



DC-1: Defined Contribution Administrative Issues – Basic Concepts

Practice Exam

Multi-User Version

ASPPA
4245 North Fairfax Dr., Suite 750
Arlington, VA 22203
Ph: 703-516-9300
Fx: 703-516-9308

www.asppa-net.org

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INFORMATION

This is a practice examination for DC-1: Defined Contribution Administrative Issues – Basic Concepts. The actual examination will include 65 multiple choice questions for which candidates will have 2½ hours to complete.

All candidates are encouraged to visit the Candidate Corner section of ASPPA's Web site for additional information about this exam. Candidate Corner includes instructions for contacting your nearest Prometric test center to schedule examinations, exam windows and registration dates, studying tips, up-to-date information on regulatory limits and other helpful information.

It is the candidate's responsibility to check the ASPPA website for the most current information on examinations and publications. You can view the most current errata at www.asppa-net.org/errata. You may also contact ASPPA with questions at rpa@usaretirement.org.

2018 DC-1 Practice Exam

Question 1:

Based on the following information, determine when Employee A will enter the plan:

- The plan year begins on July 1 and ends on June 30.
- The eligibility requirements are one year of service and attainment of age 21.
- Employee A's date of hire is April 15, 2016.
- Employee A's date of birth is August 1, 1996.
- Employee A is a full-time employee.
- The entry date is the earlier of July 1 or January 1 following the date the eligibility requirements are satisfied.

- A. January 1, 2017
- B. July 1, 2017
- C. August 1, 2017
- D. January 1, 2018
- E. July 1, 2017

Question 2:

Based on the following information, determine the ratio percentage under IRC §410(b):

Participant	HCE	Benefiting
A	Yes	Yes
B	No	Yes
C	Yes	No
D	Yes	Yes
E	No	Yes
F	No	No

- A. 0.00%
- B. 25.00%
- C. 67.00%
- D. 75.00%
- E. 100.00%

Question 3:

Which of the following is/are types of situations that may cause a plan to be disqualified?

- I. Operational failures
 - II. Demographic failures
 - III. Plan document failures
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II, and III

Question 4:

All of the following statements regarding Form 5500 audit requirements are TRUE, EXCEPT:

- A. An accountant would be considered independent of the plan if the accountant is a fiduciary of the plan.
- B. An accountant would not be considered independent of the plan if the accountant is a service provider for the plan.
- C. The accountant should consider whether benefit payments were made in accordance with plan terms.
- D. For any year in which the plan has large plan filing status, a written opinion of an independent qualified public accountant must accompany the 5500 filing.
- E. The audit requirement also applies to a small plan filer, unless certain conditions are satisfied.

Question 5:

Based on the following information, determine the key employees as of December 31, 2016:

- None of the employees are related.
- Ownership and compensation are the same for the current and prior year.

Employee	Ownership	Officer	Compensation
A	86%	No	\$200,000
B	8%	Yes	\$180,000
C	4%	Yes	\$155,000
D	2%	Yes	\$100,000
E	0%	Yes	\$ 90,000

- A. Employee A only
- B. Employee B only
- C. Employees A and B only
- D. Employees A, B and C only
- E. Employees A, B, C, D and E

Question 6:

All of the following statements regarding defined contribution plan terminations are TRUE, EXCEPT:

- A. Top-heavy minimum allocations will continue to accrue after the plan termination date until the final distribution of plan assets.
- B. The employer must establish a date of plan termination.
- C. A pension plan is required to provide affected participants an ERISA §204(h) notice regarding a plan termination.
- D. A pension plan should have a legitimate business reason for terminating within ten years of implementation.
- E. Form 5310 is used to request a determination letter upon plan termination.

Question 7:

All of the following statements regarding plan documents are TRUE, EXCEPT:

- A. Individually designed plans have not been given pre-approval by the IRS.
- B. M&P plans include an adoption agreement.
- C. Volume submitter plans include IRS pre-approved language.
- D. M&P plans include a basic plan document.
- E. M&P plans are maintained by organizations expecting at least 100 adopting employers.

Question 8:

All of the following entry dates satisfy the statutory requirements of the IRC, EXCEPT:

- The eligibility requirements are 1 year of service and the attainment of age 21.
- A. First day of the month following satisfaction of the eligibility requirements
 - B. First day of the calendar quarter following satisfaction of the eligibility requirements
 - C. First day of the plan year during which the eligibility requirements are satisfied
 - D. First day of the plan year following satisfaction of the eligibility requirements
 - E. First day of the plan year nearest satisfaction of the eligibility requirements

Question 9:

All of the following statements regarding VCP are TRUE, EXCEPT:

- A. VCP requires payment of a compliance fee to the IRS.
- B. VCP users request a compliance statement from the IRS.
- C. VCP may not be used to correct insignificant qualification violations.
- D. An application under VCP may not be filed if the plan is under IRS audit.
- E. Any VCP submission may be made as an anonymous submission.

Question 10:

Which of the following statements regarding SIMPLE 401(k) plans is/are TRUE?

I. Employer contributions are mandatory.

II. Participant loans may be available.

III. Form 5500 filing is required.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II and III

Question 11:

All of the following statements regarding allocation of contributions and forfeitures in a defined contribution plan are TRUE, EXCEPT:

A. A pension plan must have a definite formula for allocating employer contributions.

B. A nonpension plan is not required to have a definite formula for allocating employer contributions.

C. Forfeitures may be used to reduce the employer's contribution.

D. Forfeitures may be used to provide additional allocations for participants.

E. An employer contribution may be allocated on the basis of compensation and include other criteria such as age or service.

Question 12:

Which of the following statements regarding eligibility computation periods is/are TRUE?

I. The first eligibility computation period may be defined as ending on the last day of the plan year.

II. The eligibility computation period must be a period of 12 consecutive months.

III. The second eligibility computation period may be defined as the 12-month period following the participant's date of birth.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II, and III

Question 13:

All of the following statements regarding determination letters are TRUE, EXCEPT:

- A. A plan is not required to obtain a favorable determination letter.
- B. Advisory letters are issued for volume submitter documents.
- C. Opinion letters are issued for prototype documents.
- D. A favorable determination letter may be requested on a plan amendment.
- E. Adopting employers may not request a favorable determination letter in addition to an opinion letter.

Question 14:

All of the following statements regarding eligibility requirements are TRUE, EXCEPT:

- A. A plan may have different eligibility requirements for 401(k) deferrals than for matching contributions.
- B. A 401(k) portion of a plan may not require more than one year of service for eligibility purposes.
- C. A plan that includes a 401(k) arrangement may require two years of service for matching contribution eligibility.
- D. A plan that includes a 401(k) arrangement may require two years of service for nonelective contribution eligibility.
- E. A plan may include an age 22 requirement as long as there is no service requirement.

Question 15:

Which of the following statements regarding the excise tax on nondeductible contributions is/are TRUE?

- I. Payment of the excise tax may be extended by filing Form 5558.
 - II. The employer is liable for any applicable excise tax on nondeductible contributions.
 - III. The excise tax is due by the last day of the 9th month following the taxable year of the nondeductible contribution.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 16:

Which of the following statements regarding a break in service for eligibility purposes is/are TRUE?

- I. A plan is required to impose a break-in-service rule.
 - II. A reduced work schedule may cause an employee to incur a break in service.
 - III. A break in service may affect the date in which a rehired former participant may re-enter the plan.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 17:

All of the following statements regarding the effect of changing a plan's eligibility requirements from three months of service to one year of service are TRUE, EXCEPT:

- A. Existing participants must be allowed to continue participation, even if they haven't satisfied the new eligibility conditions.
- B. Existing participants' accrued benefits are protected.
- C. Rehired former participants may need to satisfy the new requirements before re-entry.
- D. Existing participants who have already satisfied the new eligibility conditions continue to participate.
- E. The right to continue to participate in a plan is not a protected benefit.

Question 18:

Which of the following is/are violations of ASPPA's Code of Professional Conduct?

- I. Being convicted of a misdemeanor due to indecent exposure
 - II. Being convicted of a misdemeanor due to petty theft
 - III. Refusing to provide conversion data to a client's new service provider
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 19:

All of the following statements regarding HCEs within the meaning of IRC §414(q) are TRUE, EXCEPT:

- A. An employee must satisfy both the ownership test and the compensation test to be considered an HCE.
- B. The indexed dollar amount used in the compensation test is based on the calendar year in which the lookback year begins.
- C. Compensation is not considered when applying the ownership test.
- D. An employee's ownership in the current plan year is considered when determining HCE status.
- E. An employee's compensation in the current plan year is not considered when determining HCE status.

Question 20:

All of the following are HCEs within the meaning of IRC §414(q), EXCEPT:

- A. The grandson of a 25% owner
- B. A sole proprietor
- C. A 10% owner in an S Corporation
- D. A 15% partner in a partnership
- E. The wife of a 30% owner

Question 21:

Based on the following information, determine the forfeiture allocation for Participant D for the 2016 plan year:

- The plan is a calendar year profit plan and is the only plan of the employer.
- Forfeitures are allocated in proportion to compensation to participants who worked at least 1,000 hours in the plan year.
- Participant B terminated on August 15, 2016 and was 20% vested.
- Participant B received a lump sum distribution of \$1,000 in November, 2016.
- The forfeiture reallocation totals \$4,000.
- The plan is not top-heavy and satisfies coverage requirements.

Participant	Hours Worked	Compensation
A	1,500	\$180,000
B	900	\$40,000
C	1,500	\$30,000
D	1,500	\$25,000
E	1,500	\$24,000

- A. \$83
- B. \$97
- C. \$334
- D. \$386
- E. \$418

Question 22:

Which of the following statements regarding the top-paid group election is/are TRUE?

- I. The top-paid group election is used in the determination of key employees.
- II. The top-paid group election does not apply to the ownership test, only to the compensation test.
- III. Employees under age 21 may be excluded when determining the top-paid group.

- A. I only
- B. II only
- C. I and III only
- D. II and III only
- E. I, II, and III

Question 23:

Based on the following information, determine the top-heavy ratio as of December 31, 2016:

Key Employee Balances on 12/31/16	\$205,000
Non-Key Employee Balances on 12/31/16	\$300,000
Former Key Employee Balances on 12/31/16	\$ 50,000
In-Service Distributions to Non-Key Employees in 2015 and 2016	\$ 10,000
Distributions in 2016 to Participants who Terminated in 2015	\$ 7,000

- A. \$205,000 / \$572,000
- B. \$205,000 / \$565,000
- C. \$205,000 / \$555,000
- D. \$205,000 / \$515,000
- E. \$205,000 / \$505,000

Question 24:

Which of the following contributions is/are available to satisfy a top-heavy minimum requirement?

I. Elective contributions

II. QMACs

III. QNECs

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II, and III

Question 25:

Based on the following information, determine the minimum top-heavy allocation to Participant C:

- Participant C's IRC §415 compensation for the plan year is \$100,000.
- Participant C's plan compensation for the plan year is \$50,000 since he entered the plan mid-year.
- The highest allocation rate for a key employee for the plan year is 7%.
- The plan is top-heavy for the current plan year.

A. \$0

B. \$1,500

C. \$3,000

D. \$3,500

E. \$7,000

Question 26:

Which of the following types of plans covering at least one key employee is/are subject to aggregation for top-heavy purposes?

- I. SEP plan
 - II. SIMPLE IRA plan
 - III. SIMPLE 401(k) plan
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 27:

Based on the following information, determine the number of NHCEs that must benefit under the plan to satisfy the ratio percentage test under IRC §410(b):

- ABC Company has two divisions, A and B.
 - ABC Company wants to establish a profit sharing plan to cover only employees of Division B.
 - All HCEs at Division B will benefit under the plan
 - Division A has 50 nonexcludable HCEs and 100 nonexcludable NHCEs.
 - Division B has 30 nonexcludable HCEs and 50 nonexcludable NHCEs.
 - No employees work for both Division A and B.
- A. 21
 - B. 35
 - C. 40
 - D. 63
 - E. 105

Question 28:

Which of the following statements regarding requirements for a qualified plan to be able to correct a significant failure under SCP is/are TRUE?

- I. The violation must not involve misuse or diversion of assets.
 - II. The plan document must be a pre-approved prototype document.
 - III. The plan must have a favorable determination letter, advisory letter or opinion letter.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 29:

All of the following statements regarding correcting an IRC §410(b) coverage failure are TRUE, EXCEPT:

- A. Contribution amounts that have already been allocated may be adjusted and the contribution amount reallocated after a coverage failure has been identified.
- B. A coverage failure may be corrected by adopting a corrective amendment up to 9½ months after the close of the plan year.
- C. A coverage failure may be corrected by allocating a contribution to vested employees who terminated employment.
- D. One way to correct a coverage failure is to expand the group of NHCEs who benefit under the plan.
- E. A plan may correct a ratio percentage test failure by satisfying the average benefits test.

Question 30:

Based on the following information, determine the employer contribution for the 2017 plan year:

- The plan is a calendar year profit sharing 401(k) plan and is the only plan of the employer.
- The plan uses a pro rata allocation formula.
- The employer contribution is 6% of eligible compensation.
- Contributions are allocated to participants who worked at least 1,000 hours during the plan year and who are employed on the last day of the plan year.
- The IRC §401(a)(17) compensation limit in 2017 is \$270,000.
- The plan satisfies coverage requirements.
- The plan is not top-heavy.

Participant	Compensation	Hours Worked	Status
A	\$500,000	2,080	Active
B	\$150,000	2,080	Active
C	\$55,000	2,080	Active
D	\$50,000	2,080	Active
E	\$30,000	950	Active
F	\$25,000	250	Terminated

- A. \$31,500
- B. \$33,900
- C. \$46,800
- D. \$47,100
- E. \$48,600

Question 31:

All of the following statements regarding compensation are TRUE, EXCEPT:

- A. IRC §414(s) compensation must be used for ADP testing.
- B. IRC §414(s) compensation must be used for permitted disparity allocations.
- C. IRC §415 compensation must be used for allocating employer contributions.
- D. IRC §415 compensation must be used for allocating top-heavy minimum contributions.
- E. IRC §415 compensation definitions meet the safe harbor standards of IRC §414(s) compensation.

Question 32:

All of the following are annual additions, EXCEPT:

- A. Employer nonelective contributions
- B. Designated Roth contributions
- C. Catch-up contributions
- D. QMACs
- E. QNECs

Question 33:

Which of the following statements regarding excess annual additions under IRC §415 is/are TRUE?

- I. A failure to limit annual additions may cause the plan to be disqualified.
 - II. A plan sponsor needs to use correction methods outlined in EPCRS to correct excess annual additions.
 - III. There is no specific deadline for correcting excess annual additions.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 34:

Which of the following is/are conditions that may be imposed on a participant in order to receive a contribution allocation?

- I. Work 501 hours during a short plan year
 - II. Work 1,000 hours during a short plan year
 - III. Work 1,000 hours during a calendar year
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II, and III

Question 35:

All of the following statements regarding the filing deadlines for Form 5500 for tax years ending prior to December 31, 2015 are TRUE, EXCEPT:

- A. Form 5500, without extension, is due January 15th for plan year ending June 30th.
- B. Form 5500, with extension, is due October 15th for plan year ending December 31st.
- C. Form 5500, without extension, is due June 30th for plan year November 30th.
- D. Form 5500, without extension, is due August 31st for terminated plan with final assets distributed on January 10th.
- E. Form 5500, with extension, is due August 15th for plan year ending October 31st.

Question 36:

Based on the following information, determine the contribution deadline, who is not on extension, for a deductible contribution made for the 2017 plan year:

- The plan is a calendar year plan.
- The plan sponsor is an LLC taxed as a corporation.
- The corporate return is not on extension.

- A. December 31, 2017
- B. March 15, 2018
- C. April 15, 2018
- D. September 15, 2018
- E. October 15, 2018

Question 37:

Based on the following information, determine the maximum deductible discretionary profit sharing contribution that may be made to the following 401(k) plan:

Total compensation of all eligible participants	\$2,000,000
Total elective contributions	\$100,000
Total employer matching contribution	\$50,000

- A. \$235,000
- B. \$425,000
- C. \$450,000
- D. \$475,000
- E. \$500,000

Question 38:

Which of the following statements regarding the elapsed time method to credit service is/are TRUE?

- I. Absences of less than 12 months are treated as continuous employment.
- II. Eligibility computation periods must be based on the plan year.
- III. It is an effective option for employers who want to exclude seasonal employees.

- A. I only
- B. III only
- C. I and II only
- D. II and III only
- E. I, II and III

Question 39:

Which of the following statements regarding plan qualification under IRC §401(a) is/are TRUE?

- I. A defined contribution plan must satisfy the minimum participation requirements of IRC §401(a)(26).
- II. A qualified plan may permit the assignment of benefits in limited circumstances.
- III. The failure to make RMDs under IRC §401(a)(9) could disqualify the plan.

- A. I only
- B. II only
- C. I and III only
- D. II and III only
- E. I, II, and III

Question 40:

Based on the following information, determine the participant's vested balance:

- The participant has not attained NRA.
- The participant met the plan's eligibility requirement of one year of service.
- The plan is a nonsafe harbor 401(k) plan.

Years of vested service;	2
Plan vesting schedule:	Three-year cliff
Elective contribution account balance:	\$10,000
Employer matching account balance:	\$5,000
Employer profit sharing balance:	\$40,000
Rollover account balance:	\$4,000

- A. \$10,000
- B. \$14,000
- C. \$19,000
- D. \$54,000
- E. \$59,000

Question 41:

Based on the following information, determine Participant A's vested percentage as of December 31, 2016:

- The plan year and vesting computation period is the calendar year.
- The plan uses the six-year graded vesting schedule.
- The plan is using the counting hours method to determine vested service.
- Participant A is a full-time employee.
- Participant A was 60% vested as of December 31, 2014.
- Participant A terminated employment on March 14, 2015.
- Participant A was rehired on May 1, 2016.

- A. 20%
- B. 40%
- C. 60%
- D. 80%
- E. 100%

Question 42:

All of the following years of service may be disregarded for vesting purposes, EXCEPT:

- A. Years of service before the participant reached age 18
- B. Years of service during which the participant declined to make mandatory contributions
- C. Years of service before the effective date of the plan
- D. Years of service during which the participant declined to make elective contributions in a 401(k) plan
- E. Years of service before a one-year break in service, if the participant was vested prior to the break

Question 43:

Which of the following statements regarding break-in-service rules for vesting purposes is/are TRUE?

- I. Service to avoid a break in service must be credited for employees on unpaid maternity or paternity leave.
 - II. Service to avoid a break in service must be credited for employees suspended due to misconduct.
 - III. Service to avoid a break in service must be credited for employees on Family and Medical leave.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II, and III

Question 44:

All of the following statements regarding the cash-out distribution method are TRUE, EXCEPT:

- A. The entire vested balance must be distributed.
- B. The participant must consent to distributions of more than \$5,000.
- C. A cash-out distribution may trigger an immediate forfeiture.
- D. The cash-out rules apply to in-service withdrawals.
- E. The plan must comply with repayment rules for participants who are rehired.

Question 45:

All of the following events require full vesting of a participant's benefit, EXCEPT:

- A. Becoming disabled, according to the plan's definition
- B. Attainment of NRA under the plan
- C. Plan entry after satisfying a two-year eligibility requirement
- D. Complete discontinuance of employer contributions
- E. Completing seven years of service in a single employer plan

Question 46:

All of the following groups of employees may be excluded by statute from coverage testing under IRC §410(b), EXCEPT:

- A. Leased employees
- B. Collective bargained employees
- C. Employees who have not met the minimum age and service requirements
- D. Nonresident aliens
- E. Nonbenefiting participants who terminated with less than 500 hours of service

Question 47:

Which of the following statements regarding vesting schedules is/are TRUE?

- I. Three-year graded (33.3% each year) satisfies statutory minimum vesting standards for a defined contribution plan.
 - II. Six-year graded satisfies statutory minimum vesting standards for a defined contribution plan.
 - III. Three-year cliff vesting satisfies statutory minimum vesting standards for a defined contribution plan.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II, and III

Question 48:

Which of the following statements regarding remedial amendment periods is/are TRUE?

- I. The remedial amendment period allows practitioners a period of time to update the plan document to reflect current plan operations due to law changes.
 - II. Amendments that are required by law may be made retroactively during the remedial amendment period.
 - III. Remedial amendment periods do not apply to a newly established plan.
- A. I only
 - B. III only
 - C. I and II only
 - D. II and III only
 - E. I, II and III

Question 49:

All of the following statements regarding protected benefits under IRC §411(d)(6) are TRUE, EXCEPT:

- A. An optional form of benefit is any option that relates to the form or timing of a plan distribution.
- B. A plan is not required to protect the optional forms of benefit with respect to a rollover contribution.
- C. Rights and features that are not optional forms of benefit are not protected benefits.
- D. All optional forms of benefit are protected benefits.
- E. Ancillary benefits that are not optional forms of benefit are not protected benefits.

Question 50:

All of the following statements regarding terminated plans are TRUE, EXCEPT:

- A. The final Form 5500 is filed for the year the plan terminated.
- B. The IRS can retroactively disqualify a plan that has been terminated.
- C. A terminating plan must be amended to be in full compliance with current legislation.
- D. Advance notice to employees is not required to terminate a profit sharing plan.
- E. Terminating plans are not required to request a determination letter from the IRS.

Question 51:

Which of the following is/are included in a Form 5500 filing for a large plan filer only?

- I. Schedule C
 - II. Schedule G
 - III. Schedule H
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 52:

All of the following statements regarding Form 5500 filing requirements are TRUE, EXCEPT:

- A. Form 5500-EZ may be filed for any plan that covers only partners and their spouses.
- B. Governmental plans are exempt from Title I Form 5500 filing requirements.
- C. SIMPLE IRA plans are exempt from Title I Form 5500 filing requirements.
- D. Generally, a large plan filer for Form 5500 purposes is a plan with more than 100 participants on the first day of the plan year.
- E. 95 percent of the plan's assets must have a readily ascertainable fair market value in order to qualify for filing Form 5500-SF.

Question 53:

Which of the following statements regarding Title I Form 5500 requirements is/are TRUE?

- I. SIMPLE 401(k) plans are exempt from Title I Form 5500 filing requirements.
 - II. SEPs are exempt from Title I Form 5500 filing requirements.
 - III. Nonelecting church plans are exempt from Title I Form 5500 filing requirements.
- A. I only
 - B. III only
 - C. I and II only
 - D. II and III only
 - E. I, II and III

Question 54:

Which of the following is/are requirements for satisfying the small plan filer audit exemption?

- I. No employer securities may be held by the plan.
 - II. Additional disclosures are required on the SAR.
 - III. At least 95% of the plan's assets must be invested in qualifying plan assets or a fidelity bond must be held in the amount of any non-qualifying plan assets.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 55:

All of the following actions are acceptable in accordance with the ASPPA Code of Professional Conduct, EXCEPT:

- A. Discussing a specific participant's investment elections with an unrelated investment advisor
- B. Informing a client during a plan takeover that you respectfully disagree with the prior year's ratio coverage test results
- C. Recommending that the client change the vesting provisions in a plan that is administered by another firm
- D. Releasing account information to a participant's accountant with written permission from the participant
- E. Reviewing the provisions of a client's qualified plan that is administered by another firm

Question 56:

Which of the following statements regarding ASPPA's Code of Professional Conduct is/are TRUE?

- I. Working for clients who have conflicting interests may be acceptable under ASPPA's Code of Professional Conduct if certain conditions are satisfied.
 - II. Precautions should be taken to ensure that professional communications are appropriate to the circumstances and the intended audience.
 - III. Refusing to provide conversion data to a client's new service provider violates ASPPA's Code of Professional Conduct.
- A. I only
 - B. III only
 - C. I and II only
 - D. II and III only
 - E. I, II and III

Question 57:

All of the following failures may be resolved through EPCRS, EXCEPT:

- A. Plan document failures
- B. Form 5500 failures
- C. Operational failures
- D. Demographic failures
- E. Employer eligibility failures

Question 58:

All of the following statements regarding money purchase pension plans are TRUE, EXCEPT:

- A. The IRS imposes a nondeductible excise tax on the employer for failure to make the required contribution under IRC §412.
- B. The formula for determining the amount of the contribution and the formula for allocating the contribution may be different.
- C. The annual contribution must be determined by a formula specified in the plan document.
- D. Participant loans may be permitted.
- E. Hardship withdrawals may be permitted.

Question 59:

Which of the following statements regarding coverage testing under IRC §410(b) is/are TRUE?

- I. The ratio percentage is determined by dividing the HCE ratio by the NHCE ratio.
 - II. The NHCE ratio is the number of NHCEs in the benefiting group divided by the number of NHCEs in the coverage testing group.
 - III. The HCE ratio is the number of HCEs in the benefiting group divided by the number of HCEs in the coverage testing group.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 60:

Which of the following statements regarding the calendar year data election is/are TRUE?

- I. The calendar year data election affects the lookback year for determining HCEs under the compensation test.
 - II. The calendar year data election affects the lookback year for determining HCEs under the 5 percent owner test.
 - III. If the calendar year data election is made, the lookback year is the calendar year that begins in the 12-month period preceeding the current plan year.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II and III

Question 61:

Based on the following information, determine the minimum number of NHCEs that must benefit under the plan to satisfy the ratio percentage test under IRC §410(b):

- ABC Company sponsors a profit sharing plan.
 - Plan eligibility requirements are age 21 and one year of service.
 - ABC Company would like to exclude a class of employees that work in a particular warehouse.
 - There are 10 nonexcludable HCEs of which 6 are benefiting under the plan.
 - There are 200 NHCEs of which 50 are under age 21 and another 50 have completed less than one year of service.
- A. 0
 - B. 6
 - C. 42
 - D. 70
 - E. 140

Question 62:

All of the following statements regarding compensation used for purposes of employer deduction limits are TRUE, EXCEPT:

- A. The maximum deductible contribution for a combination of money purchase and profit sharing plans is 25% of eligible plan compensation.
- B. Compensation is determined based on the employer's tax year, even if different than the plan year.
- C. Compensation used for deduction purposes must be the same as compensation used for allocation purposes.
- D. Compensation for deduction purposes includes salary deferrals under an IRC §125 cafeteria plan.
- E. Elective deferrals to a 401(k) plan are not included as employer contributions when determining the total contributions subject to the deduction limit.

Question 63:

All of the following are considered key employees, EXCEPT:

- A. A more than 5% owner of a company with annual compensation of \$120,000
- B. A company salesman with annual compensation, including commissions, of \$225,000
- C. An officer of a company with annual compensation of \$175,000
- D. The son of a company's sole owner, with annual compensation of \$25,000
- E. A 4% owner of a company with annual compensation of \$185,000

Question 64:

Based on the following information, determine the HCEs for 2017:

- Employees A and B are married.
- The top-paid group election is not made.

Employee	2017 Compensation	2017 Ownership	2017 Compensation	2017 Ownership
A	\$500,000	80%	\$550,000	75%
B	\$80,000	0%	\$85,000	0%
C	\$225,000	0%	\$250,000	15%
D	\$70,000	20%	\$75,000	10%
E	\$100,000	0%	\$125,000	0%

- A. Employees A, B and D only
- B. Employees A, C and D only
- C. Employees A, B, C and D only
- D. Employees A, C, D and E only
- E. Employees A, B, C, D and E

Question 65:

Which of the following is/are included as an annual addition under IRC §415?

- I. Employer matching contributions
 - II. Loan repayments
 - III. Investment earnings
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. I, II, and III

SHORT ANSWER KEY

Question #	Answer	Question #	Answer
1	D	34	E
2	E	35	A
3	E	36	B
4	A	37	C
5	D	38	A
6	A	39	D
7	E	40	B
8	D	41	D
9	C	42	D
10	E	43	C
11	B	44	D
12	B	45	A
13	E	46	A
14	E	47	E
15	B	48	C
16	D	49	D
17	A	50	A
18	D	51	E
19	A	52	E
20	A	53	D
21	D	54	D
22	D	55	A
23	D	56	E
24	D	57	B
25	C	58	E
26	A	59	D
27	C	60	C
28	C	61	C
29	A	62	C
30	A	63	B
31	C	64	C
32	C	65	A
33	E		

END SHORT ANSWER KEY

ANSWER KEY WITH EXPLANATIONS

1. D Employee A is age 21 on August 1, 2017. Employee A has one year of service on April 14, 2017. The later of these two dates is August 1, 2017. Employee A enters the plan on January 1, 2018, the first entry date after August 1, 2017. (Syllabus Topic 3)

2. E Based on the coverage test worksheet:

	HCEs	NHCEs	Total
Coverage Testing Group	3	3	6
Benefiting Group	2	2	4
Coverage Ratio	$2 / 3 = 66.67\%$	$2 / 3 = 66.67\%$	
Ratio Percentage	$66/67\% / 66/67\% = 100\%$		

(Syllabus Topic 6)

3. E All of these situations may cause a plan to be disqualified. (Syllabus Topic 1)

4. A Plan audits must be performed by a qualified public accountant who is independent of the plan. As a general rule, an accountant would not be independent of the plan if the accountant is a service provider, fiduciary or participant in the plan. The accountant also must be independent of the plan sponsor. This means the accountant does not have a financial interest in the plan sponsor nor is an employee of the plan sponsor. (Syllabus Topic 11)

5. D An employee is a key employee if they are a more than 5% owner, if they are a more than 1% owner and have compensation in excess of \$150,000, or if they are an includible officer satisfying the compensation test.
An employee is a key employee if:
they are a more than 5% owner;
they are a more than 1% owner and have compensation in excess of \$150,000 (This \$150,000 compensation requirement is not indexed for cost-of-living increases.); or

they are an includible officer satisfying the compensation test (\$170,000 for 2015 and 2016, increased to \$175,000 in 2017).

Employees A and B are more than five percent owners. Employee C is a more than one percent owner with compensation in excess of \$150,000. (Syllabus Topic 5)

6. A Top-heavy minimums are not required after the plan termination date, but any minimum contribution liabilities that accrued as of the termination date, but have not been funded must be satisfied. (Syllabus Topic 10)
7. E M&P plans may be sponsored by any organization that expects to have at least 30 employers adopt the basic plan document. (Syllabus Topic 1)
8. D The statutory plan entry date is the earlier of:
- The first day of the plan year beginning after the employee satisfies the statutory age and service requirements; or
 - Six months following the date the employee satisfies the statutory age and service requirements.

Entry on the first day of the plan year following satisfaction of the eligibility requirements will not satisfy the statutory entry requirements because the entry date could be more than six months following the date the employee satisfied the eligibility requirements. For example, if Employee X completes the age and service requirements for a calendar year plan on March 30, 2017, the employee's entry date would be January 1, 2018 which is more than six months after the eligibility requirements were satisfied.

However, entry on the first day of the year during which eligibility requirements are satisfied would satisfy the statutory entry requirements by providing retroactive entry. For example, Employee X, who completed the age and service requirements on March 30, 2017, would enter then plan on January 1, 2017 if the entry date is the first day of the year during which eligibility requirements are satisfied.

Entry on the first day of the plan year nearest satisfaction of the eligibility requirements would satisfy the requirements by providing retroactive entry when needed. Under this scenario, Employee X's entry date would also be January 1, 2017, because January 1, 2017 is nearer to March 30, 2017 than January 1, 2018. This definition is designed to provide retroactive entry only when prospective entry would be more than six months after the employee has satisfied the eligibility requirements. If Employee X had instead satisfied the age and service requirements on July 15, 2017, Employee X's entry date would be January 1, 2018, because January 1, 2018 is nearer to July 15, 2017 than January 1, 2017. (Syllabus Topic 3)

9. C The Voluntary Correction with IRS Approval Program (VCP) is a self-initiated program for fixing qualification failures. VCP may be used to correct both significant and insignificant failures regardless of how much time has passed since the violation occurred. The program requires disclosure to the IRS and a payment to the IRS (called a VCP compliance fee). An application under VCP may not be filed if the plan is under IRS audit. Relief under VCP is in the form of a compliance statement from the IRS, which addresses the failures identified, the terms of correction and the time period within which proposed corrections must be made. If desired, a VCP submission may be made as an anonymous submission, regardless of the type of plan or the type of failure. (Syllabus Topic 1)

10. E All of the statements are true. Employer contributions are mandatory in SIMPLE 401(k) plans and SIMPLE IRAs. Loans to participants are not permitted in SIMPLE IRAs, but they are permitted in a SIMPLE 401(k) plan. Because a SIMPLE 401(k) plan is a qualified plan, it is subject to the normal Form 5500 filing requirements that apply to other qualified plans. (Syllabus Topic 2)
11. B A pension plan is required to have “definitely determinable benefits.” In other words, there must be either a formula for determining the participant’s benefit at retirement or a definite formula for determining the company’s annual contribution to the plan. A nonpension plan need not satisfy the definitely determinable benefits requirement that applies to pension plans, but a nonpension plan must provide for a definite allocation formula, which outlines the method by which the employer’s contribution is allocated among the plan participants’ accounts once that contribution is made to the plan. (Syllabus Topic 2)
12. B An eligibility computation period is the period during which an employee’s hours are examined to determine whether a year of service has been completed. The eligibility computation period must be a period of 12 consecutive months.
- The first eligibility computation period must begin on the employee’s employment commencement date. Eligibility computation periods after the first such period may be defined as either:
- (a) the plan year; or
 - (b) 12-month anniversary periods of the initial eligibility computation period.
- The plan must define which method it will use to determine eligibility computation periods after the first period. No other method is acceptable in determining whether the statutory requirements are satisfied. (Syllabus Topic 3)
13. E Adopting employers may get a favorable determination letter in addition to the opinion letter issued on the basic plan document, if desired. (Syllabus Topic 1)
14. E A plan may impose less restrictive age and service requirements for eligibility to participate (that is, a shorter service requirement or a younger age requirement than the statutory maximums), but may not impose more restrictive age and service requirements for eligibility to participate (that is, a longer service requirement or an older age requirement than the statutory maximums). An age 22 requirement is more restrictive than the statutory maximum. (Syllabus Topic 3)
15. B The employer pays the excise tax due to nondeductible contributors by filing Form 5330. The due date for the excise tax is the last day of the 7th month following the taxable year for which there was a nondeductible contribution as of the close of the year. Form 5558 may be filed to extend this deadline by no more than six months. The extension does not apply to the payment of the tax, only to the filing deadline, so the tax due must be submitted with the extension request. (Syllabus Topic 8)

16. D A plan is not required to impose a break-in-service rule. (Syllabus Topic 3)
17. A It is not required that existing participants be allowed to continue participation if they have not satisfied the new eligibility conditions.
- When the eligibility conditions are amended, the plan may (but is not required to) provide that the existing participants are grandfathered in, meaning that their participation continues even if they cannot satisfy the new eligibility conditions. If the eligibility requirements are modified in a way that the employee is no longer satisfies the requirements for participation, the participant's accrued benefit is protected, but the employee will not accrue additional benefits until he or she first re-establishes the right to participate in the plan under the modified eligibility requirements.
- A change in eligibility requirements may affect the re-entry of a rehired employee who was formerly a participant in the plan. Unless the amendment grandfathered in former participants, the rehired employee would have to satisfy the new requirements before his or her participation could resume.
- The modification of the plan's eligibility service condition will not cause an employee to lose participant status if the employee has already satisfied the new requirement. Just because an employee qualifies as a participant in the plan does not guarantee the employee the right to participate in the plan for the rest of his or her employment with the employer. The right to continue to participate in a plan is not a protected benefit. (Syllabus Topic 3)
18. D Pleading guilty or being found guilty of any financially-related misdemeanor or any felony (regardless of the nature of the crime) is a violation of the professional integrity portion of ASPPA's Code of Professional Conduct. Being found guilty of a misdemeanor that is not financially-related does not violate ASPPA's Code of Professional Conduct. Refusing to provide conversion data to a client's new service provider is a violation of the courtesy and cooperation portion of ASPPA's Code of Professional Conduct. (Syllabus Topic 12)
19. A An employee is considered an HCE if they satisfy either the ownership test or the compensation test - the employee need not satisfy both. The 5 percent owner test is satisfied if the employee owns more than 5 percent of the employer (or a related employer) at any time during the current plan year or during the lookback year. An employee is an HCE under the compensation test if the employee's compensation for the lookback year is more than a prescribed dollar amount (\$120,000 for 2016). Because compensation is determined for the lookback year, the employee's compensation for the current plan year has no bearing on the employee's HCE status for that year. (Syllabus Topic 4)

20. A A grandchild's ownership interest is attributed under IRC §318 to that individual's grandparent. However, a grandparent's ownership interest is not attributed under IRC §318 to that individual's grandchild. (Syllabus Topic 4)
21. D Participant B is not eligible for an allocation. The remaining compensation totals \$259,000 (\$180,000 + \$30,000 + \$25,000 + \$24,000). The allocation to Participant D is \$4,000 / \$259,000 * \$25,000 = \$386. (Syllabus Topic 9)

22. D The employer may elect to (but is not required to) limit the number of employees who can be treated as satisfying the compensation test for HCE determination purposes. Under the top-paid group election, an employee would satisfy the compensation test only if:
- the employee was in the top 20 percent of employees for the lookback year, ranked by compensation; and
 - the employee's compensation for such prior year was in excess of the required dollar amount.

The top-paid group election is based on the number of employees in the lookback year. To determine the maximum number in the top-paid group, the 20 percent limitation is applied to the total number of employees, disregarding certain excluded employees. The employees excluded from being counted as part of the number of employees in the top-paid group are:

- employees who have not completed at least six months of service by the end of the year;
- employees who normally work less than 17½ hours per week;
- employees who normally work less than six months per year; and
- employees younger than 21.

The top-paid group election applies only to the compensation test and does not affect whether an employee is an HCE under the 5 percent owner test. When making the top-paid group election, employees who are not HCEs because of the top-paid group determination are included in all coverage and nondiscrimination tests as NHCEs, unless they meet the 5 percent owner test.

The top-paid group election may only be used for HCE determination purposes and may not be used in the determination of key employees. (Syllabus Topic 4)

23. D The top-heavy ratio is determined by dividing the key employee balances by the total balances for all participants includible in the test. The numerator of the ratio is the total of the includible account balances for the key employees (\$205,000). The denominator of the ratio is the total of the includible account balances all key and non-key employees (\$205,000 + \$300,000) plus certain distributions.

In-service distributions made within the five-year period ending on the determination date (2012 - 2016) are included. Only non-key employees took in-service withdrawals during this period, thus the \$10,000 is included only in the denominator. Distributions made to terminated participants during the twelve-month period ending on the determination date are also included in the ratio if the terminated participants performed at least one hour of service during the plan year including the distribution date. In the example, the terminees who received distributions had no service during the 2016 plan year, thus, the \$7,000 is disregarded from the top-heavy ratio.

Values for former key employees (\$50,000) are disregarded for both the numerator and the

denominator of the ratio. The top-heavy ratio is $\$205,000 / (\$205,000 + \$300,000 + \$10,000)$ or $\$205,000 / \$515,000$. (Syllabus Topic 5)

24. D The top-heavy minimum must be satisfied with employer contributions and/or forfeitures. Employer contributions include nonelective profit sharing contributions, pension contributions and matching contributions. Even contributions used to help the employer pass the nondiscrimination testing including QNECs, QMACs, safe harbor nonelective contributions and safe harbor matching contributions may be used to satisfy the top-heavy minimum requirement.

Elective contributions are employee contributions and may not be used to satisfy a top-heavy minimum requirement. (Syllabus Topic 5)

25. C The minimum top-heavy allocation required is the lesser of: 3 percent of compensation for the entire plan year or the highest rate allocated to a key employee. Since the highest rate allocated to a key employee is 7%, Participant C's top-heavy minimum is 3% of total plan year compensation ($\$100,000$) or $\$100,000 * .03 = \$3,000$. (Syllabus Topic 5)

26. A Any qualified plan or SEP is subject to aggregation for top-heavy purposes. SIMPLE IRA or SIMPLE 401(k) plans are not subject to aggregation for top-heavy purposes, as they are both exempt from the top-heavy rules. If a SIMPLE 401(k) plan is later converted to a regular 401(k) plan or is replaced by another type of qualified plan, the converted or replaced plan would be includible in the required aggregation group if it covered a key employee. (Syllabus Topic 5)

27. C In order to satisfy the ratio percentage test under IRC §410(b), the plan's ratio percentage must be at least 70%. Only the 30 HCEs from Division B will benefit under the plan. The total number of HCEs from both divisions is 80 (50 from Division A + 30 from Division B). Thus, 37.50% of the HCEs are benefiting (30 benefiting HCEs / 80 total nonexcludable HCEs). Consequently, 26.25% of the NHCEs must benefit (70% of HCE benefiting ratio of 37.50% = 26.25%).

The total number of NHCEs from both divisions is 150 (100 from Division A + 50 from Division B). $26.25\% \text{ of } 150 = 39.38$. Round up to the next whole number to conclude that 40 of the NHCEs must benefit. These figures can be confirmed based on the coverage test worksheet:

	HCEs	NHCEs	Total
Coverage Testing Group	80	150	230
Benefiting Group	30	40	70
Coverage Ratio	$30 / 80 = 37.50\%$	$40 / 150 = 26.67\%$	
Ratio Percentage	$26.67\% / 37.50\% = 71.12\%$		

(Syllabus Topic 6)

28. C The Self-Correction Program (SCP) is a self-initiated correction program for resolving operational failures. Voluntary use of SCP may resolve significant violations and insignificant violations, but voluntary correction under SCP is available for only a limited period of time to fix a significant violation. SCP is also available for resolving insignificant operational failures that are discovered in an audit. If a qualification failure involves the diversion or misuse of plan assets, relief under SCP is not available. Thus, statement I is true.

The plan document need not be a pre-approved prototype document to qualify for relief under SCP. However, a qualified plan must satisfy the favorable letter requirement if the operational failure is a significant violation. The favorable letter requirement is satisfied if the plan has a favorable opinion letter, advisory letter or determination letter, depending upon the type of plan. (Syllabus Topic 1)

29. A Corrective amendments for coverage failures may be made up to 9½ months after the close of the plan year. This is sometimes called an 11(g) amendment. Some acceptable ways to correct coverage issues are to expand the group of NHCEs benefiting or to increase allocations to NHCEs. This is permissible whether the NHCEs are actively employed or terminated. However, a plan may not redistribute allocations that have already been made. A plan that fails the ratio percentage test under IRC §410(b) may correct the failure by simply satisfying the average benefits test, if it is able. (Syllabus Topic 6)

30. A Participants F and E are not eligible to receive an allocation for the plan year as they fail to meet the allocation conditions. Participant A's compensation must be limited to the IRC §401(a)(17) limit amount of \$270,000. Total includable compensation is \$525,000 (\$270,000 + \$150,000 + 55,000 + \$50,000). The profit sharing contribution is \$31,500 (\$525,000 x 6%). (Syllabus Topic 7)

31. C Plans are not required to use IRC §415 compensation when allocating employer contributions. (Syllabus Topic 7)
32. C IRC §415 limitations are applied to the annual additions allocated to the participant's account for the limitation year. Annual additions are:
- Employer contributions [including elective deferrals under a 401(k) plan, matching contributions and nonelective contributions];
 - Forfeitures allocated to the participant's account; and
 - Employee contributions (*i.e.*, after-tax employee contributions).
- Loan repayments, investment earnings and catch-up contributions are not included in annual additions. (Syllabus Topic 7)
33. E All of the statements regarding excess annual additions under IRC §415 are true. (Syllabus Topic 7)
34. E A common accrual requirement in a defined contribution plan is that the participant must satisfy a minimum hours-of-service requirement for the plan year. This minimum requirement may not exceed 1,000 hours. Because an hours requirement for allocation purposes is a plan design issue and is not required by statute or regulation to be in the plan, there is no legal rule that demands proration of the hours requirement for short plan year. Thus, a plan may impose a 501 or even 1,000 hours of service requirement during a short plan year in order for participants to receive a contribution allocation. (Syllabus Topic 7)
35. A The filing deadline for the Forms 5500, 5500-SF and 5500-EZ is the last day of the seventh month following the close of the plan year. Thus, for a plan year ending June 30th, Form 5500, without extension, is due January 31st. The maximum extension is 2½ months. For a terminated plan, the date on which final distribution of assets occurs ends the plan year for reporting purposes, creating a short plan year. The return is due on the last day of the seventh calendar month following that date, unless an extension is granted. (Syllabus Topic 11)
36. B The contribution deadline applicable to an LLC taxed as a corporation is 2½ months following the end of the plan year; in this example March 15, 2018. (Syllabus Topic 8)

37. C The deduction limit is 25% of eligible compensation or $\$2,000,000 * .25 = \$500,000$. Since \$50,000 of the deduction limit has already been used towards employer matching contributions, \$450,000 is the maximum deductible profit sharing contribution that may be made for the year ($\$500,000 - \$50,000$). (Syllabus Topic 8)
38. A Under the elapsed time method, hours of service are not counted and there are no eligibility computation periods to measure. Because an employee may attain a year of service regardless of the number of hours of service, the elapsed time method of crediting service is ineffective if the employer wants to exclude part-time or seasonal employees. (Syllabus Topic 3)
39. D Defined contributions are not subject to the minimum participation requirements of IRC §401(a)(26).
- A participant's accrued benefit is protected from assignment or alienation, however, there are some exceptions to the antiassignment rule such as participant loans and QDROs.
- The consistent failure of a plan to make RMDs under IRC §401(a)(9) could disqualify a plan. (Syllabus Topic 1)
40. B With a three-year cliff vesting schedule, participants are 0% vested in their first two years and achieve 100% vested after three years of service. Since the participant has only two years of vested service, the participant is 0% vested in all employer contribution accounts. Elective contribution and rollover accounts are always 100% vested. Thus, the participant's vested balance is \$14,000 ($\$10,000$ elective contribution balance + $\$4,000$ rollover balance). (Syllabus Topic 9)
41. D Based on a six-year graded vesting schedule, Participant A is 80% vested as of December 31, 2016.
- As of December 31, 2014 (the end of the plan year prior to terminating employment), Participant A was 60% vested. Participant A did not earn a year of vesting credit during 2015. As a full-time employee, Participant A would not have performed 1,000 hours of service between January 1, 2015 and March 14, 2015. It typically takes a full-time employee approximately six months to perform 1,000 hours of service.
- Participant A worked from May 1, 2016 through December 31, 2016. An eight month period is enough time for a full-time employee to work 1,000 hours. Thus, Participant A earned a year of vesting credit during 2016. The additional year raises Participant A's vested percentage from 60% to 80%. (Syllabus Topic 9)

42. D Certain years of service may be excluded in determining an employee's vesting percentage. These exclusions are **not** applicable unless explicitly specified in the plan document. These years that may be excluded include: (1) exclusion of service when the plan was not maintained (years of service prior to the effective date of the plan); (2) exclusion of service before the participant attained age 18; (3) exclusion of service because of break-in-service rules (i.e., years of service before a one-year break-in-service may be temporarily disregarded until after the participant completes another year of service, however, the one-year break-in-service rule does not affect an employee's vested percentage in the benefits already accrued); and (4) exclusion of years of service in a contributory plan in which participants declined to make mandatory contributions. (Syllabus Topic 9)
43. C Service to avoid a break in service need not be credited for employees suspended due to misconduct. (Syllabus Topic 9)
44. D The cash-out rules do not apply to in-service withdrawals. (Syllabus Topic 9)
45. A A plan is not required to provide for full vesting upon the total disability of a participant, although many plans do. (Syllabus Topic 9)
46. A Leased employees are not necessarily excludable employees for coverage testing. Coverage testing rules are applied by the recipient by treating the leased employees as part of the recipient employer's workforce. Thus, leased employees must be included in coverage testing unless they are excludable from coverage testing for another reason. (Syllabus Topic 6)
47. E Employees who have not met the plan's eligibility requirements may be excluded. Nonbenefiting participants who terminated with less than 500 hours of service may also be excluded since the plan has a last day requirement in order to receive a contribution.

Based on the coverage test worksheet:

Workforce during the plan year	100
Number who do not satisfy age/service	-15
Number nonbenefiting who terminated with less than 500 hours of service	-5
Nonexcludable Employees	80

(Syllabus Topic 6)

48. C Whenever the law changes, there is a period during which a practitioner may update the plan to conform to new qualification rules, without the plan being subject to disqualification in the interim. This period is called the **remedial amendment period**. Amendments during the remedial amendment period that will conform the plan to the legal requirements may be made retroactively effective as required by the law. Remedial amendment periods also apply whenever a new plan is adopted or amended. These remedial amendment periods permit the plan sponsor to submit the plan to the IRS for a favorable qualification letter and, if the IRS requires modification to the plan or amendment language, to make those changes retroactively. (Syllabus Topic 10)
49. D Not all optional forms of benefit are protected benefits. For example, annuity options may be eliminated anytime from a profit sharing plan or stock bonus plan without violating the anti-cutback rules. (Syllabus Topic 10)
50. A The final Form 5500 is filed for the year in which the assets have been completely distributed. In the interim, between the plan termination effective date and the final distribution of assets, regular filings must continue. (Syllabus Topic 10)
51. E Where applicable, Schedules C, G and H are included a Form 5500 filing for large plan filers only. These Schedules are not required for small plan filers. (Syllabus Topic 11)
52. E In order to qualify for filing Form 5500-SF, the plan must invest 100 percent of its assets in investments that have a readily ascertainable fair market value [e.g., mutual funds, investment contracts with insurance companies and banks valued at least annually, publicly traded securities (other than employer securities) held by a registered broker-dealer, cash and cash equivalents and/or plan loans] and must also meet the following requirements:
- The plan must generally cover fewer than 100 participants as of the first day of the plan year;
 - The plan holds no employer securities at any time during the plan year;
 - The plan must be eligible for the small plan audit waiver on the basis of its percentage of qualifying assets (i.e., the plan would not be eligible if it qualifies for the audit waiver because

of the enhanced fidelity bonding requirements); and
• The plan may not be a multiemployer plan. (Syllabus Topic 11)

53. D SIMPLE IRA plans are exempt from the Form 5500 filing requirements, but this exemption does not apply to a SIMPLE 401(k) plan. A SIMPLE 401(k) plan is still an employee pension benefit plan, like any other 401(k) plan, and must file the annual report.
- SEPs are exempt from Form 5500 reporting requirements as long as they provide participants with a copy of the model plan (or a copy of the SEP document if the plan does not use the IRS model SEP form) and certain other disclosure items. Governmental and nonelecting church plans are exempt from Form 5500 filing requirements. (Syllabus Topic 11)
54. D Although a plan may not file Form 5500-SF if it holds employer securities, a plan may qualify for the small plan audit waiver even if it holds employer securities. To be exempt from the audit requirement, a small plan filer must satisfy the following requirements:
- At least 95 percent of the plan's assets must be invested in qualifying plan assets or, if the 95 percent requirement is not satisfied, the assets that are not qualifying plan assets must be covered by a fidelity bond that is not less than the value of such assets; and
 - The summary annual report (SAR) (discussed later) must include additional information pertaining to the financial institutions involved in the holding or issuance of plan assets, and, if applicable, the surety company that issues the bonding necessary to comply with the additional bonding requirements. (Syllabus Topic 11)
55. A Discussing a specific participant's investment elections with an investment advisor unrelated to the plan is a violation of confidentiality without the participant's express consent to such discussion. (Syllabus Topic 12)
56. E Working for clients who have conflicting interests is acceptable if the member's ability to act fairly is unimpaired, full disclosure is made and both clients agree to continue the relationship. Refusing to provide conversion data to a client's new service provider is a violation of the "courtesy and cooperation" portion of ASPPA's Code of Professional Conduct. (Syllabus Topic 12)
57. B Failure to file Form 5500 may be resolved under the DOL's Delinquent Filer Voluntary Compliance (DFVC) Program. (Syllabus Topic 1)
58. E Pension plans (e.g., money purchase pension plans) do not permit hardship withdrawals. (Syllabus Topic 2)

59. D The ratio percentage is the NHCE ratio / the HCE ratio. (Syllabus Topic 6)

60. C A calendar year data election affects the calculation of the lookback year. If the election is made, the lookback year is the calendar year that begins in the 12-month period preceding the current plan year.

The calendar year data election applies only to determine the lookback year for the compensation test and does not apply to determine the HCEs under the 5 percent owner test. (Syllabus Topic 4)

61. C The question provides the number of nonexcludable HCEs, but the number of nonexcludable NHCEs must be determined. Of the 200 total NHCEs, only 100 met the eligibility requirements (200 total NHCEs – 50 NHCEs under age 21 – 50 NHCEs with less than one year of service). The HCE ratio is 60% (6 benefiting HCEs / 10 nonexcludable HCEs).

In order to pass the ratio percentage, 70% of the NHCEs, as compared to the percentage of HCEs must benefit. Since the HCE ratio is only 60%, only 42% of the nonexcludable NHCEs

must benefit to achieve a plan ratio percentage of 70% (60% HCE ratio x 70% = 42% needed NHCE ratio). 42% of the nonexcludable NHCEs is 42 (100 x 42%). (Syllabus Topic 6)

62. C The way the plan defines compensation for allocation purposes does not affect the way compensation is determined for calculating the deduction limit. It is possible for the two compensation definitions to be the same, but it is not required. For deduction purposes, compensation is determined based on the employer's tax year, even if different than the plan year. (Syllabus Topic 8)
63. B An employee is a key employee if:
they are a more than 5% owner;
they are a more than 1% owner and have compensation in excess of \$150,000 (This \$150,000 compensation requirement is not indexed for cost-of-living increases.); or
they are an includible officer satisfying the compensation test (\$170,000 for 2015 and 2016, increases to \$175,000 in 2017).
A company salesman who is neither an officer or an owner is not a key employee regardless of the amount of compensation the salesman earned. Compensation level alone will not make the employee a key employee. It is important not to confuse the key employee determination needed for top-heavy testing with the HCE determination needed for nondiscrimination testing. (Syllabus Topic 5)
64. C An employee is an HCE in 2017 if they are a more than 5% owner in 2016 or 2017, or if they earn more than \$120,000 in 2016. Employees A, B, C and D satisfy the ownership requirements. Employees A and C also satisfy the compensation requirement. Note, while Employee B is not a direct owner, Employee B is attributed ownership through marriage to Employee A. Employee E will not be an HCE until 2018 since compensation earned during the current plan year is not considered when determining HCE status. (Syllabus Topic 4)
65. A IRC §415 limitations are applied to the annual additions allocated to the participant's account for the limitation year. Annual additions are:
• Employer contributions [including elective deferrals under a 401(k) plan, matching contributions and nonelective contributions];
• Forfeitures allocated to the participant's account; and
• Employee contributions (*i.e.*, after-tax employee contributions).

Loan repayments, investment earnings and catch-up contributions are not included in annual additions. (Syllabus Topic 7)

END ANSWER KEY WITH EXPLANATION