



401(a)4 General Test Including Gateway & Safe Harbor Contributions

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Non-Discrimination Tests Used

Tests involved

- 410(b) Average Benefits Percentage Test
 - While not actually part of general testing, is used
- Gateway
- 401(a)4 General Test



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Gateway Test

- Must Pass Gateway to Cross Test under the 401(a)4 General Test
- Benefiting NHCEs must receive lesser of:
 - 1/3 the Allocation percent of the highest HCE pct
 - 5% of 415(c) Compensation
- Important to note the difference in comp definition



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401(a)4 General Test

Factors used in the General Test

- Retirement Age Assumptions
- Interest Rates
- Mortality
- Allocation vs. Benefits
- Current Year vs. Accrued to Date
- With or Without Permitted Disparity
- Testing All Together vs. OEX Separately
- Compensation Averaging



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401(a)4 General Test

Methods for Determining Rates

- Allocation Rate
- Converting Allocations to Equivalent Benefit Accrual for the General Test
 - Annual Accrual Method (used most often)
 - Accrued To Date Method



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Rates using Allocation Method

- $(\text{Contribution} + \text{Forfeitures}) / \text{Compensation}$

Example:

Contribution = \$1,000 Forfeiture = \$500

Compensation = \$30,000

Allocation Rate = $(1,000 + 500) / 30,000 = 5.0\%$



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Annual Accrual Method (used most often)

- Step 1: Lump Sum at Testing Age (NRA)
 - Allocation * Accumulation Factor
 - Accumulation Factor = $(1 + \text{Interest Rate})^{\text{Years to Retirement}}$
- Step 2: Benefit Accrual
 - Lump Sum at Testing Age / Annuity Purchase Rate
- Step 3: Annualize Benefit Accrual
 - Benefit Accrual * 12
- Step 4: Equivalent Benefit Accrual Rate (EBAR)
 - Annualized Benefit Accrual / Testing Compensation



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Summary of Annual Accrual Method

- $\text{EBAR} = \text{Allocation} * \frac{12 * \text{Accumulation Factor}}{\text{Annuity Purchase Rate}}$
(Compensation)
- Allocations from Employer allocations (*Exclude* 401(k) and Match)
- Annuity Purchase Rate depends on the Retirement Age, Mortality Table and Interest Rate
- Annuity Purchase Rate illustrated by DCWIN determines a monthly benefit
- The factor of 12 is used to annualize the equivalent benefit
- Accumulation Factor = $(1 + \text{Interest Rate})^{\text{Years to Retirement Age}}$



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Accrued to Date Method

- Step 1: Lump Sum at Testing Age (NRA)
 - Account Balance * Accumulation Factor
 - Accumulation Factor = $(1 + \text{Interest Rate})^{\text{Years to Retirement}}$
- Step 2: Benefit Accrual
 - (Lump Sum at Testing Age / Annuity Purchase Rate)
- Step 3: Annualize Benefit Accrual
 - Benefit Accrual * 12
- Step 4: Average Benefit Accrual (per Year of Service)
 - Benefit Accrual / Past Service
- Step 5: Equivalent Benefit Accrual Rate (EBAR)
 - Average Benefit Accrual / Testing Compensation



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Summary of Accrued To Date Method

- $$\text{EBAR} = \frac{\text{Account Balance}}{\text{Past Service}} * \frac{12 * \text{Accum. Factor} / \text{Ann. Pur. Rate}}{\text{Average Compensation}}$$
- Acct Bals are from Employer allocations (*Exclude* 401(k) and Match)
- Prior Years Benefiting averages the Acct Bal to an average annual amount
- Annuity Purchase Rate depends on the Retirement Age, Mortality Table and Interest Rate
- Annuity Purchase Rate illustrated by DCWIN determines a monthly benefit
- The factor of 12 is used to annualize the equivalent benefit
- Accumulation Factor = $(1 + \text{Interest Rate})^{\text{Years to Retirement Age}}$



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401(a)4 General Test

Determining Rate Groups

- Number of Rate Groups = Number of HCEs
- EEs in Rate Group are any with Rates Equal to or Greater than the Group's lowest HCE rate
- Each Rate group performs the Ratio Test

$$\text{Ratio Pct} = \frac{(\# \text{ of NHCEs in Group} / \text{Total} \# \text{ of NHCEs in plan})}{(\# \text{ of HCEs in Group} / \text{Total} \# \text{ of HCEs in plan})}$$

- Threshold used to pass the test
 - Failed the 410b Ave. Ben. Test, must use 70%
 - Passed the 410b Ave. Ben. Test, can use Safe Harbor Midpoint percentage



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Passing 401(a)4 Test

- Test Passes if:
 - Gateway Test is passed
 - All Rate Groups pass Ratio Test
- Test Fails if:
 - Gateway Fails
 - ANY Rate Groups Fail Ratio Test



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Failed 401(a)4 Test

Adjustments to Pass a Failed General Test

- Test with Imputing Permitted Disparity
 - Safe Harbor allocations are excluded
 - Integrated allocations are excluded
 - Can only impute disparity on 1 plan for sponsor
- Test Otherwise Excludables Separately
 - Must re-test 410b separately and Gateway
 - Both OEX and non-OEX must pass all tests
- Adjust allocations
 - Increase allocations to NHCE group(s)
 - Decrease the allocation to HCE group(s)



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Failed 401(a)4 Test

Adjustments to NHCE EBARs if Failed Rate Group

- Identify number of additional NHCEs needed to pass ratio test (whether 70% or safe Harbor Midpoint Pct)
- Identify NHCEs with the largest EBARs not in group
- Determine EBAR needed to bring NHCE(s) into group
- Determine contribution to the NHCE(s) to bring in next group
 - Allocation needed =

$$\text{EBAR wanted} * \frac{(\text{Compensation} / 12) * \text{Annuity Purchase Rate}}{\text{Accumulation Factor}}$$
 - Allocate a contribution to the NHCE group giving the above contribution and the group should pass (may need to give slightly more due to rounding issues)



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Failed 401(a)4 Test

Reasons for Failed tests

- Demographics
- Failing Average Benefits Percentage Test
- Gateway
- Gain/Losses



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2 pm CST**

Sole Proprietor and Partnership Calculations for Defined Contribution Plans

This webinar will cover the calculations and the reductions used for contributions in plans covering sole props and partners. It will look at what you need to do to code DC/Win for these entities.

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