should be spelled out in your plan document along with the circumstances under which a hardship withdrawal can be taken. For example, your plan may state that a hardship withdrawal is available for:

- Purchase of principal residence (excluding mortgage payments)
- To prevent foreclosure on or eviction from principal residence
- To pay unreimbursed medical expenses
- Funeral expenses
- Post-secondary education tuition and certain related expenses
- Certain repairs for damage to principal residence

It may also require that the requesting participant demonstrate that there are no other sources of money available, including insurance or other liquid assets prior to making the withdrawal request.

If these plan rules are not followed, then an operational failure has occurred and, depending upon the circumstances, may be corrected through one of the EPCRS programs. The employer should also make a good faith effort to ensure the participant returns the improperly distributed money to the plan and notify the participant of the tax consequences. To avoid this mistake, the plan administrator should have a formal process for approving hardship withdrawals, including documentation of the request, verification that other sources of money are not available to the participant, and verification the terms of the plan are being followed.

Correcting Plan Errors

- > **Minimum Distributions** – the rules for Required Minimum Distributions (RMDs) are established by the Internal Revenue Code under Section 401(a)(9). Under these rules there is a required beginning date when a participant must begin receiving payments from the plan. While this date is not negotiable, the participant may choose from different methods of payments, depending on options available under the plan.

This date is generally the latter of the date the participant retires, or, the April 1 following the year that the participant reaches age 70½. Please note that the rules are different for 5% owners or in the case of death of the participant.

Not making these payments timely, or at all, constitutes a failure to follow plan provisions and can lead to plan disqualification. In addition, the participant (or beneficiary) is subject to a 50% excise tax on the underpayment amount.

Once again, the correction method may be found under the EPCRS revenue procedure, using either the SCP or VCP programs, based on the circumstances. To avoid the mistake, plan sponsors should establish a method for tracking the ages of their participants as they approach the distribution date.

- > **Loans** – if your plan has a loan provision, there are two major areas of concern for the plan sponsor. Regulation 72(p)(2) establishes a limit on the amount of a non-taxable loan and the period within which the loan must be paid back. In general, the limits are 50% of the vested balance up to \$50,000.00, And the loan must be repaid in five years or less, unless it is for the purchase of a primary residence. Loan payments must also be made in substantially equal payments at least quarterly.

Common loan failures include:

- Loans in amounts that are over the regulatory limit
- Payment schedules that don't meet the requirements
- Defaulted loans

Any of these failures will cause the loan to become a deemed distribution for tax purposes, which means the amount becomes taxable to the participant as if it were distributed as a withdrawal. In addition, the participant is still responsible for repaying the loan.

If an error is related to the amount limit under 72(p)(2), and the plan document states the limits as specified in the regulation, then the plan may become disqualified. VCP can be used to correct the error and hopefully avoid disqualification.

Employers need to ensure that loans are properly administered by establishing best practices, documenting policies, and providing administrators with the employee and account data necessary to monitor the provisions of the plan and the regulations.

- > **Vesting** – qualified defined contribution plans must meet the minimum vesting standards set forth in Section 411 of the IRC. These standards ensure that participants become entitled to benefits within a limited time period. For the plan, these standards are documented in a vesting schedule. In general, the plan's vesting schedule must meet the minimum requirements of a three-year "cliff" vesting, or a six-year "graded" vesting.

Vesting issues arise if the employer fails to accurately record and/or calculate years of service according to the terms of the plan and the vesting schedule. Therefore, it is extremely important that the employer take great care in maintaining those records, which can be extremely complicated when considering things like breaks in service, hire dates, rehire dates, and the plan language.

As with most errors involving plan provisions, failure to follow the vesting schedule and applying vesting rules can lead to disqualification of the plan.

If vesting errors have occurred, it is possible that SCP or VCP may contain the corrective program to resolve the error(s) and maintain the qualified status of the plan.

Correcting Plan Errors

How to Avoid Common Mistakes

- > **Plan document review and maintenance** - it is important that plan administrators be very familiar with the **plan document**. A regular review of this document should be a standard practice. This is especially important following any regulatory or employer driven amendments to the plan. Being unfamiliar with the plan provisions could potentially get you into trouble, including, finding your plan under sanction or disqualification.
- > **Employee record review and maintenance** - hire dates, term dates, years of service, hours, leaves of absence, marital status, excluded classes — The list goes on and on. It is highly recommended to have set procedures and controls over the review and maintenance of your employee data. Proper maintenance and monitoring of this information is vital to the correct operation of your plan.
- > **Documented operational procedures** - a key component to any efficient operation is the proper documentation of procedures. If this is done effectively, it will not only mitigate turnover-based risk, but also, you will have an advantage during an audit.
- > **Seek legal and expert advice** - we cannot stress this point enough. You may be a seasoned veteran of retirement plans and their workings, but with constant changes in the regulatory environment, even the most experienced plan administrator can get lost from time to time. As you may have read above, mistakes can be very costly. Therefore, it is always a good idea to seek the counsel of an attorney when it comes to the compliance of your plan. Ultimately, as plan fiduciary, you are responsible, so you should have experts in your corner should the need arise.

Consequences

If you have read through all of the common mistakes in this manual, you will have noticed some common themes that run through the corrective methods. Those are tax consequences and also cost to the plan sponsor, which are above and beyond the “people costs” related to dealing with a correction.

Of course, the gravest consequence would be if your plan were to lose its qualified status. If that happens, everybody loses; the plan participants, the plan sponsor, and the plan’s trust.

The plan participants’ contributions and/or vested balance may become taxable for the year in which the plan is disqualified. In addition, a distribution for a plan that has been disqualified is not an eligible rollover distribution for a qualified retirement plan or eligible IRA. The plan sponsor may not deduct employer contributions until such time as the contributions become taxable for the participant. Finally, the plan’s trust will owe taxes on the trust’s earnings. Needless to say, it is worth every minute spent ensuring that your plan document and provisions meet the requirements under the code, your administrative operations are sound, and regular monitoring is in place.



Plan Termination

Plan Termination

Plan Termination

Under certain circumstances, it may be necessary or prudent to terminate a retirement plan. For instance, the company sponsoring the plan may be acquired by another company that does not wish to operate the plan. Another situation arises if the business ceases to operate altogether. There are several requirements the plan sponsor must be aware of during a plan termination. Before initiating a plan termination, it is prudent to seek guidance from legal counsel or an employee benefits attorney. The plan may also decide to request a determination letter from the IRS.

Participant Communication

If it is determined that plan termination is the best path, the first thing that must occur is to notify the plan participants. If your plan is subject to 204(h) of ERISA, then this communication is a regulatory requirement, but even if it is not, informing the participants is the prudent thing to do. This communication should detail the upcoming events related to termination and specify their rights as plan participants.

Plan Document

Your ***plan document*** must be amended to be current with any recent changes in the law that affect the qualified status of your plan. This must be done prior to plan termination. If minimum funding requirements apply to your plan, the plan document must be amended to reduce these contribution amounts to zero. It is the suggestion of VALIC that you consult legal counsel with respect to the plan document, prior to proceeding with plan termination.

Distribution of Assets

Upon termination, contributions cease, all participants become 100% vested in any accrued benefits, and the benefits are distributed as soon as administratively possible. The IRS dictates that distribution must be done in a timely manner, generally within one year of plan termination. Participants can take a lump sum as a taxable distribution or roll the balance into another tax-deferred retirement account, subject to rules and regulations of the accepting vehicle.

Loans

If a participant has an outstanding loan at the time of distribution, then the loan balance will be “deemed” and become a taxable distribution to the participant for the year in which the distribution took place.

Forfeiture

If your plan has forfeiture assets, then these must be distributed to the participant, along with the rest of the benefits. You, the plan sponsor, must determine how these assets are allocated. One reasonable method would be to distribute them pro-rata according to compensation. Forfeiture dollars may also be used to pay plan expenses.

Plan Termination

Final 5500

Once all assets have been distributed, the last step in plan termination is to complete the Form 5500 filing. This last filing should be marked “Final,” and must be filed within seven months after all assets are distributed. This will indicate to the IRS that the plan is terminating.

Partial Plan Termination

A partial plan termination may occur if an employer elects to lay off a substantial portion of plan participants (generally more than 20%), thus stopping or reducing the amount of future accruals for the “affected participants.” An affected participant in a partial termination is anyone who left employment during the plan year in which the partial plan termination occurred and has an account balance under the plan. Like a full termination, affected participants receive the same rights as those under full plan termination, including becoming 100% vested in all accrued benefits.



Forms, Tools and Resources

Forms, Tools and Resources

Plan Administrator Master Checklist

Getting started

- Keep signed copies of all plan-related correspondence. (Plan documents, amendments, Summary Plan Description (SPD), Summary of Material Modifications (SMMs), product contracts and Service Provider Agreements (SPAs)).
- Ensure all plan participants receive a copy of the SPD.
- Identify plan sponsor representatives who can engage in contractual agreements or sign off on retirement plan transactions. Ensure VALIC has a current copy in its files.
- Become familiar with your role as a plan ***fiduciary*** and determine what fidelity bond insurance protection is needed for your plan.

Determining eligibility

- Identify eligible employees and notify them when they can begin making employee deferrals and/or receiving employer contributions.

Compensation

- Determine what parts of employees' salaries are used to calculate the employee/employer contributions that can be made to the plan.
- Identify the amount of annual compensation used for employees meeting the eligibility requirements in the current year, in order to calculate the amount of employer contributions.

Processing contributions

- Ensure remittance files meet the VALIC-prescribed format for processing and that all supporting documentation is complete and accurate for each payroll submitted.
- Ensure all contributions are remitted timely, as a failure to do this constitutes a breach of fiduciary responsibility and can result in legal actions taken against the ***plan administrator***.
- If your plan requires notices for any of the reasons listed below, send out the appropriate notices, 30-90 days prior to the plan year end.
 - > Safe harbor plan
 - > Automatic contribution arrangement
 - > Qualified Default Investment Alternative (QDIA)

Processing distributions

- Only process distributions specifically allowed in the plan document.
- Ensure all paperwork is complete including notarized spousal signatures and PA signatures as required.
- Calculate vesting/hours worked for requests involving employer contributions.

Loan processing

- Create a written ***loan policy statement*** to manage loans if your plan allows loans.
- Ensure all paperwork is completed and a notarized spousal consent is obtained if needed.
- Work with your payroll office to make sure payroll deduction and/or ACH loan repayment arrangements are maintained for each outstanding participant loan.

Vesting calculations

- For distributions where employer contributions are requested, calculate vesting years of service and percentages using the provisions outlined in the ***plan document***.

Chapter 13

Forms, Tools and Resources

Forfeitures

- Manage the plan sponsor's **forfeiture** account by:
 - > Ensuring new forfeiture money is properly applied each year.
 - > Using the forfeiture balance in accordance with the plan document provisions.

Non-discrimination testing

- Complete census questionnaire by the last day of the month after your plan year ends. (For example: January 31st for December 31st plan year end plans.) VALIC provides an annual notification of this due date to plan sponsors who contracted for VALIC full or core compliance services. Ensure the census file captures all data needed for compliance testing.
- Proactively monitor limits that are easily managed. This prevents excess refunds and testing failure corrections.
 - > Don't exceed the 401(a)(17) compensation limit.
 - > Don't exceed the 402(g) elective deferral limit.
 - > Don't exceed the 415(c) annual additions limit.

Audit operations

- Identify the number of active employees on the 1st day of the plan year to determine if an audit is required. Generally plans with 100 or more participants need an outside audit.
- For the first year an audit is conducted or if plan contacts change:
 - > Select the auditor who conducts the annual review of the financial status of the plan.
 - > Obtain electronic filing credentials for 5500 filings.
 - > Obtain a fidelity bond. [Refer to VALIC Audit Guide on Plan Sponsor Online (PSO)].
- Coordinate with VALIC to obtain access to the Plan Sponsor Online website and the VALIC Audit Guide.
- Review and complete any corrective actions noted from previous audits.

5500 financial reporting

- Download/review financial reports on PSO.
- Coordinate with service provider and/or TPA firm regarding the completion of the Form 5500 series.
- Review, sign and electronically file the completed Form 5500 series.

Items to review throughout the year

- Review the following types of transactions on at least a quarterly basis to ensure compliance with the plan document.
 - > **Entitlements**
 - > **Distributions**
 - > **Contributions**
 - > **Vesting**
 - > **Loans**
 - > **Hardships**
 - Ensure contributions are stopped when a hardship is taken.
 - Make sure contributions resume in a timely manner, per the provisions outlined in the plan document.

Forms, Tools and Resources

Annual Events in Plan Administration

The following dates are based on plan years that follow calendar years, ending on December 31st. For off-calendar plan years, please make the appropriate adjustments.

January

- > Annual review of your plan
 - Were any plan provision changes made during the preceding plan year?
 - How many employees are in the plan as of the first day of the new plan year for audit purposes? (See VALIC Audit Guide on PSO)
 - Do I need an audit?
 - How can I find an auditor?
 - How do I obtain electronic filing credentials? (For new plans)
 - How do I obtain a fidelity bond? (For new plans)
 - Do I need to file a Form 5500?
- > Review payroll files
 - Identify employees who are eligible for employer contributions during the upcoming year.
 - Identify employees who need to be reset to not exceed 402(g) limit.
 - Prepare employee indicative data (census) to be used in testing.

February

- > Resolve inconsistencies in the census data that impact compliance testing results.
 - Resolve payroll data discrepancies. (Incorrect dates, etc.)
 - Coordinate testing failure corrections for ADP/ACP refunds.

March

- > Conduct a quarterly review of all transactions to ensure all requests adhere to the following plan document provisions:
 - **Loans**
 - **Contributions**
 - **Entitlement**
 - **Distributions**
 - **Vesting**
 - **Hardships**
- > Review financial report package(s) within 90 days after plan year end (PYE). VALIC financial reports are available on Plan Sponsor Online.
 - Ensure your service provider or TPA firm has updated auditor contacts.
 - Begin gathering items needed for audit if appropriate.
- > Complete ADP/ACP refunds by the 2.5 month after the plan year end deadline.
- > Review potential 402(g) and 415(c) excesses.

Chapter 13

Forms, Tools and Resources

April

- > Complete request for 402(g) and 415(c) limit excess refunds in time for your service provider to complete refunds by April 15th.

May

- > Continue coordinating with your auditors on items needed to perform the audit.
- > Ensure the electronic signature and filing credentials are established with the Department of Labor.

June

- > Conduct a quarterly review of all transactions to ensure everything is following the plan document provisions. (See month three entry for details)

July

- > IRS Form 5500 series due to be electronically filed by the end of the month. If not able to file the Form 5500 by end of month, the IRS Form 5558 Application for Extension of Time must be received by the IRS via mail by the end of the month.
- > July 31st is the final date VALIC can receive accurate and complete census and still prepare a Form 5500 and related schedules by the IRS approved extended deadline of October 15th.
- > Excise tax, if applicable, may be due at this time. For further information see IRS Form 5330 and instructions to Form 5330 at IRS.gov.

Forms, Tools and Resources

September

- > Identify and prepare annual notices 30 - 90 days before the start of the new plan year. See Participant Notification for ERISA Plans chart in this chapter.
- > Begin review of all document provisions to determine if any changes are needed:
 - Amendment to change address.
 - Amendment to update signers and/or plan administrator.
 - Amendment to change contribution formulas.
 - Amendment to change eligibility formulas.
 - Amendment to change vesting formulas.
 - Amendment to freeze or terminate plan.
- > Distribute summary plan descriptions to plan participants.
- > Make Summary Annual Report (SAR) available to all employees (unless an extension is filed.)
- > Conduct a quarterly review of transactions to ensure all requests adhere to the following plan document provisions:
 - **Loans**
 - **Contributions**
 - **Entitlement**
 - **Distributions**
 - **Vesting**
 - **Hardships**
- > The 15th day of the ninth month is the final date employer contributions can be made and still be considered deductible.

Chapter 13

Forms, Tools and Resources

October

- > File Form 5500 by October 15th (if Form 5558 extension was filed by the initial 7/31 deadline).
- > Distribute safe harbor notice to employees.
- > Request and generate amendments as needed.

November

- > Generate any other notices as applicable.
- > Follow up on requested amendments.

December

- > Complete and execute (sign) any outstanding plan documents.
- > Review contributions made to ensure:
 - Employer contributions made as promised.
 - Identify any potential testing failures.
 - Identify any potential 402(g) excesses.
- > Extended deadline to make Summary Annual Report available to all employees.
- > Annual review of document and audit findings to determine what changes and additional controls may need to be added to help in administering your plan.

Chapter 13

Forms, Tools and Resources

Testing for ERISA Plans

Basic Test	Test Description	ERISA					
		Profit Sharing	Money Purchase	401(k)	401(k) Safe Harbor	403(b)	403(b) Safe Harbor
IRC 402(g) (Pretax or Roth)	Limits the maximum amount an individual can defer in a calendar year.			X	X	X	X
IRC 415(c)	Limits annual additions to individuals in a limitation year as defined by the plan document; includes employee and employer contributions as well as forfeiture allocations.	X	X	X	X	X	X
IRC 410(b) ratio %	Coverage test based on ratio percentage testing to ensure plan benefits are available on a non-discriminatory basis to all employees. For 403(b) plans this only applies to employer contributions (not salary reduction contributions).	X	X	X	X	X	X
IRC 410(b) average benefits	Coverage test based on average benefits testing to ensure plan benefits are available on a non-discriminatory basis to all employees. For 403(b) plans this only applies to employer contributions (not salary reduction contributions).	X	X	X	X	X	X
IRC 401(k) ADP	Compares the average deferral percentage of highly compensated employees (for the current year) to that of the non-highly compensated employees (for the prior year, unless the plan provides for current year testing).			X			
IRC 401(m) ACP	Compares the average (matching or after-tax) contribution percentage of highly compensated employees (for the current year) to that of the non-highly compensated employees (for the prior year, unless the plan provides for current year testing).			X		X	
IRC 416 (Top Heavy)	Test of key employees' account balances to ensure they do not exceed 60% of all account balances for all defined contribution plans.	X	X	X			
IRC 401(a)(17)	Limits individual annual compensation to a maximum amount for certain plan purposes. For 403(b) plans this only applies to employer contributions (not salary reduction contributions).	X	X	X	X	X	X
IRC 414(s)	Test definition of plan compensation to ensure it is non-discriminatory. For 403(b) plans this only applies to employer contributions (not salary reduction contributions).	X	X	X	X	X	X
IRC 401(a)(4)	Test to ensure participant allocations of employer contribution are non-discriminatory for non-safe harbor employer contributions. For 403(b) plans this only applies to employer contributions (not salary reduction contributions).	X	X	X	X	X	X

Church Plans are exempt from Title I of ERISA unless an election under IRC 410(d) is made to have it apply. This election is irrevocable. If you have a Church Plan electing ERISA status, contact Consulting Services to learn additional IRC requirements.

Employees participating in 403(b) Church Plans are provided a special exemption from the normal 415(c) limit. They may have annual additions up to \$10,000, regardless of their compensation (subject to a lifetime aggregate of \$40,000).

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Chapter 13

Forms, Tools and Resources

Regulatory Due Dates for ERISA Plans

ERISA Requirements	General Deadline	Deadlines for Specific Plan Year End Dates											
		12/31	1/31	2/28	3/31	4/30	5/31	6/30	7/31	8/31	9/30	10/31	11/30
402(g) Refunds	April 15th after calendar year end or double taxation.	4/15	4/15	4/15	4/15	4/15	4/15	4/15	4/15	4/15	4/15	4/15	4/15
ADP/ACP Refund No Penalty*	2K months after plan year end; no penalty	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/15	2/15
ADP/ACP Refund with Penalty	12 months after plan year end; penalty applies	12/31	1/31	2/28	3/31	4/30	5/31	6/30	7/31	8/31	9/30	10/31	11/30
5330 For Late ADP/ACP Refunds	15 months after plan year end	3/31	4/30	5/31	6/30	7/31	8/31	9/30	10/31	11/30	12/31	1/31	2/28
Variance Adjustments / Account Corrections	12 months after plan year end	12/31	1/31	2/28	3/31	4/30	5/31	6/30	7/31	8/31	9/30	10/31	11/30
Amendment for 410(b) or 414(s) Failure	9K months after plan year end	10/15	11/15	12/15	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15
Form 5500 and Form 8955-SSA or Extension	7 months after plan year end	7/31	8/31	9/30	10/31	11/30	12/31	1/31	2/28	3/31	4/30	5/31	6/30
Extended Form 5500 and Form 8955-SSA	2K months after initial deadline	10/15	11/15	12/15	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15

*ACP with no penalty deadline is six months after the plan year end for plans that provide for an Eligible Automatic Contribution Arrangement (EACA).

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Forms, Tools and Resources

Participant Notifications for ERISA Plans

Type of Notification	Description	Due Dates
Annual Safe Harbor	This notice is for plans that have qualifying contribution formulas that provide an automatic deemed pass for certain group compliance testing such as Average Deferral Percentage (ADP) test and Average Contribution Percentage (ACP) test. The notice is due to all eligible employees and must include language specific to the safe-harbor contribution formulas and other material plan features.	Must be provided annually at least 30 days and no more than 90 days prior to the beginning of the plan year.
Automatic Contribution Arrangements	For plans that automatically enroll participants for employee deferrals, an annual notice is due to all eligible employees describing the employees' right to not defer or defer at a different percentage, and explaining how contributions will be invested in the absence of an investment election.	Must be provided annually at least 30 days prior to the beginning of each plan year.
Qualified Default Investment Alternative (QDIA)	This notice describes the QDIA and related fees and expenses; explains the circumstances under which accounts will be invested in the QDIA; and advises participants they have the right to direct the investment of some or all of their plan assets. In the event the participant does not make an investment election the plan sponsor must choose a default fund for the participant's funds. This notice must give specific information about the default fund and should be provided to all eligible employees.	Must be provided annually at least 30 days prior to the beginning of each plan year. An initial notice must be provided at least 30 days before plan eligibility or at least 30 days before the first default investment.
Summary Annual Report (SAR)	This document summarizes the financial information reported on the Form 5500 or Form 5500SF. It must also contain other related plan information, such as the name and address of the Plan Administrator and disclose where the participant can go for additional information regarding the plan. This document must be distributed to all participants in an ERISA covered retirement plan.	Must be distributed by the later of nine months after the close of the plan year or two months after an extended Form 5500 due date.
Form 8955-SSA	Form 8955-SSA reports information on participants who have separated employment and still have a vested benefit in the plan. The reported participants must receive notification of the specific information that is being reported to the Internal Revenue Service on their behalf.	The due date for providing the statement to the participant is the due date, including any extensions of time, for filing the Form 8955-SSA.
Participant Fee Disclosures	Disclosures should contain certain fee and investment information required to help participants and eligible employees make informed decisions about their retirement plan investments. Certain general plan overview and investment-related information must be provided annually. The dollar amount of the plan-related fees and expenses actually charged must be provided quarterly. Disclosure of performance information for each available investment option must be made available online and updated at least quarterly.	Annual Participant Fee Disclosures must be delivered to plan participants and eligible employees within 12 months of the prior mailing. For calendar years 2013 and 2014, plan sponsors may elect a one-time extension of the annual mailing up to an additional six months. If this one-time extension is elected, subsequent mailings must be delivered by this reset date.
Universal Availability	This notification is specific to 403(b) plans and requires that all employees must be notified of the opportunity to defer to the plan. This includes Roth deferrals as well as catch-up contributions if they are permitted in the plan.	Notice of the ability to defer must be provided to all eligible employees not less frequently than annually.

Failure to comply with participant notifications could result in an ERISA plan losing its tax-exempt status and/or a fiduciary breach under ERISA.

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Retirement plan limits for 2016

SAVING : INVESTING : PLANNING

This list summarizes the maximum contributions allowable for most plan types as well as a number of plan thresholds.

Plan Type and Limitation	2015	2016
403(b), 401(k) or SARSEP employee elective salary deferral limit Limit applies to the total of pretax and Roth 403(b) and 401(k) contributions	\$18,000	\$18,000
457(b) deferral limit	\$18,000	\$18,000
403(b), 457(b), 401(k), SARSEP age 50 or older catch-up limit [not applicable to nongovernmental 457(b) plans]	\$6,000	\$6,000
403(b) service-based catch-up for employees with 15 or more years of service who work for a qualifying employer and have undercontributed in prior years	\$3,000	\$3,000
457(b) service-based catch-up for employees who have undercontributed in prior years and are within the last three taxable years ending the year before the year they attain normal retirement age as specified under the plan	\$18,000	\$18,000
457(b) plan participants who are eligible for both the age-based and service-based contributions cannot combine the two catch-up amounts, but may contribute up to the higher amount		
Traditional and Roth IRA contribution limit	\$5,500	\$5,500
Traditional and Roth IRA age 50 or older catch-up limit	\$1,000	\$1,000
SIMPLE IRA/401(k) salary deferral limit	\$12,500	\$12,500
SIMPLE IRA/401(k) age 50 or older catch-up	\$3,000	\$3,000
Highly compensated minimum salary	\$120,000	\$120,000
401(a)(17) compensation limit (the limit that may be considered under a tax-qualified plan unless grandfathered government plan)	\$265,000	\$265,000
Defined contribution plan 415 limit (the limit on total employer and employee contributions, whether elective or not)	\$53,000	\$53,000
Defined benefit plan 415 limit	\$210,000	\$210,000
Social Security wage base	\$118,500	\$118,500

Forms, Tools and Resources

Explanation of VALIC Annual Plan Questionnaire

(Census data elements)

Annual compliance testing is another critical step in ensuring your retirement plan is operated in accordance with the provisions outlined in the plan document. Each year, VALIC provides an annual plan questionnaire to all plan sponsors who have contracted with VALIC for these services. This package includes a census data request and data layout template. Upon receipt of the census information from the plan sponsor, VALIC will perform various tests to ensure proper compliance with plan rules and Internal Revenue Code. A formatted copy of the questionnaire is provided in the manual and a discussion of its contents is shown below. If inconsistencies or errors are found, these are reported to the plan sponsor so that a corrective plan can be identified and implemented.

Questionnaire

1. Employer information. (VALIC needs the following information:)

- > Full legal name of the plan sponsor. This is the name that all legal correspondence is filed under to include 5500 reporting packages.
- > What is the tax status of your organization?
- > Did the tax status of your organization change for some reason this year?

2. Contact information. (VALIC needs the following information:)

- > Primary and secondary contact information is needed on all individuals who serve as key decision-makers for your retirement plan. Key decision-makers are anyone who can engage in contracts on behalf of the plan and/or have overall plan oversight regarding the provisions outlined in the **plan document**.

3. Authorized signers. (VALIC needs the following information:)

- > The key decision-makers identified above are also considered as authorized signers for approving plan distributions.
- > Other authorized signers can be appointed to perform day-to-day operations of the plan. For example: the CEO as key decision-maker can sign, and the **plan administrator** (some other employee) might also be approved as an authorized signer.

4. Organizational structure. (VALIC needs the following information:)

- > This section only needs to be completed by employers who either own another entity or are wholly or partially owned by another employer.
- > If the plan sponsor is a stand alone entity, this section is not applicable.
- > If there is an ownership situation, please contact your VALIC Compliance Administrator for assistance.

Forms, Tools and Resources

5. Mergers, acquisitions and spin offs. (VALIC needs the following information:)

- > Complete this section if your organization acquired an entity during the past year.
- > Complete this section if your organization divested control of any subsidiary entity during the past year.
- > Complete this section if your organization agreed to merge with any other organization during the past year.

6. Plan information. (VALIC needs the following information:)

- > Legal plan name of every retirement plan your organization has established.

7. Identification of officers and owners. (VALIC needs the following information:)

- > This information is used to determine key employees, which relates to your compliance testing results.

8. Contribution information. (VALIC needs the following information:)

- > This section is divided into two parts. Please ensure that you are completing the appropriate grouping. The first is for contributions made during the year (for example, payroll deduction). The second grouping is reserved for any employer-based contribution that might be made after the plan year is over.
- > Please ensure that each type of contribution is broken out separately and totaled/reported based on the type of contribution it is.

9. Payroll and compensation information. (VALIC needs the following information:)

- > Please provide the last calendar day date of the first payroll of the plan year.
- > Please provide the last calendar day date of the last payroll of the plan year.
- > Please break out all forms of compensation paid and place the amounts on the appropriate line. The total of all compensation amounts must equal the amount of compensation reported on the census data file.
- > Unless your organization opted for special fee-based testing for excluded compensation, the lines in Part B of the compensation type will not be applicable for your plan.

10. Employer/plan administrator certification:

- > The individual who signs as the authorized signer certifies that the information provided on the census is true and accurate.
- > VALIC bases all of its compliance testing related to your plan on this data. If incorrect information is provided, incorrect testing results will occur.
- > VALIC may charge additional fees to the plan sponsor if testing must be redone due to inaccurate employee census data.

Forms, Tools and Resources

Tips for Overcoming Common Audit Pitfalls

Please review these items carefully and you should be able to avoid some of the more common pitfalls during an audit.

1. Loans

- > Ensure the written loan policy is adhered to.
- > If your organization sponsors multiple retirement plans that allow loans, be very careful not to exceed the total loan limits. This problem is very common with employers who have a 403(b) and a 457(b) plan.
- > If your plan has assets with multiple vendors or investment providers, be careful not to exceed the total loan limits allowing loans from different vendors.

2. Distributions

- > Maintain office copies of approved distribution forms in the event auditors request to see the original source document.
- > Ensure that all distributions are processed in accordance with the plan document provisions.
- > Safe harbor plans that use hardships are required to stop deferrals for a minimum of 180 days before the participant may begin deferring again.

3. Contributions

- > Plan sponsors with 403(b) retirement plans must ensure that salary reduction deferral arrangements are available to virtually all employees. Failure to pass this **universal availability** standard can result in the loss of the tax-favored status of the retirement plan. Failures usually stem from the exclusions of part-time employees or classes of employees who may not normally be considered as full-time employees. (Bus drivers, maintenance workers and substitute teachers are examples.)
- > Ensure that contributions do not exceed statutory limits. The IRS creates an indexed list of the various contribution limits on an annual basis. VALIC can provide you a copy upon request or you can download it from the www.irs.gov website.
 - 402(g) limit on elective deferrals to a 403(b) or 401(k) plan
 - 415(c) annual additions limit
 - 401(a)(17) compensation limit
- > Ensure contributions are processed timely on a consistent basis. The IRS and DOL frequently rule that if you were able to get contributions made in a short time period once, you should always be able to. Some audits have resulted in violation citations when only one payroll file of contributions was delayed slightly in processing.

Forms, Tools and Resources

4. Plan document

- > Keep the **plan document** current for all legislative updates and operational changes required by the plan sponsor.
- > Ensure that the provisions outlined in the plan document are consistent with the actual manner that transactions are processed in day-to-day operations.

5. Eligibility

- > Properly identify all **highly compensated employees**.
- > Properly identify all **key employees**.
- > Inaccurate census data causes a ripple effect resulting in potential testing failures.
- > Adhere to plan entry dates for admitting employees into the plan to begin making salary deferrals or receive employer contributions.

Forms, Tools and Resources

Helpful References

Websites

American Society of Pension Professionals and Actuaries: www.asppa.org

Department of Labor website: www.dol.gov

Internal Revenue Service website: www.irs.gov

Plan Sponsor Online website: www.valic.com

Mailboxes

VALIC Plan Sponsor Service Team: Plan.Sponsor.Svc@valic.com

VALIC Fee Disclosure Team: VALICFeeDisclosure@valic.com

Plan-related Correspondence

VALIC Group Contract

VALIC Service Provider Agreement

VALIC Audit Guide available on Plan Sponsor Online

VALIC Fee Disclosure Guide available on Plan Sponsor Online

Published Professional Reference Books:

Aspen Publishers

The Pension Answer Book

by Stephen J. Krass

401k Answer Book

by Great West Retirement Services

5500 Preparers Manual

by Janice M. Wegisin and Mike F. Kraemer

Insider's Guide to DOL Audits

by Frank J. Bitzer, Edward A. Schutzman and Nicholas W. Ferrigno

ASPPA ERISA Outline Book (5 Volumes)

Retirement Plan Fundamentals

by Sal Tripodi

National Tax Sheltered Accounts Association

The Source 403(b) & 457(b) Plans

by Kristi Cook, JD and Eleanor Lowder

Glossary

Glossary

Adoption agreement - a separate legal document executed by the employer that sets forth certain elective provisions of the retirement plan as specified by the employer.

After-tax contributions - contributions made on income where taxes have already been withheld. Roth related contributions are common examples.

Age requirement - minimum age to be eligible to join the plan and is usually one of the first items covered in the eligibility section of the plan document.

Amendment - correspondence authorized by the plan sponsor and its governing board to change a provision in the plan. Changes can include the following:

- > Change in the name or position of the plan administrator
- > Legal name change for the plan document as filed with the IRS and DOL
- > Physical address change
- > Any specific plan provision change like eligibility, contribution or vesting requirements

Anniversary switch - a method of determining a year of service for eligibility, related to an employee's first and second year of employment. For example, a plan document might provide:

For purposes of determining an employee's years of service for eligibility purposes, the initial computation period will be the one-year period commencing with the date on which an employee is first credited with an hour of service; provided, however, that in the case of an employee who incurs a break in service prior to completing the eligibility requirements, such period will commence with the first date after such break in service on which the employee is credited with an hour of service. The computation period shall then switch to the plan year, as of the first day of the first plan year commencing with or next following the employee's first hour of service. The employee shall receive credit for two years of service if he is credited with the hours of service required for a year of service in both the initial computation period and the first plan year which commences prior to the first anniversary of the date on which the employee first was credited with an hour of service.

Automatic contribution arrangement - plan feature where a predetermined contribution rate for employee deferrals is used when an eligible employee fails to make any election on his/her own. This arrangement is also known as a negative election. Based on specific document provisions, these types of arrangements can be used in 401(k), 403(b) and 457(b) plans and can take any of the following three forms:

- > Standard Automatic Contribution Arrangement
- > Enhanced Automatic Contribution Arrangement (EACA)
- > Qualified Automatic Contribution Arrangement (QACA)

Beneficiary - person or entity to whom all or a portion of a deceased participant's interest in the plan is payable subject to certain restrictions/stipulations.

Break in service - a period of 12 consecutive months during which a participant does not complete more than 500 hours of service with the employer.

Glossary

Cash out (mandatory distributions) – plan provision employers may elect to automatically close out accounts of separated from service participants whose account balances in the plan total either \$1,000 or less, or \$5,000 or less, dependent on the amount the employer selects and includes in the plan document.

Catch-up contributions – if allowed in the plan document, are authorized under IRC Section 414(v). It is an elective deferral made by a catch-up eligible participant, who can exceed the statutory 402(g) elective deferral limit, due to his/her age.

Catch-up eligible participant – an individual who will turn age 50 or older during the taxable plan year. This person can make additional elective deferrals above. The 402(g) statutory level based on an indexed amount set by the IRS.

Cliff vesting – vesting schedule where ownership is 0% until a specified number of years of vesting service is attained. Once attained, the participant has a 100% ownership right in all employer contributions made on his/her behalf. The Pension Protection Act of 2006 (PPA) limits the maximum time an employer may impose a cliff vesting schedule to three years.

Year 1	0% Vested
Year 2	0% Vested
Year 3	100% Vested

Compensation – wages the employer pays to the employee that are used in a variety of plan provisions. Employers can use one form of compensation to calculate/allocate employer contributions and a different form to complete certain non-discrimination tests. The plan document states the type of wages used when performing various plan administration functions. Some of the more common definitions of compensation are: 415 compensation; 3401 compensation and W-2 wages.

Corrective distributions – amounts paid back to participants or the employer, as a result of compliance-related testing failures. These could include: 402(g) excesses; 415 excesses or ADP/ACP refunds.

Custom plan document – retirement plan documents prepared by employee benefits attorneys specifically tailored for special features and provisions of the organization requesting it.

Defaulted loan – occurs when a participant fails to make principal and interest payments on a timely basis. Since the participant has not met a distributable event the loan remains open and interest on the remaining balance continues to be accrued.

Defined contribution plan – individual account retirement plans, where benefits are based solely on the amount of money in the account at the time the employee elects to make a distribution. A participant's account balance represents his/her share of the value of the assets in the plan.

Disability – a medically determinable permanent physical or mental impairment that prevents an employee from engaging in substantial gainful activity.

Glossary

Distributable event – certain life events can cause an employee to be eligible to receive a distribution from the plan. Some documents include age 59½ for actively employed participants as an in-service withdrawal. Please review your plan document to determine if your plan allows this feature.

Early retirement – if allowed in the plan document, it is the earliest age an employee can retire and begin receiving benefits. The document provision states the age and/or service requirement that must be met, and the plan also stipulates whether or not the individual is 100% vested.

Eligibility – specific plan document requirements an employee must meet before being allowed to make salary deferrals or begin receiving employer contributions. Please note that if the employer requires employees to wait two years before becoming eligible to receive employer contributions, then these employer contributions must be 100% vested.

Employee contributions – contributions made by the employee participating in the plan. Most of these contributions are pretax, but some plans do have after-tax contributions, such as Roth contributions.

Employee deferral contributions – employees elect to payroll deduct money into a retirement plan account, rather than receiving the money now and paying the associated taxes. Plan sponsors who provide a 401(k) or a 403(b) plan are the most common users of deferral contributions.

Employee non-elective contributions – employee contributions where the individual was not allowed to make an election as to whether or not to defer money to the plan. These contributions are usually the result of a one-time irrevocable election to participate in the plan or where the contribution is made based as a condition of employment.

Employer contributions – contributions made by the plan sponsor on behalf of each participating employee. These contributions are made in a variety of ways based on the provisions outlined in the plan document.

Employer discretionary contributions – an employer contribution made to the plan, based on a variety of factors. The contribution amount can be changed each year as a result of the employer's operations, the economy or other factors.

Employer matching – employer contribution based on an agreed promise between the participating employee and the employer. The employee agrees to defer a certain dollar amount or percentage of their compensation with the promise that the employer put in an additional amount as specified in the plan document.

Entitlement – additional condition that must be met each year in order to receive employer contributions. These requirements must be met in addition to meeting the eligibility requirements outlined in the plan document.

EPRCS – Employees Plans Compliance Resolution System (EPCRS) – offers correction programs that encourage plan sponsors to voluntarily correct plan failures to comply with the Internal Revenue Code (IRC)

ERISA – Employee Retirement Income Security Act of 1974. This is a collection of various legislative updates serving as a regulatory tool for how retirement plans must operate in order to maintain their qualified status.

Excluded employees – employees who meet the eligibility age/service requirements, but fall into a classification specifically listed in the plan document that cannot participate in the plan.

Glossary

Fidelity bond - a form of insurance that protects the retirement plan against any losses due to fraud or dishonesty, that is required in ERISA covered plans.

Fiduciary - also known as a plan fiduciary.

ERISA, Section 3(21) states the fiduciary is any person who:

- > Exercises any discretionary authority of control over the management of the retirement plan, or disposition of its assets.
- > Provides investment advice for a fee or other forms of compensation with respect to the funds or property of the retirement plan, or has the authority to do so.
- > Any individual who has discretionary authority or responsibility in the administration of a plan.

Based on the items listed above, plan administrators of ERISA covered employer retirement plans are considered fiduciaries.

Fiduciary liability insurance - generally insures the plan against losses caused by breaches of fiduciary responsibilities, but is not necessarily required for ERISA plans.

Foreclosed loan - a defaulted loan where the participant has met a distributable event. The remaining loan balance is considered as a distribution and is immediately taxable.

Forfeitures - employer contributions made on the employee's behalf, but where the employee does not have full ownership rights. When an employee is less than 100% vested, he/she only receives the portion of the account balance represented by the vested percentage upon separating from service or requesting a distribution of the account. Any remaining funds are returned to the employer for future use as stated in the plan document. For example, Employee A has \$100 in an employer account. She is 60% vested. Therefore she will receive \$60 and the remaining \$40 goes back to the employer.

Graded vesting - vesting schedule where ownership is earned gradually based on years of service credited for vesting as outlined in the plan document. The Pension Protection Act of 2006 (PPA) limits the maximum time an employer may impose a graded vesting schedule to six years.

< 2 years	0% Vested
Completion of two years	20% Vested
Completion of three years	40% Vested
Completion of four years	60% Vested
Completion of five years	80% Vested
Completion of six or more years	100% Vested

Glossary

Hardships - in-service withdrawal allowed in some plans. Upon meeting specific criteria outlined in the plan document, this type of distribution allows participating employees to take money from their account to meet the needs of an immediate and heavy financial need.

Highly Compensated Employee (HCE) - any employee who during the current or preceding plan year satisfies either of the following two tests:

- > Ownership test - 5% owner of the organization regardless of the amount of compensation he/she receives.
- > Compensation test - Compares employees' salaries against an indexed statutory limit set forth in IRC 414(q)(1)(b). Any employee receiving \$120,000 or more is considered an HCE. The compensation test states that the average contributions of highly compensated employees, as a group, cannot exceed the average contributions of non-highly compensated employees, as a group, by more than about 2 percent.

Immediate vesting - ownership in contributions with immediate vesting is 100%. All contributions made directly by the employee on their own behalf are always 100% vested. Some employers allow contributions they make on behalf of their employees the same level of ownership right.

In service - type of distribution made while the employee still works for the employer. Other than hardships, the most common form of this type of distributions is upon reaching age 59½. If the plan document allows this provision, the participant can only access those funds in which they are 100% vested.

IRS Form 5330 - form used to report taxes on the following items: minimum funding deficiencies or nondeductible contributions to qualified retirement plans.

IRS Form 5500 - report package with associated schedules that is filed electronically with the Department of Labor (DOL) via Efast2IRS for ERISA covered plans. It serves as the corporate financial statement for the retirement plan.

IRS Form 5558 - form used to extend the filing time period for the 5500 financial report. The extension grants 2½ additional months.

Key employees - any employee or former employee during the year that compliance testing is performed that fall into any of the following three categories:

- > 5% owner - any employee who owns more than 5% of the organization, regardless of the compensation received.
- > 1% owner - any employee who owns more than 1% of the organization **and** whose compensation is more than \$150,000. In some cases, certain family members may be included.
- > Includible officer - an employee whose annual compensation is more than \$160,000 as indexed.

Limitation year - allows plan sponsors to state in their plan document whether compensation is calculated on a fiscal year or calendar year basis.

Loan collateral account - account VALIC uses with policy loans used to track loan principal, applicable charges in case of default, and interest and principal payments.

Loan policy statement - if the retirement plan allows loans, this is a written document specifically stating all aspects of how the loan program works. It must include: who can obtain a loan; how the loan is secured; what collateral is required; what is the interest rate, and what are the repayment terms and methods.

Glossary

Lump-sum distributions - payments made to the participant or stated beneficiary in one single amount for the entire vested balance of the account.

Money purchase - contributions made to a specific type of defined contribution plan. It requires that a designated flat dollar amount or specific percentage of an employee's compensation be made every year to the plan.

Non-Highly Compensated Employee (NHCE) - any employee who does not qualify as an HCE is considered an NHCE.

Normal retirement - age and service requirement stated in the plan document when an employee is expected to retire and begin receiving benefits. The IRC and ERISA require that when employees reach this age he/she becomes 100% immediately vested.

Plan administrator - an individual specifically named in the plan document who is responsible for managing the day-to-day activities of the retirement plan.

Plan document - legal correspondence that may take a variety of forms, but must be written and address the following:

- > Who can enter the plan and when.
- > How contributions are calculated.
- > What types of distributions are allowed and how are they processed.
- > How is vesting calculated and earned.

Plan entry date - the date employees actually begin participating in the plan and receiving all associated benefits. It is not necessarily the same date that the employee met the age/service requirements to be eligible to participate in the plan. The plan entry date is specifically established in the plan document, and also impacts several other areas of plan administration.

Plan loans - a contracted arrangement where the money loaned comes directly from the participant's account. It is a contract between VALIC and the plan sponsor, via assets of the retirement plan.

Policy loans - a contracted arrangement where the money loaned comes from VALIC and the contract is between the employee participant and VALIC. The portion of the participant's account balance that equals the amount of the loan is kept in a collateral account until VALIC receives full repayment of the loan principal and interest accrued. The loan itself is not considered part of plan assets in this situation, but the collateral account, representing the amount the participant borrowed is.

Pretax - the most common types of contributions since retirement plans are based on the benefit of deferring taxes on contributions and earnings until the amount is withdrawn.

Premature distributions - payments a participant receives from the plan prior to attaining age 59½. Frequently these payments have an associated penalty for withdrawing the funds earlier than the timeframe in which they were designed to be distributed.

Profit sharing - an employer contribution directly tied to the operating profits of the plan sponsor.

Glossary

Prototype plan document – a form of plan document containing two parts. Part one is the basic document, which describes plan rules and features common to all plans using that prototype document. Part two is called an adoption agreement (AA). The AA provides for different plan features a plan sponsor can select.

Qualified Domestic Relations Order (QDRO) – requires that contributions and earnings accrued in a participant's account be made available to be divided up and withdrawn when directed by court orders in domestic relations cases (e.g., divorce decrees).

Rehire date – the date an employee is hired by the plan sponsor on each subsequent hiring after the initial hiring.

Rehired employees – individuals who left the employer and then are subsequently hired back by the employer at a later date.

Required Minimum Distributions – retirement plan payments to the participant, generally subject to the IRS 20% federal withholding rules. These payments are made to participants who are age 70½ or older, based on a calculated formula using life expectancy tables. In some cases, individuals who are still employed may delay the start of these payments.

Rollovers – if the employer's plan document allows, it is a form of contribution and/or associated earnings that may be eligible to be put in the current retirement plan. These contributions originate from a prior plan the employee participated in. The employee then elects to move into his/her account under their current plan. These contributions usually fall under whatever restrictions or plan provisions govern other contributions made to the plan.

Safe harbor plans – certain types of retirement plans and/or associated transactions that create a fair and consistent benefit or benefit opportunity to all plan participants. Upon satisfying certain sections of the IRC, a plan can be designed to administer hardships, contributions and other benefits that allow them to be deemed to be exempt from certain non-discrimination testing or issues with routine transactions.

Separation from service – any type of distribution paid to participants after they are no longer employed by the plan sponsor. Some examples include: cash-out, retirement based distributions and death or disability.

Service Provider Agreement – contract between service provider and the employer outlining the services to be provided in the maintenance of the plan, and who is responsible for each function.

Summary of Material Modifications – description of the provisions and features outlined in an amendment to the plan document, but expressed in terms easier for the plan participants to understand.

Summary Plan Description (SPD) – description of the provisions and features outlined in the plan document, but expressed in terms easier for the plan participants to understand. The plan document is the legal document and will always prevail, if discrepancies are noted between the document and the SPD.

Volume submitter plan document – this form of plan document is very similar to the prototype version, except the elections made in the adoption agreement and the basic plan document are merged into one document.

Universal availability – under this rule, if a 403(b) plan permits any employee to make salary deferrals to the plan, then it must offer the same opportunity to all employees (with limited optional exclusions).

Glossary

Year of service - usually found in the definitions portion of the plan document. Depending on how the plan calculates service, this term has three different forms of application.

- > Actual hours - every hour worked by the employee is actually counted. (Method used in VALIC model plan documents)
- > Monthly equivalencies - if an employee worked a designated number of hours in a month, he/she is given credit for having worked the entire month. For example if an employee worked one hour in the month, he/she receives credit for working the entire month, which equates to 190 hours.
- > Elapsed time - measures the year of service from date of hire to date of termination. When a 12-month period is completed, the employee receives credit for a year of service regardless of the hours worked.

Year of service requirement - minimum amount of time a participant must be employed with the employer in order to be eligible for employer contributions or earn an additional year of vesting service. Many plans use separate years of service requirements for eligibility and vesting. Please refer to the eligibility and vesting sections of your plan document to determine if there are any differences.

VALIC is the right partner for your organization. Our group retirement plans offer a flexible mix of services, technology and support, allowing us to easily customize plans for groups both large and small. With more than half a century of experience, we help Americans plan for and enjoy a secure retirement.

Serving nearly 24,000 group plans, VALIC is a leading plan provider for healthcare, higher education, K-12, government and other not-for-profit institutions.

We are committed to the same unchanging standard of one-on-one service we have delivered since our founding. Our goal is to help your employees live retirement on their terms.

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Annuities issued by The Variable Annuity Life Insurance Company. Variable annuities distributed by its affiliate, AIG Capital Services, Inc., member FINRA.

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