

# The DATAIR News

NEWS FOR THE DATAIR PENSION AND BENEFITS PROFESSIONAL

SUMMER 2000

## FROM THE TOP

By Aaron Venouziou, President

I wish to revisit a subject that has already been discussed, because I feel that it is important enough to repeat, particularly at this time.

With the repeal of section 415(e) of the Code, the combined limit for a participant in both a DC plan and a DB plan, you have an excellent opportunity to generate new business. A Defined Benefit Plan can significantly increase the retirement benefits and tax deductions for your clients. You need to be aware of this before your competition.

Essentially, a business owner who is already hitting the DC limit of \$30,000 in a money purchase plan could fund for an additional benefit in a DB plan of up to \$130,000 per year. This could represent an annual contribution to the DB of about \$70,000 in some cases. The only catch here is the 404 deductibility limit. This limit is the greater of 25% of compensation or the funding requirement of the DB. We can get around this, however, with a technique we call the "flip-flop" method. The flip-flop method is a timing game on funding the DC and the DB at certain times during the tax year to allow the employer to fully deduct the funding of both plans on an on-going basis. The timing is crucial, and we have a full write-up explaining everything you need to do to get the job done right. If you would like this write-up just call and we'll fax it to you. (Article appeared in the Winter issue.)

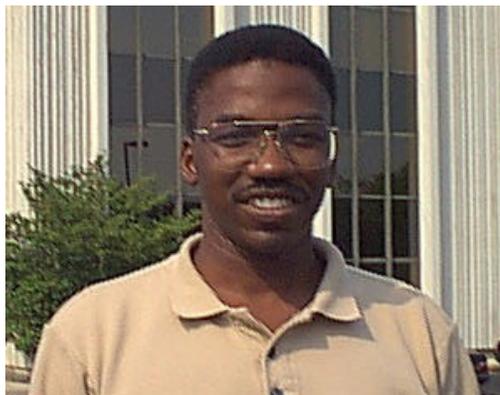
Also, if you've been concentrating on DCs for so long that you've forgotten some of the essential points of a DB plan, we have a new class we call "DB Essentials for DC Administrators" that could be quite helpful to you as a refresher. We will be offering this class on Thursday, November 16 at our offices here in Westmont.

We also have all of the software you need to administer a DB plan including actuarial support from our staff. And if you need Actuarial Certification PENCERT is here to help.



## DATAIR PROFILE

By Laurie Brophy



Meet Delwyn Horton, a member of our Cafeteria and Pension System support team and system trainer. Del also supports the new Pension Reporter for Windows™ System.

Del attended Chicago State University and the University of Alabama on a Track Scholarship where he received a degree in Urban Planning. Shortly after graduation, Del pursued a degree in computer programming.

So how did Del make the move into the employee benefits industry? Some might say it was fate and some might say he was "in the right place at the right time". Del walked into a building thinking he was applying for a job that was advertised in the newspaper. Unbeknownst to him, the address listed in the phone book was old and they had recently moved. The building he DID walk into (a TPA firm) coincidentally also had a job opening available, but had not yet advertised it. He interviewed for the position, got it, and wound up staying for 14 years. Fate or luck?

During that time, he worked as a computer programmer for 10 years with an emphasis on cafeteria section 125 and defined contribution programs, and 4 years in benefits administration. Ready for a change, Del joined DATAIR in October of 1999.

Del's team-playing spirit originated with his love of sports. A quick glimpse into his office boasts several volleyball championship trophies and track and field plaques. He's also comfortable on the softball field, golf course, or challenging someone to a game of chess.

What's most notable about working at DATAIR, Del? "I like the way everyone here has an open-door policy and are willing to help me learn."



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# DFE? WHAT THE HECK IS A DFE?

By Kristina Kananen, Q.P.A.

**B**anks, trust companies, similar financial institutions, insurance companies and investment entities which sponsor Master Trust Investment Accounts (MTIA), Common Collective Trusts (CCT), Pooled Separate Accounts (PSA), 103-12 Investment Entity (103-12 IE) or Group Insurance Arrangements (GIA) may be Direct Filing Entities (DFE's).

They choose to be DFE's if they file a 5500. None are required to file. The investments they hold (CCT's, PSA's, MTIA's, 103-12 IE's and GIA's) always be CCT's, PSA's, MTIA's, 103-12 IE's and GIA regardless of whether there is a DFE filing or not.

## SO THE PLAN DIDN'T INVEST WITH A DFE, SO WHAT?

Let's say that none of the potential DFE's for your plans are filing as DFE's for 1999 or 2000. What impact does this have on you?

- For the 1999 plan year, you will be able to file the Schedule H showing only one number on the appropriate line 1c(9) through 1c(12).
- There is no reporting relief on the Schedule H if no 5500 is filed for the 103-12 IE.
- For the 2000 plan year, you will have to show the underlying assets of the CCT, PSA or MTIA on the Schedule H.

- If the plan is a Schedule I filer, there is no impact as plan assets are not specifically listed and there is no question pertaining to the CCT, PSA or MTIA on the Schedule I.

## THE DREADED SCHEDULE D

Before Schedule I filers begin celebrating over the little financial information they have to provide, they need to take a look at the dreaded Schedule D. The Schedule D performs two functions. One is that it is the schedule that will be filed by DFE's if and when they file a 5500 and they complete Parts I and II. The other (and this is where denial comes in so stick with me) is that it is the schedule which must be attached to every 5500 filed by every plan that invested in CCT's, PSA's, MTIA's or 103-12 IE's at any time during the plan year. These plans only complete Part I.

Under the Specific Instructions for Part I, it clearly states "Complete a separate item (elements (a) through (e)) for each MTIA, CCT, PSA or 103-12 IE." "Separate item for each" means that if the plan has invested in a plan which invests in a contract under which there are 14 pooled separate accounts, you will have 14 items which must be completed showing the total value in each PSA.

- The determination of which investment accounts in a contract are pooled separate accounts must be made by the insurance company issuing the contract. They know which ones are held in their general assets and which are not.
  - You will also need to ask if they are filing as a DFE for the year.
    - If no, you will only need their EIN for element (c) to which you will add 000 to the end.
    - If yes, you will need their EIN and the plan number they showed or will show on their 5500 when they file as a DFE. This information is for element (c).

- We have heard of an insurance company that has stated that all of their accounts should be totaled and shown in one element on the Schedule D. As much as you would want to believe that, I would recommend caution. This is

*(Continued on page 5)*



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The DATAIR News strives to provide our customers with valuable and enjoyable information about DATAIR software, services, and the pension industry. Reader contributions are welcome.

## FINAL AND PROPOSED REGULATIONS: CAFETERIA PLANS

By Lanning Hochhauser, J.D.

**O**n March 23, 2000, the Internal Revenue Service released Final and Proposed Regulations for Cafeteria Plans. These regulations expand and clarify the circumstances under which an employee may now make mid-year election changes. The final regulation is effective for plan years beginning on or after January 1, 2001. For the proposed regulation there is currently no specific effective date. Effective immediately, however, both regulations can be relied upon by plan sponsors.

The final regulation closely follows the 1997 temporary regulation with two additions making the mid-year change rules considerably more flexible. A cafeteria plan sponsor may now allow an employee to make a mid-year election change if the employee's spouse or dependent has incurred a change in benefit eligibility status with the spouse's or dependent's employer. Also, coverage may now be increased or decreased for group-term life insurance and disability income benefits if the employee's marital status has changed or the employment status of the employee's spouse or dependent has changed.

The consistency rule has also been modified. In the past an employee could only increase a group-term life insurance benefit if the employee married, and decrease a disability income benefit with the death of a spouse or dependent. An employee may now increase or decrease the benefit elections. Finally, the final regulation does not prescribe a specific time frame to allow employees to make mid-year elections as a result of a change in status. They do, however, allow a plan sponsor to define a time limit in the plan document.

Only accident plans, health plans, or group-term life insurance benefits are affected by this final regulation. Dependent care benefits are addressed in the proposed regulation and Flexible Medical Spending Account benefits are specifically excluded from both the final regulation and the proposed regulation.

The proposed regulation allows for mid-year election changes for dependent care and adoption assistance plans to have the same set of change in status standards as the final regulation. In addition, the 1989 proposed regulation regarding mid-year elections for changes in costs and coverage for accident coverage, health coverage, group-term life insurance, disability income,

dependent care assistance and adoption assistance have been expanded. The newly expanded rules will now allow an employee to make a mid-year election if the plan sponsor adds new benefits or deletes existing benefits, or if there is a coverage change under the employee's plan or the plan of the employee's spouse or dependent.

In the past, an employee could only make a change if the benefit type being offered was completely new, e.g., the plan never offered a dental plan before. Now, if the plan sponsor is adding a new, or deleting an old benefit of a type that currently exists in the plan, the employee may make a mid-year election change. Also, an employee can now change dependent care providers and reflect those cost changes in their election. An employee may even change the election when the new provider is a relative. The employee may not, however, increase an election in the middle of the year if the dependent care provider is a relative of the employee.

"The newly expanded rules will now allow an employee to make a mid-year election..."

Finally, the proposed regulation has expanded on the change in status rule from the 1997 temporary regulation. If an employee's spouse's plan has a different open enrollment period than the employee's plan, and the employee's spouse makes an election change, a corresponding mid-year change in election can be allowed in the employee's plan.

At the ECFC Annual Conference on March 31, 2000, Harry Beker (Branch Chief), and Christine Keller and Janet Laufer (the principal authors of the regulations), offered the following non-binding remarks:

**Election Mistakes:** Though the new regulations do not address mistakes in salary reduction elections, the IRS retains its previous position that if there is clear and convincing evidence that an employee has made a mistake in an election, or if there is clear and convincing evidence that the employer has made an administrative mistake in recording that employee's election, then the election mistake can be corrected. Such a correction can even be effected retroactively to the beginning of

*(Continued on page 4)*

(Final Regs, continued from page 3)

the election since the election itself erroneous or mistakenly executed from the beginning of the effective date of the election.

**The "Tag Along" Rule:** In the event a change is permitted for a employee to add health coverage for a dependent or a spouse, then the employee may also, coincident with the change, add coverage for other pre-existing family members not previously covered. This rule applies regardless of the structure of the health plan, whether it has a two-tier structure (where an employee may choose either employee-only or family coverage) or a four-tier structure (where an employee may choose employee-only, employee plus spouse, employee plus one dependent, or family coverage).

**Cost Shifting:** If the cost of the health plan increases, the plan may provide that salary deferral elections may automatically increase to cover the change in premium. If, however, the change is significant, the employee may be given the opportunity to change coverage to another benefit option that offers similar coverage.

**Premium "Holidays":** If the employer decides during the year to give the employees a premium "holiday," or a premium period where the employer elects to pay the employees' share of the costs of the health insurance for that particular period during the year, then the employer can automatically change the salary reduction election of the employees to reflect the non-payment by the employees for their share of the premium for that period.

**Coverage Under a Spouse's or Dependant's Plan:** An employee may be permitted to decrease or cancel accident coverage or health coverage when a change in marital status or employment status makes the employee eligible for coverage under a spouse's plan or a dependent's plan, only if the employee actually obtains coverage under that spouse's plan or dependent's plan.

**Proof of Coverage:** A written statement signed by the employee is sufficient proof that coverage has been obtained for that employee under a spouse's plan or a dependent's plan, unless the employer has reason to believe that the employee is not telling the truth.

**Dependent Care Providers:** A change in daycare providers is considered a coverage change and the employee can change his or her election under the cafeteria plan to reflect that change in coverage. If an employee wants to go from using a daycare center to a private care provider for the child, that is considered a coverage change and the employee can make an election change to reflect a change in the costs from

having the daycare center take care of the child to having an individual care of the child. If the individual in question then wants a pay raise, that would be a cost change, and a change in the employee's election may be permitted. However, there is a special exception rule regarding relatives, so if the individual caring for the child is a relative of the employee, the employee cannot make an election to increase salary reductions to reflect the increase cost of that pay raise. If the employee has a child at a daycare center, and a relative of the employee moves in to take care of the child for free, then the employee can reduce his or her election to zero to reflect the change in cost as a change in coverage.

With regard to timing on these changes, the regulations do not prescribe a period of time by which these elections which result from a change in status must be made. The preamble to the regulations states that no period of time was specified in order to provide for flexibility in the execution of the change. However, the preamble does provide that the requirement that a change in election be "on account of" a specific event is intended to add a general condition that the election change not be made so long after the permitting event that the elected change bears no relation, or is no longer "on account of" that event.



## WINDOWS ME AND WINDOWS 2000

by Gary R. Saake, VP/Systems

Considering an operating upgrade from Windows 95, 98, or NT? Windows 2000 and Windows Me (Millennium Edition) have arrived! Rest assured all<sup>(1)</sup> of our products are compatible with all of these Microsoft operating systems.

Windows ME is a minor incremental update from Windows 98, and probably not worth the upgrade price unless you're having computer problems, which can often be fixed by upgrading the operating system.

Windows 2000 is an almost complete rewrite of Windows NT 4, and is extraordinarily stable and trouble-free. Unless you have software that won't run on Windows 2000, consider ordering your next machine with it pre-installed. If you're thinking of upgrading an existing machine with Windows 2000, be sure to check that all of your hardware is compatible, and that drivers are available.

<sup>(1)</sup> The DATAIR Voice server requires Windows 95, 98 or ME.



(DFE, Continued from page 2)

not the intent of the DOL or the IRS. They are very interested in investments that are not subject to state or federal examination. Totaling those accounts does not provide them with the information they want. If you have the insurance company's Schedule D instructions in writing, then you have a basis for the way you complete Schedule D upon audit. If you have only verbal instructions, it might be more prudent to complete the Schedule D with one entry per account.

Now, before you panic about how many entries that will be on the Schedule D and how many clients you have that have invested with the same bank, trust company or similar financial institution or with the same insurance company, fear not. We, at DATAIR, recognize how labor intensive and repetitive this form is as elements (a), (b), (c) and (d) will be the same for each bank, trust company, insurance company or investment entity holding similar contracts. Technology will do a great deal of the work for you.

You need only complete one Schedule D for one plan. Pension Reporter for Windows (PRWin) contains the capability for you to copy that Schedule D into another plan so that you need only change the dollar amounts in element (e). How?

1. Once the first Schedule D has been completed, saved and closed, with the plan open, select Activities from the far left red column or click on File and then Transfer.
2. With the transfer screen open, you will see a tab along the top that says "SchD copy". Click it.
3. Select "Export Sched D".
4. Tell the system where to copy the Schedule D, such as to a floppy disk, and then click OK. The information you entered in the elements (a) through (e) will be copied.
5. Open the plan into which you want to copy the Schedule D information.
6. Select Transfer and "SchD copy".
7. Then select "Import Sched D", tell the system the file name the exported Schedule D is in. Click OK. All of the Schedule D information will be copied into this new plan.
8. Be sure to change the amounts in all element (e)'s to properly reflect the new plan's investments.

Be aware that if you have not transferred from DATAIR's Pension or Pension Reporter DOS programs into PRWin, you will not have established a PSconfig file which is required to run the transfer program. Call our office (630/325-2600) and ask Support to walk you through setting up a PSconfig table.

So there you have it, companies are not always DFE's, but the investments they hold always require that you file a Schedule D. You have more work this year than last year; however, DATAIR has made it as easy as possible. 

Plan Ahead...

## DATAIR ANNUAL USER GROUP MEETING

**When:** Sunday, October 29, 2000  
**Where:** Washington, DC  
 (ASPA Conference)  
**Time:** 8:30 a.m.— Noon



### Tentative Agenda

- Documents Update – Amendment issues and strategies for GUST
- Demonstration of the Retirement Plan Documents for Windows™ System
- Pension System Update – Review of key items included in recent releases for DC, DB and PTCS systems
- Pension Reporter – Review of recent releases and update on new forms
- Cafeteria System – Demonstration of Windows version and overview of recent releases
- Hardware/Software update
- Status on Windows development projects

Watch your mail for further details.

## FAQ'S ON-LINE

**H**ave a question about one of our products or services? There's a pretty good chance that your question has been asked before. We've assembled a list of some of the most frequently asked questions (FAQ). Visit our website at (<http://datair.com>) for a complete list of FAQs, and check back often as new items are added. 

# PLAN DOCUMENTS . . . FOREVER!

By Bill Lilliquist, VP/Sales & Marketing

**T**ired of having to buy another set of documents every time the government requires plan amendments and restatements, such as for GUST? Licensing DATAIR's Retirement Plan Document System ends your worries about delivering timely and suitable plan documents to your clients.

## No New Document or Software Fee

The same Support Fee that entitles you to updated system releases, documentation and phone support, also entitles you to future amendments and IRS-approved restatements of the same licensed documents, whether you've chosen prototypes, volume submitter plans, or both.

DATAIR document customers haven't paid a dime extra over the years to get the next round of approved plan documents.

DATAIR document system customers will also receive a new Windows-based **Retirement Plan Document System ("RD/Win")**, fully compatible with Win95/98/2000/NT, and integrated with our unified database for all of DATAIR's existing and emerging Windows-based systems. **RD/Win** will convert data from **RD/DOS** and transfer data from other DATAIR systems.

## Beware of Incomplete Solutions

**RD/Win** will be a robust system, generating documents and maintaining reporting data. DATAIR's document system also prints design checklists, SPDs, notices, administrative forms and procedures, and government filing forms (5300, 5307, Schedule Q).

## Beware of glorified "cut and paste" programs lacking the features of DATAIR's RD/Win.

With DATAIR you have control. You maintain client data on your computers and generate documents according to your timetable. Our system provides security features for additional protection from unauthorized use.

***Beware of internet "solutions" offering to process plan documents and maintain sensitive-client files on their host computers. You could lose control over confidential data entrusted to you and you may even jeopardize your client relationship!***

DATAIR values your trust in our software and services. We provide timely updates, excellent support, and we don't charge extra for system and document updates or for help from our staff.

***Beware of document provider bargains that end up "nickel and diming" you for every new amendment and lack the resources to provide timely updates and full support.***

DATAIR's document solution has it all! Choose from the most popular **plan types**: Money Purchase, Profit Sharing, 401(k), Target Benefit and Defined Benefit. We have all **document types**: prototypes (standardized & nonstandardized), volume submitter and individually designed. Our volume submitter documents let you offer cross-tested plans with age-weighted and new comparability designs. DATAIR assists you in re-registering our prototypes in your company's name, if you wish to become the document sponsor.

***Beware of less comprehensive solutions. Some providers offer only prototypes which exclude cross-tested plans. Others offer only volume submitter documents, leaving you without***

***standardized prototypes which require no user filing fees.***

## DATAIR Offers Choices...and Peace of Mind

DATAIR has it all, but we also offer unbundled subsets of our comprehensive solutions. You may choose the plan and document types you need: for example, just MP, PS & 401(k), without TB or DB or, perhaps, just Prototypes without Volume Submitter. Or, you can choose *not* to license our software and use DATAIR's "Docs-By-Mail," pay-as-you-go service. The most important thing that DATAIR provides is peace of mind; we look out for you on all important document issues with timely information, strategy suggestions, required notices, amendments, required filing support, and updated software. And now, you and your clients get the umbrella protection of DATAIR's extended remedial amendment period.

To learn more about DATAIR's retirement plan documents solution, give your sales person a call now!



"GUST documents are coming soon! Now is the time to switch to DATAIR."

Maximize your Options Insert

 **DATAIR Employee Benefit Systems, Inc.**  
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**Westmont, IL 60559-1100**  
**(630) 325-2600 Fax (630) 325-2660**  
**http://www.datair.com**

**ROUTE TO:**

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## WESTMONT 2000 TRAINING SCHEDULE

Master the tools and fundamentals of pension administration through DATAIR's step-by-step systems training classes in Westmont, Illinois.

- November 13-17
- December 4-8

## REGIONAL 2000 TRAINING SCHEDULE

Join us 'on the road' for DATAIR's Defined Contribution, Data Import and Data Entry, and Report Writer systems training.

<b>Dates</b>	<b>Locations</b>
 Nov. 6-8	Dallas, TX

Visit our website at [www.datair.com](http://www.datair.com), then click on 'System Training' or contact our Training Department.

## CURRENT SOFTWARE VERSIONS



PE Pension Administration.....	3.10	PA Plan Accountant .....	2.03
PR/WIN Pension Reporter.....	1.01	QP Qualified Plan Distribution .....	1.52
RD Retirement Plan Doc .....	1.41	FA FAS 132 Reporting .....	2.01
CA Cafeteria Administration.....	4.52	PT Participant Term. Calc.....	1.50
CD Cafeteria Plan Document .....	1.23a	DE Data Entry & Review .....	1.13a
CM Client & Task Manager .....	1.03		