

# ASPPA

## DC-2: Defined Contribution Administrative Issues – Compliance Issues 2008 Syllabus

### Course Overview:

Over the past 15 to 20 years, 401(k) plans have become an enormously popular plan design. These plans permit pre-tax retirement savings by both the employer and the employee. While these plans provide a great deal of flexibility when it comes to providing retirement plan benefits, they also have complex rules regarding plan qualification and nondiscrimination requirements.

This course begins with 401(k) basics like elective deferral limits and catch-up contributions and moves to coverage and nondiscrimination rules applicable to 401(k) plans. Candidates will learn how to correct failed ADP and ACP tests along with some of the more intricate rules associated with these nondiscrimination tests like double-counting limits and shifting techniques.

Candidates will also learn how to design a plan to avoid these nondiscrimination tests, the safe harbor 401(k) plan, and the many requirements applicable to such plans.

Along with the increase in 401(k) plans comes the clamor from participants to be able to direct their investments. Candidates will learn how compliance with ERISA §404(c) may help a fiduciary limit liability for investment choices made by participants.

Candidates will also be exposed to the different types of allocation methods and learn how different allocation methods satisfy nondiscrimination requirements. The emphasis here is on permitted disparity allocations but candidates will also see how non safe harbor plan designs may use general (rate group) testing to satisfy nondiscrimination. The course also covers cross-testing as a method of satisfying nondiscrimination requirements.

Of course, the ultimate goal of a qualified plan is to provide participants with retirement income. Candidates will learn about the various types of distributions, including participant loans, available to plan participants along with the taxation and reporting rules applicable to such transactions.

Finally, candidates will learn about the ASPPA Code of Professional Conduct and be able to identify ethical dilemmas that may be faced by retirement plan professionals.

### Study materials:

It is presumed that a candidate sitting for the DC-2 examination will have the knowledge of material covered in the Retirement Plan Fundamentals (RPF) examination series and the DC-1 examination. All required reading material is listed in each topic.

### Required Reading:

*Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition.* Arlington, VA: ASPPA.

### Exam:

The corresponding exam will include 65 multiple choice questions for which you will have 2½ hours to complete.

### Additional Information:

All candidates are encouraged to visit ASPPA's Candidate Corner ([www.asppa.org/candidate](http://www.asppa.org/candidate)) for this exam for additional information. It is the candidate's responsibility to check the ASPPA website for the most current information on examinations and publications. The Candidate Corner includes directions for contacting your nearest Prometric site to schedule examinations, exam windows and dates, helpful studying and exam hints, up-to-date information on regulatory limits and other helpful information. You may also contact ASPPA with questions at [educasppa@asppa.org](mailto:educasppa@asppa.org).

### DC-2 Webcourse:

ASPPA offers webcourses to assist candidates preparing for examinations. These webcourses are designed to address the most challenging topics covered on corresponding examinations. Online course sessions are approximately 50-60 minutes in length. The number of sessions depends on the course selected — ranging from five to six sessions. It is expected that webcourse registrants preparing for an examination thoroughly study the topics covered in the required reading for the corresponding examination – outlined in this syllabus. The webcourse sessions should not be used as a substitute for these materials. Visit [www.asppa.org/webcourses](http://www.asppa.org/webcourses) for more information.

## **Topic 1 – 401(k) Basics**

### Overview:

Retirement plan professionals are expected to know about the various types of contributions permitted in a 401(k) plan along with the special eligibility, vesting and distribution rules associated with 401(k) plans. Under this topic, candidates will learn the 401(k) basics including applicable limits on 401(k) elective deferrals, catch-up contributions, designated Roth contributions and how to make corrections when such limits have been exceeded.

### Learning Objectives:

The successful candidate will be able to:

- 1.01 Describe the various types of contributions permitted in a 401(k) plan.

- 1.02 Identify the eligibility, vesting, distributions and other conditions that apply to cash or deferred arrangements.
- 1.03 Discuss automatic enrollment and safe harbor automatic enrollment.
- 1.04 Determine the limits of IRC §§401(a)(30) and 402(g) to elective deferrals.
- 1.05 Calculate and correct excess deferrals and state how the timing of the correction affects the tax consequences of an excess deferral.
- 1.06 Identify catch-up eligible participants.
- 1.07 Identify situations that result in catch-up contributions.
- 1.08 Describe designated Roth contributions, how they are tested and how they are taxed.
- 1.09 List the distributable events as they pertain to elective deferrals, QNECs, QMACs and safe harbor contributions.

### Exam Weighting:

This topic will comprise approximately 10 to 12 percent of the exam questions.

### Required Reading:

Chapter 1: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

## **Topic 2 – 401(k) Coverage and Nondiscrimination**

### Overview:

Retirement plan professionals are expected to understand how qualified plans satisfy coverage and nondiscrimination requirements. Under this topic, candidates will learn about the coverage and nondiscrimination rules specifically applicable to 401(k) plans. Regarding coverage, these rules include mandatory disaggregation and differences in determining the testing group and benefiting group among the different components of a 401(k) plan. Regarding nondiscrimination, candidates will learn how the different types of contributions in a 401(k) plan are tested for nondiscrimination including which participants are included, the compensation used for testing and how the tests are performed.

### Learning Objectives:

The successful candidate will be able to:

- 2.01 Describe the mandatory disaggregation rules that apply to coverage testing of 401(k) plans.
- 2.02 Distinguish between participants in the testing group and the benefiting group with respect to elective deferrals and matching contributions for coverage testing purposes.
- 2.03 State the rules for testing nondiscrimination of elective deferrals, after-tax employee contributions and matching contributions.
- 2.04 Identify the types of contributions included in the ADP and/or ACP tests.

- 2.05 Identify which definitions of compensation may be used in the ADP and/or ACP tests.
- 2.06 Identify participants included in the ADP and/or ACP tests.
- 2.07 Distinguish between prior year and current year testing methods and explain the rules for changing from one method to another.
- 2.08 Perform the ADP and/or ACP nondiscrimination tests using the prior year testing method and the current year testing method.
- 2.09 Determine whether the ADP and/or ACP tests satisfy the nondiscrimination requirements.

Exam Weighting:

This topic will comprise approximately 12 to 14 percent of the exam questions.

Required Reading:

Chapter 2: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 3 – Correction of Failed ADP/ACP Tests**

Overview:

Retirement plan professionals are expected to know how to correct failed nondiscrimination tests in a 401(k) plan. Under this topic, candidates will learn the different ways to correct failed ADP and ACP tests, how to calculate corrective distributions, the timing and tax consequences associated with corrective distributions, making employer contributions to correct failed tests and various shifting techniques.

Learning Objectives:

The successful candidate will be able to:

- 3.01 List methods used to correct failed ADP and/or ACP tests.
- 3.02 Calculate the amount of excess contributions, excess aggregate contributions and applicable earnings adjustments.
- 3.03 Identify the timing and tax consequences of distributions of excess contributions and excess aggregate contributions including differences for automatic enrollment plans.
- 3.04 Describe the reporting of corrective distributions.
- 3.05 State how QNECs and QMACs are used to correct failed ADP and/or ACP tests.
- 3.06 State when and how shifting techniques can be used to correct failed ADP and/or ACP tests.

Exam Weighting:

This topic will comprise approximately 10 to 12 percent of the exam questions.

Required Reading:

Chapter 3: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 4 – Special Coverage and ADP/ACP Testing Rules**

Overview:

Retirement plan professionals are expected to understand intricacies in coverage and nondiscrimination rules applicable to 401(k) plans. Under this topic, candidates will learn about double-counting limits, permissive disaggregation and restructuring as it applies to ADP and ACP testing, otherwise excludable employees and the deemed three percent rule.

Learning Objectives:

The successful candidate will be able to:

- 4.01 Identify the double-counting limits when switching from current year to prior year testing.
- 4.02 Describe how permissive disaggregation or restructuring may be used to pass the ADP and/or ACP tests.
- 4.03 Identify otherwise excludable employees.
- 4.04 Describe the deemed three percent rule.

Exam Weighting:

This topic will comprise approximately 4 to 6 percent of the exam questions.

Required Reading:

Chapter 4: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 5 - Safe Harbor 401(k) and 401(m) Plans**

Overview:

Retirement plan professionals are expected to know about how qualified plans can be designed to avoid ADP and ACP testing. Under this topic, candidates will learn about these safe harbor 401(k) plans and the special requirements that apply to these plan designs.

Learning Objectives:

The successful candidate will be able to:

- 5.01 Identify the eligibility, vesting, distributions, notification and other conditions that apply to safe harbor 401(k) plans.
- 5.02 State the timing and content requirements for the 401(k) safe harbor notice.
- 5.03 Determine whether a contribution satisfies the ADP safe harbor requirements.
- 5.04 Determine whether a contribution satisfies the ACP safe harbor requirements.
- 5.05 Identify when a safe harbor 401(k) feature may be implemented or removed from a plan.
- 5.06 Describe how safe harbor contributions affect the top-heavy requirements.

Exam Weighting:

This topic will comprise approximately 7 to 9 percent of the exam questions.

Required Reading:

Chapter 5: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 6 - ERISA §404(c)**

Overview:

Increasingly, 401(k) plans are participant-directed, meaning the participants are making the investment decisions regarding their account balances. Retirement plan professionals are expected to know how ERISA §404(c) can help fiduciaries limit their liability for investment decisions made by participants. Under this topic, candidates will learn the conditions necessary for ERISA §404(c) compliance and be able to identify blackout periods where fiduciary liability is applicable.

Learning Objectives:

The successful candidate will be able to:

- 6.01 Describe the purpose of ERISA §404(c) and to what types of plans it applies.
- 6.02 Identify specific conditions that must be satisfied in order to be afforded ERISA §404(c) protection, including disclosures, investment diversification and frequency of investment changes.
- 6.03 Describe the scope of protection offered a plan that meets ERISA §404(c) and the limited protection available for employer securities.
- 6.04 Identify the information to be included on the required disclosures and the information to be provided to participants upon request.
- 6.05 Describe the timing and content requirements of both types of blackout notices.

- 6.06 Identify the types of investments and disclosure rules for qualified default investment alternative requirements.

Exam Weighting:

This topic will comprise approximately 5 to 7 percent of the exam questions.

Required Reading:

Chapter 6: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 7 - Allocation Methods**

Overview:

Retirement plan professionals are expected to know about the various types of allocation methods available to qualified plans. Under this topic, candidates will learn about different types of allocation methods, with an emphasis on permitted disparity allocations, and be able to identify design-based, nondesign-based and non safe harbor plan designs. In addition, candidates will learn about nondiscrimination testing requirements that apply to non safe harbor plan designs, including the concepts of cross-testing and general, or rate group, testing.

Learning Objectives:

The successful candidate will be able to:

- 7.01 List the conditions a defined contribution allocation method must satisfy to qualify as a safe harbor.
- 7.02 Distinguish design-based safe harbor allocations from nondesign-based safe harbors.
- 7.03 List the types of plans that may use permitted disparity.
- 7.04 Perform a contribution allocation using permitted disparity.
- 7.05 Describe the age-weighted allocation method.
- 7.06 Describe available options that a plan has to satisfy IRC §401(a)(4).
- 7.07 Describe the new comparability allocation method.
- 7.08 Describe the concept of cross-testing.
- 7.09 Define rate group testing and identify when it is utilized.
- 7.10 Identify rate groups.

Exam Weighting:

This topic will comprise approximately 14 to 16 percent of the exam questions.

Required Reading:

## **Topic 8 - Distributions**

### Overview:

Retirement plan professionals are expected to know about the various types of distributions applicable to qualified plans. Under this topic, candidates will learn about the different forms of distributions, spousal consent requirements, QJSA rules, hardship withdrawals and required minimum distributions.

### Learning Objectives:

The successful candidate will be able to:

- 8.01 Identify the different types of distribution forms (lump sum, annuity, installments) and the special rules applicable to each form.
- 8.02 Describe when spousal consent would be required for a distribution from a defined contribution plan.
- 8.03 Identify when a defined contribution plan must offer benefits in the QJSA form.
- 8.04 State the hardship withdrawal rules under the final 401(k) regulations.
- 8.05 Identify participants who must take required minimum distributions and when such distributions must begin.
- 8.06 Calculate the amount of a required minimum distribution.
- 8.07 Describe the elements of a QDRO.

### Exam Weighting:

This topic will comprise approximately 9 to 11 percent of the exam questions.

### Required Reading:

Chapter 8: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

## **Topic 9 - Taxation**

### Overview:

Retirement plan professionals are expected to know the tax implications of distributions from qualified plans. Under this topic, candidates will learn about eligible rollover distributions, penalties associated with premature retirement plan distributions, tax withholding and distribution reporting requirements.

### Learning Objectives:

The successful candidate will be able to:

- 9.01 Describe an involuntary distribution and any notification requirements to the participants.
- 9.02 State the tax implications applicable to eligible rollover distributions including exceptions to the 10 percent additional income tax on early distributions.
- 9.03 Identify the types of retirement plans between which distributions can be rolled over.
- 9.04 List the requirements that a distribution must meet to be classified as a lump sum.
- 9.05 Identify distributions that are eligible rollover distributions.
- 9.06 List the rules and penalties that apply to premature retirement plan distributions, including the exceptions to the general rules.
- 9.07 Identify distributions that are subject to mandatory federal income tax withholding.
- 9.08 Identify the reporting requirements for plan distributions, including the deadlines for filing Form 1099-R and Form 945.
- 9.09 Explain how the taxable portion of a distribution is determined when after-tax money is involved.
- 9.10 Explain the impact of distributions from designated Roth accounts.

Exam Weighting:

This topic will comprise approximately 9 to 11 percent of the exam questions.

Required Reading:

Chapter 9: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 10 - Participant Loans**

Overview:

Retirement plan professionals are expected to know the rules applicable to participant loans. Under this topic, candidates will learn the participant loan rules including calculating the maximum loan amount, refinancing rules and identifying deemed distributions. In addition, candidates will learn the tax consequences associated with participant loans.

Learning Objectives:

The successful candidate will be able to:

- 10.01 Describe the requirements for participant loans.
- 10.02 Calculate the maximum loan amount available to a participant.
- 10.03 Determine whether a refinancing request satisfies the requirements for qualified plan loans.

- 10.04 Identify distribution taxation issues affecting participants with loans with respect to lump sum distributions, loan offsets, deemed distributions, rollovers and tax withholding and loan amounts issued in excess of the maximum statutory amount.
- 10.05 Determine whether a loan must be treated as a deemed distribution and describe the reporting requirements.

Exam Weighting:

This topic will comprise approximately 5 to 7 percent of the exam questions.

Required Reading:

Chapter 10: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.

**Topic 11 - ASPPA Code of Professional Conduct**

Overview:

Retirement plan professionals have certain ethical duties owed to the plan sponsor and to the participants of the qualified plan. Under this topic, candidates will learn about the ASPPA Code of Professional Conduct.

Learning Objectives:

The successful candidate will be able to:

- 11.01 Demonstrate awareness of the provisions of the ASPPA Code of Professional Conduct.

Exam Weighting:

This topic will comprise approximately 1 to 2 percent of the exam questions.

Required Reading:

Chapter 11: *Defined Contribution Plans Volume 2: 401(k) Plans and Intermediate Administration Topics, 2<sup>nd</sup> Edition*. Arlington, VA: ASPPA.