

401(k) Easy™

run-it-yourself 401(k) plan administration

Quick Guide

plan administration in just 10 to 15 minutes a month!



401(k) Easy™

Quick Guide

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Important...

Your customized 401k plan and its corresponding plan administration software as well as the information in this Quick Guide and the accompanying 401(k) Management® - A Plan Sponsor's Guide created (and are prodigiously updated each year) in light of federal 401k and pension plan regulations.

Some states have 401k and other pension rules that differ from their federal counterparts. **It is highly recommended that you immediately check with your tax advisor for any derivations in your state's 401k/pension rules from those established by the federal government**, particularly but not exclusively regarding limitations on such basic 401k operations as annual contribution amounts, IRA rollovers and pre-tax distributions. A reassessment should be made at least annually.

It is recommended that the plan be operated under the most conservative rules it will be subject to, whether those rules be mandated by a state or the federal government. Federal rules have been incorporated into communications (enrollment materials, distribution forms, etc.) housed within your 401k software for distribution to your employees. **It is recommended that you communicate to your employees any differences in your plan's operation from the software's default federally-compliant operations** (for instance, a lower annual contribution limit or IRA rollover restriction).



Chapter 1

Getting Started: to the Plan Administrator

Congratulations! Your company has decided to offer its employees a 401(k) plan. With their relatively high annual contribution limits, 401(k)s have in the past 20 years become the most popular of all the IRS-sanctioned tax-deferred savings plans. This fact, along with their borrowing capabilities and ease of participation, is why they're second only to health insurance in employee benefit rankings.

Not only has your company chosen to sponsor a 401(k) plan for its employees, but it's chosen a 401(k) Easy™ 401(k) Plan. That means it can offer *exactly* the plan it wants.

401(k) Easy™ comes with everything needed to run the 401(k) plan. It is an integrated package that includes the following products:

- An IRS-approved prototype 401(k) plan, customized to your company's needs.
- The investments of your choice.
- Technical support.
- The 401(k) Easy™ plan administration system software.
- All the necessary plan enrollment, participation, and employee education forms.
- An educational slide presentation (in convenient DVD format) to help explain 401(k) plans and their savings potential to your employees.
- This Quick Guide, which describes how you use 401(k) Easy.™
- A 401(k) Management--A Plan Sponsor's Guide that provides additional information and details about the operation of your new 401(k) Easy plan. This guide is available at www.401k-management.com for online viewing, and in addition, there is a PDF version of this document for downloading.

- Free access to our 401k FedForms website, which shows you which IRS forms are applicable to your company plan and then leads you through completing those forms with information supplied by your 401(k) software system. Visit www.401kfedforms.com for more.

That brings us to you. You're the person your company has entrusted with running the company plan. Even if you're unfamiliar with what a 401(k) is and how one works, you should be able to handle this job well: you've got 401(k) Easy™ to help you! We've designed the software and its companion materials to streamline your tasks and make your job simple and straightforward, and we'll be available to help you until your plan is successfully launched and operating!

What's in Your Initial 401(k) Easy™ Package

Your initial 401(k) Easy™ package consists of the following:

- A CD-ROM containing the software necessary for accomplishing the tasks you will need to do to administrate the plan. Also incorporated into the software is the complete series of reports, forms, and documents that you will need to explain the plan to your employees and gather the necessary information from them, keep accurate and detailed records, and communicate properly with the investment account company.
- A license file (you received in an email) which does the actual conforming of the CD-ROM to your company plan (including the specifics of your plan as outlined in the Summary Plan Description).
- A slide presentation packaged in convenient DVD format to help you explain and sell the plan to your employees. You can show this presentation at group enrollment meetings or to individuals thinking about joining the plan.
- This Quick Guide and the supplemental 401(k) Management™ CD-ROM.

Tip: *Your 401(k) software will automatically prepare a generic mutual fund account application each time an employee first allocates money to an investment. Some mutual fund companies, however, require that you complete their own account application. It's a good idea to check with your plan's investment company about its policy so you can request blank account applications to have on hand, if needed, before you start signing up participants.*

Installing Your Software

1. Insert the CD-ROM into the drive.
2. If you have the 401(k) Easy™ demonstration system on your computer, delete it. Then install the CD-ROM contents.
3. Click “My Computer” icon, typically found in the upper left-hand corner of the desktop.
4. Double-click the CD-ROM icon.
5. Double-click the “setup.EXE” icon.
6. Installation will begin. During installation you will be asked if you wish to have Acrobat Reader installed. If Acrobat is not presently installed on your PC, click **Yes**.
7. The 401(k) Easy icon will be found on your desktop screen; simply click **Start** and move the mouse pointer up to, and double-click on, **401(k) Easy** to run the program.

You then have three choices:

1. Commence with the on-line tour using the demonstration data,
2. Work with the demonstration data on your own without the tour, or
3. Insert the license diskette and replace the demonstration data with the actual data for your company.

Tip: *It is better to become thoroughly comfortable with the software using the demonstration data before replacing the demonstration data with the actual data for your company.*

Important: *We strongly recommend that you do not change the default installation directory that 401(k) Easy™ will install into. It currently installs into the directory “c:\Program Files\401(k) Easy.” All future upgrades will also install into this location -- therefore, you should not change the location.*

Transferring License Diskette Information into Your 401(k) Easy™ System

When you feel comfortably familiar with the 401(k) Easy™ system, you can conform it to your specific plan by clicking on **License 401(k) Easy** in the

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initial “Trial Software” window. An “Update Software License” window will appear. After you have inserted the license diskette, click on **Update**, and your system will be customized to your plan. The license agreement will again appear; if you agree to the terms and conditions (which should be a formality), click on the “agreement” button and the 401(k) Easy™ main menu will open up.

Chapter 2

Understanding Your Company Plan

Getting Started Using 401(k) Easy™

At this point, we assume that you've familiarized yourself with the contents of the CD-ROM, that you've run the demonstration often enough to feel comfortable with the software, that you've transferred the contents of the CD-ROM onto your hard disk and customized it with your plan-specific information via your 401(k) Easy™ license diskette. (For regular operations, you must work from the 401(k) Easy™ software on your hard disk. You cannot save any information on the CD-ROM.)

You should first make a backup copy of all the 401(k) Easy™ files and folders. You can do this through use of the "Backup Data File" option in "Utilities" in the 401(k) Easy™ main menu, "Welcome to 401(k) Easy." Just follow the instructions after you click on **Backup Data File**.

You may also want to print out a copy of each of the forms and documents you'll be using in running the company plan. All the 401(k) Easy™ forms are in **Reports**; just click on **Reports** in the 401(k) Easy™ main menu window. Then click on **All Reports** in the left-hand column, and scroll down the right-hand column until you reach the report you want to print out. Highlight it, then click on **Print**. (See the page following for how to choose between viewing a report on screen or printing out a hard copy.

Before you hand any form or document over to an employee, you should read through it carefully and make sure you understand its content. There is a lot of useful information in these forms that you should know. Besides, you probably will have to explain the content to the employee(s); it's much easier to sound knowledgeable when you really *are* knowledgeable!

Verifying Your Customized Software

Your 401(k) Easy™ software is customized to match your 401(k) plan. In addition to basic company information (company name, address, telephone and fax numbers, and tax identification number), we've told the program whether or not to accept matching contribution entries and what vesting formula to apply to any such contributions based on the designations your company has made for its plan.

You should check the accuracy of this information IMMEDIATELY. Do not wait until it's time to use your software to process 401(k) contributions. As was mentioned previously, this information is hardwired into your 401(k) Easy™ system; to change anything you must contact us.

So let's introduce you to the 401(k) Easy™ system that contains all these data.

Introduction to 401(k) Easy™

After a few seconds on the "splash" screen, 401(k) Easy™ opens on the main menu, "Welcome to 401(k) Easy". We'll go through all the items on this main menu in order, but first, let's go to "Printer" and "Screen at the bottom of the menu.

Screen is the default choice. When it is selected, all information, including all reports, appears on your screen. The ability to "print" to the screen allows you to view the output quickly and without wasting paper, as some reports are many pages long.

At many points, you also have the choice of printing out a copy of the grid, report, or whatever is contained within the window. When this choice is available, a **Print** or **Proof** button will be an option within the menu at the bottom of the window.

When you select **Print** at the "Welcome..." screen level, 401(k) Easy™ automatically sends final information straight to the printer, rather than showing you an on-screen version first. You usually won't want to do this. You may, however, want to print a report after viewing it on the screen. Reports displayed on the screen can be sent to your printer by pressing "Ctrl-P."

Company Information

The first button on the “Welcome. . .” window, “Company Information,” contains the specific data about your company’s 401(k) Easy™ plan that we referred to previously.

Important! *If you see any problems, contact us IMMEDIATELY. The program will not allow you to make any adjustments yourself to any of this fundamental information because, theoretically, you could make a change that would constitute a “change” to your plan in the eyes of the IRS and that could therefore jeopardize your plan’s IRS-qualified status.*

Employee Information

The second button of the “Welcome...” window is “Employee Information”. 401(k) Easy™ uses the information you enter about each of your employees eligible to participate in the company plan to correctly process subsequent 401(k) contributions.

Important! *You must have an entry for every employee eligible to participate in the plan, regardless of whether or not the employee chooses to participate. The IRS has certain requirements about balanced participation among lower and higher-paid employees. If you don’t have entries for every eligible employee, 401(k) Easy™’s top-heavy and other IRS-requirement testing functions will not be accurate. Deleting an employee is (or should be) a rarity. It deletes all records for that employee, which is usually not desirable.*

Processing

Clicking on **Processing** (the third button of the “Welcome . . .” window) offers six options:

- Process Monthly Contributions
- Reprocess Monthly Contributions
- Edit Posting Period
- Update Monthly Salaries

- Update Year-to-Date Salaries
- Batch Processing

“Process Monthly Contributions” is used to process new monthly contributions; “Reprocess Monthly Salaries” to review or reprocess contributions for a prior month; “Edit Posting Period” to change the month transactions were posted to investment accounts; “Update Monthly Salaries” to update employees’ earnings for a specific prior month; and “Update Year-to-Date Salaries” to make adjustments to salaries at the end of the year to ensure that the salary data are correct for end-of-year compliance testing. These activities are described in detail in Chapters 4 and 8.

Batch Processing is used to work on a group of the same type of adjustments, such as trust-to-trust transfers into the plan [typically when one employer absorbs a group of employees and their 401(k) savings from another company]. It lets you make entries for multiple employees, then process them all together (whereas if you go through the “Employee Information” window you have to do each employee separately, processing each before moving on to the next).

Reports

“Reports,” the fourth button of “Welcome...” window, is used to access the myriad of reports that 401(k) Easy™ compiles from posting and cross-referencing all the entries you put in each month. Chapter 9 in the 401k Help® CD-ROM describes these reports.

The 401(k) Easy™ system also contains a number of forms and documents that are not reports per se, but that are critical to administering your 401(k) plan and are included under “Reports”; some of these are customized to your company’s plan and others need no customization.

Major forms you will be using include the following:

- The *Enrollment Pac* is used for initial enrollment and investment selection, or for changes in any of the enrollment designations: change of personal information (name, address, etc.) change in marital status, change of beneficiary or change in investment selection (whether it is a change in investments or just a change in the percentages of deferrals going to the same set of investments),
- The *Loan Pac* is used when a participant wants to take out a loan against his or her plan balance.

- The *Hardship Withdrawal Pac* is used when a participant wants to apply for a hardship withdrawal of funds in his or her account.
- The *Distribution Pac* is used when the participant leaves the 401(k) plan, whether at retirement, termination of employment, or for another reason.

The forms associated with each chapter are listed at the end of that chapter. How they are used is described in the chapter.

Utilities

“Utilities” has six options:

- Click on **Repair & Compact** to clean up your program; it should be done weekly if the volume of activity is large, monthly if the volume is low.
- When you click on **Backup Data File** you will first be asked if you want to repair and compact the database; it’s a good idea to say yes. Then you will be asked to type in the location to which you wish to back up the data.
- Selecting “Zip Data File to Diskette(s)” compresses your 401(k) Easy™ data file to floppy diskettes.
- Selecting “Unzip Data File from Diskette(s)” uncompresses your 401(k) Easy™ data file from floppy diskettes.
- “Change Passcode:” Select this option to change the 401(k) Easy™ system password. If you set a password, anyone wishing to use the 401(k) Easy™ system will be required to enter the password upon first launching the software.

Click on **Change Passcode**. 401(k) Easy™ comes without a default password. To enter yours if you want it, type whatever alphanumeric password you want in the middle cell, retyping it in the bottom cell as confirmation. Click **OK** to set the new code into the program and return to the “Utilities” window.

Chapter 3

Enrolling Participants in the Plan

Planning an Employee Communications Strategy

Before you can expect people to join the 401(k) plan, you're going to have to make them aware that it exists; moreover, you must make them aware of the general and specific benefits that participating in it affords. In other words, you're going to have to "sell" the plan to your fellow employees. It shouldn't be a hard sell, though, considering your product. A 401(k) Easy™ 401(k) plan is a great benefit!

We've included a number of documents to help you promote the plan to your co-workers. They are listed at the end of this chapter. In addition, your 401(k) Easy™ package includes a video slide presentation which you can present at the enrollment meeting, or which you can excerpt information from to add to your own presentation.

Entering Employees Into the 401(k) Easy™ Database

The initial entering of employees into your 401(k) Easy™ database is a six-step process:

1. Obtain from Payroll the names of all employees [except for members of any groups excluded from your 401(k) Easy™ 401(k) plan] and the data needed for each employee that Payroll can provide (see below).

Important! *Part-time employees cannot be excluded as a class. Also, employers cannot exclude other classes of similarly-named groups (for example, "temporary" or "seasonal"). If an individual employee meets the age and service requirements, he*

or she is eligible. By law, anyone who works 1000 hours or more during the calendar year meets the service requirement and anyone 21 years or older meets the age requirement — such a person would automatically be eligible to join when he or she meets the other eligibility criteria (e.g., length of service), if any.

2. Enter this information into the 401(k) Easy™ database, as well as needed information not provided by Payroll (see “Setting Up the Database,” below).
3. 401(k) Easy™ determines which employees are and are not eligible. (Non-eligible employees remain in the database, however.)
4. Conduct enrollment meeting(s) for eligible employees and distribute enrollment materials to all who attend.
5. Make sure all eligible employees who did not attend an enrollment meeting get enrollment material. **By regulation and practice, all eligible employees must complete an enrollment form, even if they choose to decline!** Not only is this good policy, it also protects to some degree the plan sponsor.
6. As enrollment applications are returned, enter the appropriate data for employees entering the plan. (Be sure to keep all the enrollment applications on file because they contain information you will need in the future.)

Setting Up the Database

Open 401(k) Easy™ and click on **Employee Information**. The fields will be blank.

Click on **New**, and enter the first employee’s name (first, middle initial,last) in the highlighted “Name” box. Enter the rest of information for that employee through “Hired”: division (if applicable), social security number, title (**VIP**), address, telephone number, date of birth, and date hired (dates are month, day, and four-digit year).

The Amount of Contribution to Prior Plan and Year of Contribution to Prior Plan relate to the limits on the amount an employee can contribute in a year: either a certain percentage of their salaries or a fixed dollar amount, whichever comes first. 401(k) Easy™ prevents employee contributions in excess of the limit for a given year. These are the fields where you enter a new hire’s previous 401(k) contributions for the current year.

(Until you have an enrollment application, you cannot enter the Desired Current Monthly Contribution or the date the employee joins the 401(k) plan.)

You must also check (by clicking on the associated box) whether or not the employee is an officer of the company, a 1% or 5% owner, a part-time employee, a union member, or a nonresident alien. (For definitions of 5% and 1% owners, see the Glossary in the 401k Help® CD-ROM.)

Because 99% of the time an employee with a social security number is also a U.S. citizen, the US Citizen block automatically gets a check when the social security number is entered. However, many non-U.S. citizens have social security numbers; if any employee is not a U.S. citizen, you can uncheck the box (it will not affect his or her eligibility if the other requirements are met).

Many 401(k) Easy™ plans now have automatic enrollment; if your company does not, or if an employee has chosen not to accept automatic enrollment, check the **Suppress Auto Enrollment** box.

If the part-time, union member, or nonresident alien box is checked, 401(k) Easy™ will declare that employee ineligible, as applicable, if you chose such eligibility exclusions for your company plan.

The 401(k) software calculates whether or not the employee is eligible, and displays “Eligible” or “Ineligible” in the left of the two lowest blank fields.

(When the employee terminates employment with the company, “Terminated” appears in the box to the right of “Eligible” when a date is entered for **Termin.**)

When you have finished entering data for the first employee, click on **New**, and enter data for the second employee. Continue until you have entered all employees.

Tip: *Periodically, you will want to re-invite eligible employees who have declined in the past to join the plan. You can identify these by comparing the “Eligible” versus “Participant” columns in the 401(k) Easy™ Employee Census report (on the assumption that eligibles who are not participants have chosen to decline). (See Chapter 9 of the 401k Help® CD-ROM.)*

Entering Enrollment Application Information Into 401(k) Easy™

An eligible employee's completed Enrollment Pac provides the rest of the information that you and 401(k) Easy™ need to set up an account and properly process account activity.

To process information from an employee's Enrollment Pac, click on **Employee Information** in the "Welcome. . ." window. Click on the name of the employee whose application you are processing (or add the employee by clicking on **New**, as described above).

Next to **Joined**, add the date the employee joined the 401(k) Easy™ plan (2-digit month and day and 4-digit year), then click on **Participant**. A check mark will appear in the Participant box, and a screen titled "Employee Allocations" will appear. This screen lets you list how the participant wants his or her 401(k) contributions (plus any matching contributions) divided among the plan's investments.

Enter the first investment choice of the new enrollee by clicking on the left-hand box of the first blank line under "Portfolio", then click on the desired investment in the pull-down menu (at the right-hand side of the Portfolio line). The investment will appear on the blank line. Then enter the percentage of his or her monthly contribution the employee has allocated to that investment by entering the decimal number of the percentage (e.g., .2 for 20 percent, .15 for 15 percent).

Important! *Some investment companies stipulate that a minimum amount (\$50, for instance) be contributed to its investments. If such is the case for your plan's investments (as explained in the investments' prospectuses), the percentage of monthly contribution allocated to a single investment cannot equal less than the stated minimum (\$50, for example). If the amount allocated a single investment IS less than \$50 in any given month, 401(k) Easy will allocate the month's entire contribution to the default choice (or to that indicated in the employee's enrollment form, if applicable).*

Continue with the second investment on the second line until all the enrollee's choices and their percentages have been entered. The total percentage must equal 100%. Then click on **Exit** to return to the "Employee Information" window.

It is important that you enter the employee's default selection. If you don't, a prompt will remind you that no default has been indicated, although you will be allowed to continue processing. However, 401(k) Easy™ does not consider the employee a participant until the default choice is entered and will refuse data for that individual. The Notes field in the "Employee Information" window is a good place to remind yourself that you have to contact the employee.

Also, the last line of the "Employee Allocations" window is a blank, with a star in the left-hand column. This shows the end of the list. If you have any more blank rows, you will not be able to exit the screen until you delete them. To do so, click on the black arrow on the left and press Delete on your keyboard.

When you have processed the first month's actual contribution in 401(k) Easy™, for any new participant who needs to have an account opened or for a participant who has no account numbers in the system, an investment account application will automatically be issued. (Some no-load funds and brokerage companies require their own applications to be filled out and sent in with the first allocation, in addition to the 401(k) Easy™ application. Please contact our 401(k) Easy office for additional information.)

You'll enter the account numbers into 401(k) Easy™ when you receive them from the investment account company. The account numbers will be clearly identified on the investment account statements that are mailed directly to you (with a duplicate mailed to the participants) as soon as the purchase of shares is made. **It is important to enter the account numbers as soon as you receive them.** If you don't, and you process another month's contribution, the software will print out another investment account application and the investment account company may issue another account number, resulting in two account numbers assigned to the same account.

Again, be sure you maintain a file of all enrollment applications because they contain information, such as beneficiary designations, you do not input into your software.

Associated 401(k) Easy™ Documents

- Benefits of 401(k) Participation Pac
- Enrollment Pac
- Investment Decisions Pac
- Notice to Interested Parties

Chapter 4

Maintaining Employee Records

Processing Monthly 401(k) Contributions

Investment account companies are geared to accept 401(k) contributions once a month, regardless of how often your payroll goes out, so much of the 401(k) processing is accomplished on a monthly basis.

Information You Will Need

Once the last payroll period of the month has been completed, you should receive a printed end-of-the-month report from Payroll. If you are using an outside payroll service, it will provide you with a report.

The printed monthly report from Payroll should contain the following employee information:

- Employee name (first and last)
- Social security number
- Monthly gross wage
- Monthly 401(k) deduction
- Monthly loan repayment (if applicable)

The first three items must be entered into 401(k) Easy™ for all eligible employees, whether or not they choose to participate in the plan.

In addition to this information, if your plan includes employer matching, you must calculate the monthly matching contribution for each participant according to the matching formula defined in the Adoption Agreement.

Entering the Data

With the report in hand, you are now ready to process the 401(k) data for the month. Open the “Processing” window and click on **Process Monthly Contributions**. The resulting window will remind you of the last period (month) processed and confirm the current month you will be processing. It will also remind you that what is processed will be posted to the investment accounts the month after the month you will be processing (because normally monthly processing is done after the month ends, i.e., at the beginning of the following month; you would want to change the Posted to MF month only if you process earlier).

If the month and year are correct, click on **Process**. The month’s processing grid will appear.

Note that all your eligible employees are listed, not just the participants, in alphabetical order by last name. Their social security numbers are also listed. There are empty columns for employee contributions, employer matching contributions (if applicable), and gross monthly salaries. If there are no loans set up, the column for loan payments will be empty. If there are active loans, you will see loan payments already in the grids for the employees paying back these loans (see Chapter 6, Loans).

There are two ways to input the monthly information:

1. Using the arrow keys on your keyboard and moving from field to field through the employees, entering employee contributions, [employer matching contributions], [adjustments to loan payments], and wages.
2. Using the keypad entry system to enter employee contributions, [employer matching contributions], and wages. You cannot enter adjustments to the loan payments using the keypad entry system.

Tip: To use the keypad entry system, click on **Keypad** and a little entry window will pop up. Enter the last five digits of an employee’s social security number, hit **Enter**, and the name of the employee will appear in the window. (You can also see if the employee is a participant and how much he or she has contributed this year.) Just enter the employee contribution, [matching employer contribution], and monthly wage. When you hit **Enter** it will return to the social security number. It is only when you enter the next five-digit social security number that the

previous entry will post to the grid. (Or if you click **Exit**.) When all entries are posted to the grid, you can exit the keypad entry.

Adding New Eligible Employees and Participants

If, in the course of entering your monthly information into the grid, you realize you have forgotten to add a new eligible employee for whom you need to include monthly wages, you do not have to leave the grid.

Just click on **New Emp**. A pop-up window will appear. Enter the employee's first name, last name, social security number, birth date and hire date (month, day, year -- all 2 digit), to verify eligibility. The new employee's name will appear in the grid. You may then go to the wage field and enter the correct monthly wage.

You can only enter an eligible employee this way; you cannot enter a new participant. To add a participant, you must go into **Employee Information** and, using the enrollment application, enter all appropriate information, including investment account choices.

Also, if you need to designate a division for the eligible employee, you will need to do so in **Employee Information**.

Reconciling the Month

After all the employee contributions, [employer matching contributions], [loan payments], and wages are entered, you can check the totals on the screen in the total column. You can also print a proof sheet. Just click on **Proof** and the proof sheet will automatically print to the screen or your printer, depending on which one you have chosen.

If any changes are needed, make them. If everything reconciles, you can then save the current month's 401(k) Easy™ data by clicking **Continue**. You will be asked if you want to save the data, simply say "yes," and you are done. 401(k) Easy™ automatically posts the entries (employee and employer contributions as well as loan payments) to all needed places. You have completed the month's 401(k) processing and are ready to print reports. It's that easy!

Reprocessing the Current (Active) Month

If you need to change or add to any of the previously entered data in your current month's grid, you can reprocess. You will need to reprocess the current month if you need to:

- Add new participants to the grid (for example, in the unlikely event that you receive an enrollment form late and a contribution has already been deducted for the 401(k) plan)
- Change contributions, wages, and/or loan payments
- Add eligible employees and their wages to the grid
- Make late changes to an employee's investment account choices
- "Hard code" investment account numbers in the current month (account numbers you have added after having originally processed the month). The account numbers will not show up on the allocation roster unless you reprocess, and a new investment account application will be generated if no account number appears on the roster.

To reprocess the current month:

Click on **Reprocess Monthly Contributions**. The pop-up window informs you which was the last month processed and shows the same month in the Reprocess field. If the information is correct, press **Continue**.

As a safeguard against absentmindedly entering data into the previous period, 401(k) Easy™ will ask you if you wish to review or reprocess data for this period. Click on **Yes** and voilà, here's the familiar processing grid with all the figures you previously entered.

You will need to click on **Reprocess** and you will be warned that if the employee's investment account choices have been updated, then money will be removed from their old investment account choices and posted to their new ones.

Tip: *As a general rule, it is not a good idea to reprocess any month other than the current one. If you need to make a change to previous months, you should enter the information through **Activity** in the "Employee Information" window.*

You will be asked if you want to continue with reprocessing. Say yes, and you will be asked if you wish to add new employees and participants to the grid. (If you have added eligible employees and/or participants through the "Employee Information" window since you first processed the month you will want to.) Say yes. The system will automatically add those employees to the grid. Say no, and no employees will be added.

You will see the cursor appear in the contribution grid cell for the first employee in the grid when the system is ready for changes/adjustments/additions.

Now you can use the arrow keys of the keypad entry system to change or add data. Once you have finished, you can check your totals on the screen or print a proof. If all your data are correct, click **Continue**, say yes to **Continue Processing**, and all your changes will be saved.

You can reprocess as many times as you need to before you print your reports, allocation roster, and investment account applications to be sent to the investment account company for deposit into accounts.

Edit Posting Period

This feature allows you to change the period in which monthly processing transactions were posted to employees' investment accounts. The posting period is entered for every transaction that goes into the system, including monthly processing, batch processing, and single transactions entered from the Employee Information **Activity** screen. The posting period defines the month and year that the transaction was posted to the investment account.

Update Monthly Salaries

If you have forgotten to enter a salary for a particular employee or if you have not received salaries from a division, you can enter the salaries here without having to reprocess. You can enter salaries for any previous month. Just pick the month in which salaries need to be updated, press **Continue**. Say "Yes" that you wish to update. The cursor will remain in the Salary column. Enter or change the salaries. When you are finished, you can print a proof. Then, when everything is correct, press **Save & Exit**. Your updates will be saved with that month.

Update Year-to-Date Salaries

If at any time during the year you need to update year-to-date salaries for the current year or previous year, you can. Type in the year you want to update. When the grid appears, enter the new year-to-date salaries, then press **Update**. The salaries will all be updated.

If you are running a compliance test for the previous year and find that the salaries are not accurate, you can use this feature to correct the salaries.

However, you can update year-to-date salaries only if there has been processing for that year. For example, if you've processed only in 2001 and want to enter wages for 2000, you cannot enter salaries using this feature.

Batch Processing

Batch Processing is used to work on a group of the same type of adjustments, such as trust-to-trust transfers into the plan (typically when one employer absorbs a group of employees and their 401(k) savings from another company). You can make entries for multiple employees, then process them all together (whereas if you go through the "Employee Information" window you must process each employee separately before moving on to the next). It is also where you process Qualified Non-Elective Contributions and Discretionary Employer Contribution (Profit Sharing).

For example, if you are processing rollovers, press **New** and the "Batch Processing" grid will appear. Choose Rollover from the pull-down menu at the top right. Enter the amount of rollover into the grid for each affected employee. When you are finished, press **Process**. Later you can edit, reprocess, and even export the data onto a diskette containing the allocations to forward to the investment account company.

Run Practice Compliance (ADP) Tests (Optional)

See Chapter 8, Testing. This "optional" task is highly recommended.

Generate & Disburse Employee Account Statements

401(k) Easy™ gives you the capability to print a monthly account statement (called the 401(k) Contribution Report) for each of your plan participants with

the click of a button. The participants will also receive monthly statements from the investment account company providing the investments for your 401(k) plan. Those statements show the current value of the participant's account (number of shares owned times the current value of a share).

Tip: *Share prices fluctuate. At any given time, a participant can determine the value of his/her account by accessing the day's share price on the Internet or in the business section of the local paper (investments are listed by ticker symbol), then multiply the amount by the number of shares he/she owns.*

The 401(k) Contribution Report you print out through 401(k) Easy™ gives the participant a snapshot of his or her account activity through the current year. The report lists the investments and investment percentages chosen, the total dollar amounts contributed by the employee and employer each month, monthly loan repayments (if applicable), and year-to-date totals, as well as summary information from previous years. Any rollovers or trust-to-trust transfers the participant has made into his/her account will also appear on this statement, as well as disbursements and liquidations.

401(k) Contribution Reports should not be printed out until all the month's processing has been completed: salary deferrals, matching contributions, loan payments, hardship withdrawals, trust-to-trust transfers, rollovers in and out, lump-sum distributions, and any requisite withholdings — anything that affects the employee's account.

To print them out, go to the "Reports" window, enter the year and month, then click on **Monthly 401(k) Activity Reports** in the left-hand column and **Monthly Employee Statements (All)** in the right-hand column.

Generate & Remit Checks/Instructions to Investment Company

When you have finished processing (and possibly reprocessing) for the month, you will print out three reports for remitting checks/instructions to the investment account company: Monthly Investments Purchase Order, Monthly Investments Purchase Order Summary, and Monthly Investment Account Applications.

The Monthly Investments Purchase Order Summary tells you the total amount of each check to be sent. Keep it for your records.

The Monthly Investments Purchase Order is a detailed report sent to the investment account company showing the amount of money going into each employee's account. It's a good idea to print out two copies of this report, sending one copy to the investment account company and keeping one copy for your records.

Investment account applications are sent for new accounts.

Note: *Many investment companies require you to complete their own mutual fund applications and will not accept the generic application prepared by your 401(k) software as a substitute. You should check with your plan's investment company about its requirements and, if necessary, request blank proprietary applications to have on hand.*

401(k) Easy™ also includes the option for supplying the monthly purchases allocation on a diskette, if the investment account company requires such a diskette. Select **EXPORT: Monthly Purchases Allocation Diskette** and follow the instructions for making the diskette.

Employee Requests for Information

The Plan Administrator must supply employee requests for information required by ERISA within 30 days of the request.

Associated 401(k) Easy™ Documents

- Asset Liquidation Authorization
- Duplicate Investment Account Statement Authorization
- Employee Request for Duplicate Statements
- Enrollment Pac
- Letter of Indemnity
- Request for FBO Name Change
- Request for Statement Address Change
- Rollover or Deposit to an Existing Account
- Rollover or Deposit to a New Account
- Your 401(k) Contribution Report

Chapter 5

Loans

401(k) loans are an extremely popular option with 401(k) participants. They can prove costly to the participant over the long run in terms of lost compounding investment returns, but to many participants the money foregone is worth the freedom of having access to the 401(k) capital before retirement.

When a plan participant takes out a 401(k) loan, the participant is, in effect, borrowing from himself or herself. Investment shares worth the amount requested are liquidated, the money is handed over to the plan participant, and the loan is repaid (generally through automatic payroll deductions along with the normal 401(k) monthly contributions) over a period of 1 to 10 years, depending on the purpose of the loan.

There is an interest charge attached to the loan, of course, but the interest is a cost of borrowing that the employee pays to himself or herself: all the loan repayments and interest payments go back into the employee's 401(k) account and are distributed among the participant's chosen 401(k) investments just like regular 401(k) contribution are. *However, there is a tax disadvantage in that the payroll deductions to repay the loan come out of taxable income and the 401(k) loan interest is not tax-deductible even if the loan proceeds are used to buy the participant's primary residence.*

The customized 401(k) Loan Pac is a complete package that includes loan policy guidelines, terms and conditions, step-by-step procedures, and all the necessary forms. It is important that you thoroughly familiarize yourselves

with the contents of this package before giving it to an employee, and that you explain the loan provisions of your 401(k) plan to the employee.

Important! *It is especially critical that the applicant realize the importance of the promissory note. This note must be signed before any loan can be finalized. If a participant fails to complete the promissory note, the loan could be considered an early distribution from the plan and taxes would apply.*

An employee cannot take a loan in excess of the allowable maximum (50 percent of the vested account balance up to \$50,000). In addition, for 401(k) Easy™, the following restrictions apply:

- Minimum loan amount is \$1,000
- Loans for amounts between \$1,000 and \$1,999 must be repaid within 12 months or less
- Loans for amounts between \$2,000 and \$2,999 must be repaid within 36 months or less
- Loans between \$3,000 and \$50,000 must be repaid within 60 months or less
- Ten-year loans for residences cannot be for less than \$6,000 and not more than \$50,000.

Terminating Employment With a Loan Outstanding

An employee who terminates employment before the loan is paid off has two options:

1. Pay in full the outstanding loan balance, or
2. Have the outstanding balance treated as a taxable distribution.

Processing the Loan Application

Print out a 401(k) Loan Pac from **Reports** and give it to the employee who requests it. When the completed Loan Pac is returned to you, you review and approve the request.

Entering Approved Loans Into the System

To enter approved loans into your 401(k) Easy™ system:

1. From the “Welcome. . .” menu, choose **Employee Information**. Highlight the employee’s name; then click on **Loans**. The “Employee Loans” window will appear. Click on **New** and the “New Loan” window appears.
2. In the “New Loan” window, if this is a loan for a primary residence, check **Prim. Residence**. The investment account company can supply you with the current value of the employee’s account; enter this amount in the **Enter Acct. Value** field. [401(k) Easy™ will not allow a loan that is more than 50 percent of the account value.] Then enter the loan start date, principal amount, interest rate, and term of loan (in months). Click on **Post**.

401(k) Easy™ calculates the amortized monthly payment, desired payment, and two payoff options and displays this information in the “Employee Loans” window. The first payoff option is the balance due if the loan will be paid in full before the next month’s processing; the second, if the loan will be paid in full after the next month’s processing, with additional interest.

If an employee wishes to pay more than the amortized payment, he or she can. The additional payment will be applied to the principal. If the employee is paying back an additional \$100 per month, for example, you can change the Desired Amount by increasing the total in that column by \$100. This will be reflected in all future grids. You can also adjust the loan payment amount in the grid.

The Hold field in the Employee Loans grid is used if, for example, you enter the loan information before repayment starts or an employee terminates. Click on the **Hold** field and “Hold” appears in red. Also, an “H” appears in the left margin of the “Current Loans” report generated by 401(k) Easy™ (see below and Chapter 9 of the 401k Help® CD-ROM).

Entering Loans and Repayments Into Payroll Software

Most payroll software programs have the capacity to track 401(k) loans: programs calculate and deduct loan repayments as well as 401(k)

contributions from a participant's pay each month. Please refer to your payroll organization for details.

Entering Monthly Repayments

Monthly loan repayments are listed on the form you receive from Payroll at the end of each month and are processed along with the other monthly updates through the **Processing** and the **Process Monthly Contributions** windows. When you have finished processing the month, the "Employee Loans" window reflects the monthly update. The employee is kept apprised of the loan payments and balance by means of the monthly contributions report output by 401(k) Easy™.

Interfacing with the Investment Account Company

Upon your request for a new employee loan (via the Asset Liquidation Authorization form), the investment account company liquidates the amount requested and sends the proceeds to you, the Plan Administrator. A waiver of fees is requested of the investment account company because it is a loan.

The check is deposited into the plan trust bank account and a check is written to the employee out of the plan trust bank account.

Loan repayments are handled just like the allocations. One check is written to each investment account company accompanied by a report which shows where the money goes.

Viewing List of Current Loans

1. Choose **Reports** from the "Welcome..." menu. Choose "Current Loans" from the alphabetical list in the right-hand box. Click on **Print**.
2. The report lists each employee, his/her social security number, the amount of the loan, the start date, the interest rate, the term, the amortized payment, and the desired payment for each loan outstanding as of the date of the report. If there is a hold on a loan, an "H" is shown in the right-hand margin.
3. The report also lists the total number of loans currently outstanding.

notes



Associated 401(k) Easy™ Documents

- 401(k) Loan Pac
- Asset Liquidation Authorization



Chapter 6

Distributions

An employee can take a *voluntary* withdrawal or distribution of money out of his/her 401(k) plan if he or she:

- Requests a loan
- Requests a hardship withdrawal
- Reaches the age of 59 1/2
- Terminates employment (including retirement)

Mandatory minimum distributions begin when a participant reaches the age of 70 1/2. If, at 70 1/2, the participant is still employed by the company, he or she can elect to defer distributions until retirement. When any participant reaches age 70, the 401(k) Easy™ software alerts you through a pop-up window at the beginning of the program so that you can begin to process minimum distributions as necessary.

Spousal Consent for Distributions

The Retirement Equity Act of 1984 (REA) requires, among other things, spousal consent for certain distributions from an employee's 401(k) plan. The 401(k) Easy™ forms include space for spousal signature whenever spousal consent is needed. You should always verify that the required signature is present.

Reporting Mandatory 20% Backup Withholdings from Lump Sum Distributions

Most distributions made from your plan are subject to the following IRS distribution requirements:

- You must give the employee the choice of having the distribution deposited directly into an IRA or to another qualified plan (called a direct rollover). Most distributions are eligible for rollover; exceptions include life annuities, payments distributed over 10 years or more, and payments of minimum required distributions after age 70 ¹/₂.
- In the employee chooses to have the distribution paid directly to him or her rather than rolled over into an IRA or another qualified plan, you must withhold 20% of this lump-sum distribution and report it on IRS Form 945 as income tax withholding.

Hardship Withdrawals

In addition to borrowing money through a 401(k) loan, in the event of an emergency an employee has a second way of accessing funds in his or her plan: a hardship withdrawal. Unlike loans, hardship withdrawals do not have to be paid back; on the other hand, they may involve taxes and penalties that result in a loss of approximately 50 cents for each dollar taken out, as well as some other restrictions described below. (Refer to the 401k Help[®] CD-ROM for more details on hardship withdrawals.)

The 401(k) Hardship Withdrawal Pac contains all the terms and conditions for this form of distribution, plus the step-by-step procedures and relevant forms. Make sure you read it carefully and understand its contents before giving a copy to an employee considering a hardship withdrawal. Make sure he or she understands it, too, especially what charges are likely to be assessed by the investment company and what withholdings are required. (The borrower is responsible for reporting the 10% penalty for early distribution, if applicable.) Also, the employee should contact the investment company for its charges so he or she can calculate the exact amount of distribution desired.

The following are the steps for processing a hardship withdrawal:

1. Print out the 401(k) Hardship Withdrawal Pac. Give it to the employee and review it with him or her.
2. When the application is returned, review it carefully to ensure that it is complete.

3. Based on the information in the application, decide if a distribution should be made on account of a hardship. It should satisfy the two tests, the “events” test and the “needs” test.
4. If the request is granted, follow the procedures below. If it is rejected, inform the participant in writing of the decision.
5. Inform the investment company that a hardship distribution is to be made. Use 401(k) Easy™ Asset Liquidation Authorization form for this, indicating on the form that the distribution is a hardship withdrawal.
6. Instruct the investment company to send the proceeds check directly to you, the Plan Administrator, not to the employee-participant.
7. Deposit the check in the plan trust bank account.
8. Issue a check from the plan trust bank account to the employee for the final amount.
9. Enter the transaction into 401(k) Easy by clicking on the **Employee Information** window. Select the employee’s name, then click on **Activity** and the “Employee Activity” window will appear. Click on **New** to bring up the “New Activity” window. The entry date (current 2-digit day, month, 4-digit year) and Posted to 401(k) period (2-digit month and 4-digit year) will appear; the month the transaction will be posted to the investment account also appears. Select “Distribution” from the Type pull-down menu and the portfolio from which the distribution was made from the Portfolio pull-down menu. The Account number automatically appears. Enter the negative (minus sign) amount of the distribution and click on **Post**. The transaction will be added to the “Employee Activity” screen.

The Notes field in the “New Activity” window or in the “Employee Information” window is a good place to put the reminder that the employee cannot make contributions to the plan for six months after the hardship withdrawal. This reminder can then be tracked through the “Employee Activity” or “Employee Information” screen.
10. Instruct Payroll that the employee’s contributions will cease for six months.
11. When the six-month period is about to end, instruct Payroll to resume employee contribution deductions.

Reaches the Age of 59 1/2

Participants have the right to withdraw money from their 401(k) accounts when they reach the age of 59 1/2. When a participant makes such a request,

give him or her a copy of the 401(k) Distribution Pac (Over 59 1/2) and review it together. The participant completes the form and returns it to you. You process the withdrawal as in steps 5 through 9 above.

Termination of Employment, Including Retirement

An employee terminating employment with the company may elect to roll over tax-free his or her account balance into an IRA or to a new employer's 401(k) plan. He or she may also choose a lump-sum distribution, which would be subject to federal (and state, if applicable) taxes.

If the vested benefit under the plan currently exceeds \$5000, or did so at the time of any prior distribution, the employee must give written consent before any distribution can be made. Amounts of \$5000 or less can be distributed without written consent.

401(k) Easy™ automatically determines whether or not the participant will be credited with a year of service for vesting purposes in the plan year of termination, as well as whether he or she will receive employer contributions, if applicable, for that year. (An employee becomes automatically 100% vested when he or she turns 65, or when he or she dies. Also, in the case when a plan is terminated by an employer, all employees become automatically 100% vested.)

The form used by the employee (or beneficiary) to request a distribution upon retirement, termination of employment, death, or disability is the 401(k) Distribution Pac. The 401(k) Distribution Pac includes instructions, signature forms, and explanations of the tax consequences of the various distribution choices.

In most plans, employees with balances over \$5000 can leave their money in your 401(k) plan even if they leave your company. We strongly advise that you discourage terminating employees from doing this, however, if this is allowed in your plan (see your Adoption Agreement). Persons who leave their money behind (1) cause many unintended problems, including the fact that the person may move and not leave a forwarding address; (2) will have difficulty changing investments; and (3) saddle your company with the responsibility of trusteeing a former employee's property indefinitely. 401(k) Easy™ forms are designed to encourage automatic rollovers or distributions.

The procedure for processing a 401(k) distribution upon termination is as follows:

1. Make sure the terminating employee receives a 401(k) Distribution Pac as part of his or her termination, with instructions to complete it and return it to you.
2. When the filled-in application is returned, review it carefully to ensure that it is complete.

IMPORTANT: *Do not process the termination distribution until you are sure all contributions from all sources have been made and entered into the employee's account. A waiting period of 90 days is usually sufficient, unless there will be a year-end contribution (e.g., employer matching), in which case the wait time can be longer. This will prevent your having to reinstate the participant and make two distributions.*

3. If the terminating employee has chosen a direct automatic IRA rollover to the same investment company, or a rollover to a newly appointed custodian/trustee/insurer, follow the procedures detailed in Chapter 7.
4. If the terminating employee has chosen a lump-sum distribution:
 - a. Inform the investment company via the Asset Liquidation Authorization to liquidate the assets, indicating on the form that this is a lump-sum liquidation.
 - b. Instruct the investment company to send the proceeds check directly to you, the Plan Administrator, not the employee.
 - c. Deposit the check in the plan trust bank account (assets less any investment account charges).
 - d. Issue a check from the plan trust bank account to the employee for the final amount (proceeds less a mandatory 20% income withholding tax and any applicable premature distribution penalties).
5. Installment payments are not an option in new 401(k) Easy™ plans. If you have a conversion plan that includes continuing installment payments to a terminated employee, please contact Technical Support if you need assistance with recording the payments in your software.
6. To enter a termination and distribution into 401(k) Easy™, go to the “Employee Information” window. Enter the termination date next to Termin. Check “yes” in the pop-up window asking if the employee has

been terminated and the check mark next to Participant will disappear. “Terminated” will appear in the lower right-hand corner. Click on **Activity**, click **New**, select Distribution as the Type, select each portfolio in turn, and enter the negative amount of each distribution.

Associated 401(k) Easy™ Documents

- 401(k) Distribution Pac
- 401(k) Distribution Pac (Over 59 1/2)
- 401(k) Hardship Withdrawal Pac
- Asset Liquidation Authorization
- Mandatory Distributions Fact Sheet (Over 70 1/2)
- Rollover or Deposit to a New Account



Chapter 7

Rollovers

A rollover is a tax-free transfer of all or part of a distribution from a qualified retirement plan to another qualified retirement plan or to an IRA. A new employee might want to roll over money from a previous employer's 401(k) plan or from a rollover IRA into your 401(k) Easy™ plan. Or a current employee, upon leaving your company, might want to roll over money from his or her 401(k) Easy™ account into another qualified plan or into an IRA.

The 401(k) Easy™ Asset Transfers-in Pac presents the policy for rolling over all or part of a distribution from a previous employer's plan into your plan and provides the forms for doing so. Also, the 401(k) Distribution Pac contains a Special Tax Notice that advises participants of important tax implications of their rollover decisions. You should review these documents with employees considering rollovers to ensure that they understand what is involved.

Processing Rollovers in 401(k) Easy™

New Employee Rollover from Previous Employer

When you, the Plan Administrator, receive the distribution from a new employee's rollover IRA or former 401(k) plan, you can process it immediately, or you can wait until you do the monthly processing of employee contributions.

The sequence is as follows:

1. Deposit the distribution check into the 401(k) trust bank account.

2. Determine the employee's investment choices from his/her completed Asset Transfers-In Pac.
3. Complete the rollover transmittal using either the Rollover or Deposit to an Existing Account form (if the account has already been established) or Rollover or Deposit to a New Account form (if a new account is to be opened). Attach a check in the proper amount from the 401(k) trust bank account and send it to the investment account company.
4. Enter the rollover transaction into 401(k) Easy™ as described at the end of this chapter.

Terminating Employee Rollover into IRA or Another 401(k)

For a terminating employee who wishes to roll over his or her 401(k) plan assets into a rollover IRA or a new employer's 401(k) plan, the sequence is as follows:

1. The employee receives and completes the "Election for Distribution of 401(k) Benefits" in the 401(k) Distribution Pac.
2. If the employee chooses an automatic IRA, the Plan Administrator gives him or her an IRA application supplied by the investment account company. (It is a good idea to request multiple IRA applications from the investment account company and keep them on hand.) The signed and completed IRA application and signed IRA Rollover Authorization are sent to the investment account company. When the rollover is complete, the amount that was rolled over is entered as a distribution into 401(k) Easy™ as described at the end of this chapter.
3. If the employee chooses a rollover to a newly appointed custodian, when you, the Plan Administrator, receive the properly filled in and signed authorization for direct transfer, send a signed Asset Liquidation Authorization to the investment account company. When the check is received from the investment account company, deposit it into the 401(k) trust bank account, and issue a check out of the trust bank account to the newly-appointed custodian. The transaction is entered into 401(k) Easy™ as a distribution as described below.

Processing Rollovers Through Use of the "Activity" Window

Rollovers into and distributions out of 401(k) Easy™ are entered through the "Activity" window for each employee. To access the "Activity" window,

click on **Employee Information** in the “Welcome...” window. Highlight the employee’s name and click on **Activity** .

Choose **New**. The Entered On date will be today’s date (month, day, 4-digit year). The Posted to 401(k) Easy is the month you want the transaction to take place (2-digit month and 4-digit year). Posted to Investment Account is the month it will be so posted.

Choose from the pull-down menu for Type what you are entering (rollover into or distribution out of the employee’s account). For Portfolio, enter the investment account choice, and enter the account number (if one is in the system it will automatically pop up). Then enter the dollar amount. If this is a distribution, use the minus (-) sign before entering the amount.

If the information is correct, press **Post**. The transaction is then posted, and you are ready to enter another.

Ex-Employee Accounts

By law, participants with balances over \$1000 (as of March 2005) can leave their money in your 401(k) plan after they terminate employment with the company. A person who does so, however, may cause many unintended problems, including moving without giving you a forwarding address. They may also have difficulty changing investments. You, on the other hand, have the responsibility of trusteeing a former employee’s property indefinitely. For these reasons, we suggest you strongly encourage automatic IRA rollovers. “Your Money Is Still in Our 401(k)” can be sent as a reminder, along with a copy of the 401(k) Distribution Pac.

Associated 401(k) Easy™ Documents

- 401(k) Distribution Pac
- Asset Liquidation Authorization
- Asset Transfers-in Pac
- IRA Rollover Authorization
- Rollover or Deposit to an Existing Account
- Rollover or Deposit to a New Account
- Your Money Is Still in Our 401(k)



Chapter 8

Plan Testing

The 401(k) Easy™ Asset Transfers-in Pac presents the policy for rolling over all or part of a distribution from a previous employer's plan into your plan and provides the forms for doing so. Also, the 401(k) Distribution Pac contains a Special Tax Notice that advises participants of important tax implications of their rollover decisions. You should review these documents with employees considering rollovers to ensure that they understand what is involved.

Using 401(k) Easy™ to Run Compliance Test

401(k) Easy™ performs the following critical IRS-mandated tests:

- Top heavy testing
- ADP compliance test of employee contributions
- ACP compliance testing of employer matching contributions

Testing results are based on employees' actual wage data input by you each month combined with actual monthly contribution data. Testing can be for a current year or previous years, and can be performed as frequently as you wish. The capability for frequent ad hoc compliance tests helps you anticipate the year-end results and head off problems.

Compliance testing is entered through the Reports button in the "Welcome. ." window. Enter the correct year (through the pull-down menu) in the "Reports" window, then click on Compliance Testing Reports in the right-hand column and then on Print. (If you have entered the current year, the report will give year-to-date data as of the just-ended month. If you choose a prior year, the data will be as of the end of the year.)

The ADP Preprocessing Grid appears. For each eligible employee the grid displays prior year salary, current year estimated salary, actual year-to-date earnings, actual contributions to date, actual matching contributions to date, estimated total contribution for the year, estimated matching contribution for the year, estimated account value, actual current account value, and whether the employee is eligible, a highly compensated employee, and/or a key employee.

The estimated contributions, earnings, and account values can be used to run the top heavy tests during the year. The actual values are used for the final top heavy test. The actual account values will need to be entered for each employee.

Press **Print** and four reports are displayed or printed out:

- ACP Test Results, which shows the employer matching contribution as a percentage of employee compensation for two groups: I. Highly Compensated Employees and II. Non-Highly Compensated Employees, plus the average contribution percentage for each group
- ADP Test Results -- Data Out, which shows the employee contribution as a percentage of his or her contribution for the same two categories: I. Highly Compensated Employees and II. Non-Highly Compensated Employees, plus the average contribution percentage for each group.
- Top Heavy Test Results, which lists separately for key employees and non-key employees the individual's name, social security number, and estimated (or, if actual account values have been entered, the actual) plan assets for that individual and the group as a whole.
- Compliance Testing Summary, which tells you whether or not you pass the top heavy, ADP, and ACP tests
(When you press **Print**, you will first see the ACP test results; to view the others, click on the Close button: ADP test results will appear. Click on Close again, and top-heavy test results will appear, and then finally the compliance testing summary.)

Correcting ADP or ACP Test Failures

Failing the ADP or ACP test does not necessarily mean disqualification of your 401(k) plan. Failed ADP/ACP tests can be corrected in one of two ways: the sponsor can either contribute a sufficient amount to the NHCEs

• to pass the test, or can return excess contributions to the HCEs. The latter is the more common method.

• However, because the latter alternative results in unhappy HCEs and the former alternative in extra expense to the employer, it is highly advisable to conduct preliminary tests during the year -- 401(k) Easy™ allows you to do it monthly if you wish, or quarterly. If the tests show that the ADP or ACP of the group of eligible highly compensated employees is likely to be too high compared to the ADP/ACP of the group of non-highly compensated employees, the employer can limit, before the end of the plan year, the prospective elective contributions of its highly compensated employees and possibly avoid the need for corrective measures later.

• **Methods of Correction After the End of the Plan Year**

• If, at the end of the plan year, the ADP or ACP test is not satisfied, the employer must correct the ADP or ACP excesses within 12 months, or the plan will be disqualified. Your company has two choices to correct an excess ADP:

- 1. The employer may make additional matching contributions or qualified nonelective contributions for non-highly compensated employees. (See the 401k Help® CD-ROM for more details.)
- 2. The plan may distribute the excess to highly compensated employees before March 15 of the new year.

• To correct an excess ACP, the employer may contribute additional QNECs or matching contributions for non-highly compensated employees, or distribute the excess aggregate contributions to highly compensated employees.

• 1. Additional Contributions to Non-Highly Compensated Employees.

• Because the ADP and ACP are not weighted averages, an employer might make additional contributions only for the lowest-paid employees. This often can increase the non-highly compensated employees' ADP or ACP at the lowest cost. (But this approach could also create discontent among those employees who receive no contribution.) An employer might prefer to make additional contributions to all eligible non-highly compensated employees sufficient to pass the test. Such contributions would be 100% vested and would be subject to the same distribution restrictions as salary deferrals.

- 2. Distribution of the Excess. This is probably the most commonly used

- method. If the plan returns the excess, it must also return any income (or offset any net loss) allocable to the excess. An employer may calculate the income allocable to the excess under any reasonable method as long as the method is consistent with that used to allocate income under the plan.
-
- The plan must distribute or forfeit matching contributions related to elective contributions that the plan distributes as excess deferrals or excess aggregate contributions.
-
- The method of correction is reduction of the contributions of highly compensated employees, starting with the *highest dollar amount contributed* until the ADP or ACP reaches the permissible level.
-
- 3. Excise taxes. If the ADP or ACP excess is not corrected by March 15, the employer is subject to a 10% excise tax on the amount of the excess, unless the employer corrects it by making additional QNECs within 12 months after the end of the plan year. The penalty must be reported to the IRS on Form 5330 and filed with the company's tax return. If the excess contribution is not returned by the end of the year following the year of the excess, the plan is disqualified.
-
- 4. Income Tax Consequences. Taxation of distributions depends on the timing of such distributions. Distributions of excess contributions made within the 2 1/2 month period following the close of the plan year (March 15 for calendar year plans) are taxable:
 - In the case of an excess contribution, in the employee's taxable year in which the amount would have been received in cash if he or she had not elected to contribute it to the plan
 - In the case of an excess aggregate contribution, in the employee's taxable year ending with or within the plan year for which the excess aggregate contribution was made.
-
- If the corrective distributions are made following the 2 1/2 month period after the close of the plan year, they are taxable in the year distributed. All distributions totaling, without related income, less than \$100 are treated as distributed after the 2 1/2 month period.
-
- The employer must provide the affected employee(s) with correct W-2s with compensation totals increased to reflect the addition of the excess.



Safe Harbor Option

There is a “safe harbor” option that allows an employer to omit ADP and/or ACP testing and instead make certain contributions to employees 401(k) accounts:

1. To satisfy both ADP and ACP safe harbor requirements, the plan sponsor (employer) must make either a 3% non-elective contribution to all eligible employees each year, or a dollar-for-dollar matching contribution to non-highly-compensated employees on salary deferrals up to 3% of compensation and a 50-cents-to-the-dollar matching contribution to non-highly-compensated employees on salary deferrals of 3% to 5% of compensation, making sure not to exceed these rates in any matching contributions made to highly compensated employees. (Non-elective contributions are made to all eligible employees, regardless of whether they participate in the plan or not. Matching contributions, on the other hand, being based on salary deferral amounts, are made only to active plan participants.)
2. The safe harbor contributions must be 100% vested, regardless of the length of service of the employee. The safe harbor contributions may not be distributed before termination of employment, age 59 1/2, or disability, nor are they eligible for financial hardship withdrawal.
3. The employer must provide annual information to employees to educate the employees about the plan’s safe harbor designations and benefits.

Please consult your 401(k) Adoption Agreement (see item G2) for your plan’s exact specifications regarding any safe harbor administrative choices.