Plan Sponsor Guide

Welcome to Definiti!

Thank you for choosing Definiti as your plan's third-party administrator.

Definiti ensures your retirement plan complies with federal law, IRS rules, Department of Labor (DOL) regulations and more. We perform any necessary nondiscrimination tests, complete Form 5500 annually (if applicable for your plan), determine who is eligible to receive a distribution from the plan, reconcile plan assets, confirm vested status of participants, prepare benefit statements and much more.

This guide will help you better understand the day-to-day tasks required to service your plan, the tasks you need to complete and the activities Definiti performs on your behalf to keep it compliant.

TOPICS COVERED

I. Retirement Plan Roles

There are several important roles that are required to administer a retirement plan, and each role is important to the plan's success. You'll find a review of each of the roles that typically participate in retirement plan administration here along with a brief description of the responsibilities that are included.

Plan Sponsor

A plan sponsor — usually a company or employer — sets up a retirement plan, such as a 401(k), for the benefit of the organization's employees. If you received this Plan Sponsor Guide, more than likely you're designated as the plan sponsor for your workplace retirement plan. Plan sponsors are responsible for some annual administration duties, including:

- Upload payroll contributions on time
- Provide accurate year-end census data
- Sign and date all documents, distributions, Form 5500s, etc.
- Deliver required participant notices

YOUR ROLE AS ERISA FIDUCIARY

It's important to note that a plan sponsor is also named a fiduciary of the retirement plan under the Employee Retirement Income Security Act of 1974 (ERISA), either by title or by completing some activities, like:

- Being named in the plan document (or being appointed) as a fiduciary
- Exercising discretionary authority or control over plan assets and/or the management of the plan

Every retirement plan must have at least one fiduciary named in the plan document (either a person or an entity). Typically, the plan sponsor is the named fiduciary. If you manage all or some of the duties outlined above as plan sponsor, then you are considered an ERISA fiduciary.

YOUR ROLE AS PLAN ADMINISTRATOR

Every retirement plan must have a plan administrator who is responsible for the day-to-day management of the retirement plan. Given the long list of responsibilities and liability risks, this administrative duty is often outsourced to a retirement services firm that offers third-party administrative services, like Definiti.

The plan sponsor is also a plan administrator.

Trustee

A trustee is the person or entity that makes investment decisions in the best interests of plan participants. A trustee is assigned by another fiduciary – often the employer or plan sponsor – and should be named in the plan documents. There may be additional restrictions that apply for a trustee.

Third-Party Administrator

Definiti is the third-party administrator (TPA) for your retirement plan. Definiti will explain your plan's provisions, consult with you to make sure that your plan fits your organization's goals, ensure your plan remains compliant with updated laws and regulatory changes, and perform all the nondiscrimination tests that apply to your plan each year.

This annual service also includes the following:

- Complete all required nondiscrimination tests
- Assist on failed tests that may require refunds or additional employer contributions
- Calculate employer discretionary or required plan contributions

- Prepare the annual government filing (Form 5500) with applicable schedules and the summary annual report
- Assist with plan amendments and plan design issues; review and process participant distributions, participant loans, hardships, in-service distributions and assist with Qualified Domestic Relations Orders (QDROS)
- Provide annual required notices (i.e., safe harbor notices)
- Vesting determination

The day-to-day tasks for your retirement plan will be performed by a Definiti Retirement Plan Consultant (or RPC). Your dedicated RPC can answer most of your questions about your plan or provisions as they are most familiar with your plan, plan design and objectives.

Financial Advisor

Your financial advisor (if applicable) is responsible for all questions concerning plan investments. They may work with plan trustees or retirement committees, as well as plan participants, to make sure that the funds available for investment in your retirement plan continue to represent the quality funds your participants deserve.

Financial advisors generally:

- Work with plan trustee(s) to monitor the performance of plan funds and develop an Investment Policy Statement
- Assist with, or handle plan enrollments
- Answer questions concerning investments

Recordkeeper

The recordkeeper processes the fund transactions for participants in your retirement plan. They also manage and track participant investments with your investment platform, such as mutual fund transfers, contributions by source type and process employee enrollments. In addition, recordkeepers:

- Provide secure online access for participants to access their account information
- Generate quarterly participant statements and deliver them to participants
- Handle most of the fee disclosure requirements to plan sponsors and participants

Participants

A participant is defined as an employee who is eligible to participate in the plan regardless of whether they contribute 401(k) deferrals to the plan. In addition, you may hear that a specific participant is known as a Highly Compensated Employee or a Key Employee.

HIGHLY COMPENSATED EMPLOYEE (HCE)

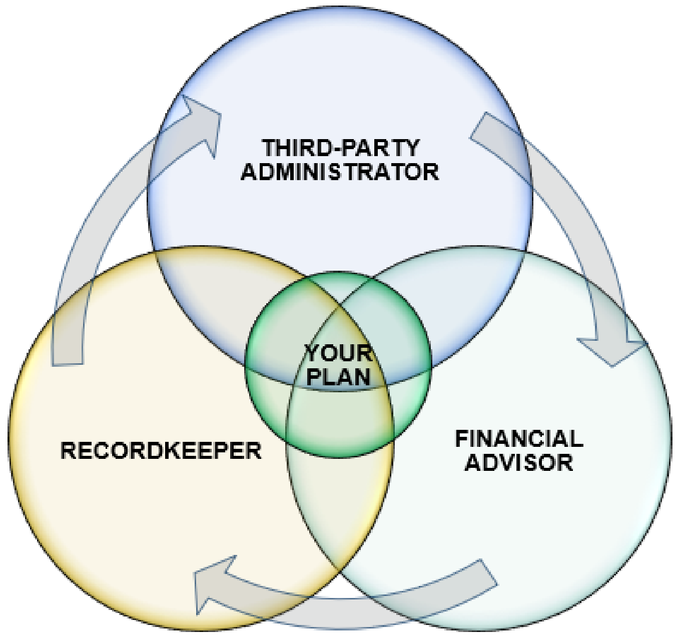
- A more than 5% Owner in the prior year
- Participants that earned more than the IRS-mandated compensation limit for the prior year as indexed (see Annual Compensation and Contribution Limits for Qualified Retirement Plans for the current year's amount). This may be subject to a 20% limitation in your plan document.

KEY EMPLOYEE

- A more than 5% Owner
- A more than 1% Owner with compensation more than the IRS-mandated compensation limit for the prior year (see Annual Compensation and Contribution Limits for Qualified Retirement Plans for the current year's amount)
- An officer with earnings in excess of the IRS-mandated compensation limit for the prior year (see Annual Compensation and Contribution Limits for Qualified Retirement Plans for the current year's amount)

How the Roles Work Together

Communication between Definiti, your financial advisor and the recordkeeper is essential to ensure your retirement plan is implemented correctly, managed appropriately, and remains compliant. These three roles coordinate responsibilities in service to your plan and the retirement plan participants.



II. What to Expect from Definiti

Retirement plans are subject to complex guidelines and rules. Regulatory changes, economic shifts and changing business dynamics can complicate efforts to keep your plan compliant, but Definiti is here to help.

Your Definiti RPC will assume many of the day-to-day tasks required to manage your retirement plan and keep it compliant with federal law, IRS rules and DOL regulations. Some of the tasks completed on your behalf include nondiscrimination testing, preparing a plan's Form 5500 (if applicable), determining who is eligible for distribution of their account balance, reconciling plan assets, confirming vested status of participants and preparing benefit statements. These administrative tasks take place each year Definiti administers your plan.

Talk with your RPC if you find you need more assistance in servicing your plan. Definiti may be able to provide additional support which could reduce the time you spend managing your plan.

Who should I contact?

FOR GENERAL SERVICE ON YOUR PLAN

During the implementation of your plan, your Implementation Specialist is your primary contact. Once your plan is fully implemented, it moves to the Administration Team and a Retirement Plan Consultant is assigned to manage your plan.

Your RPC is your first – and best – contact to answer general questions about your plan or provisions. They are most familiar with your plan, plan design and objectives. Each RPC is assisted by a larger team of administrative, compliance and legal experts who can also help.

FOR BILLING CONCERNS

You can direct any billing questions to billingteam@definiti.com, including invoices, payment status, ledgers and other billing concerns. A dedicated member of the Billing Team will review the request and respond with a resolution.

Invoices are typically generated quarterly for services provided during the previous quarter.

It may be helpful to know that the initial billing for new start-up plans includes any year-to-date base fees accrued as of the first day of the plan year.

If your TPA was recently acquired by Definiti, you may request an updated W-9 that reflects the DBA Definiti name for billing purposes.

FOR QUESTIONS ABOUT INVESTMENTS

Contact your financial advisor with questions about investments available under the plan or for assistance on investments that are appropriate for each plan participant.

FOR ISSUES WITH PAYROLL PROCESSING

Definiti does not provide payroll processing services. Questions about payroll should be directed to your payroll provider.

Definiti may offer payroll upload services for those plan sponsors who use specific payroll providers. This additional service may require a separate contract. Contact your Definiti Retirement Plan Consultant to see if this offering may be right for you.

III. Activities You'll Complete

While Definiti will manage many of the day-to-day tasks, you will need to complete a few annual or reoccurring administrative tasks for your plan. Your RPC is available every step of the way to answer questions and help you find what you need to complete these tasks.

Using PlanSponsorLink

PlanSponsorLink gives you easy and secure access to your plan information online and provides Definiti with up-to-date information for the accurate and timely service to your plan. You can easily access information on your plan at any time, compile necessary year-end data (like the plan census) and share confidential information that may be used for year-end valuations and preparation of compliance forms. You'll find your plan document, required notices as they are available and other resources that make it easy to work on your plan with Definiti.

The security of your plan data is our highest priority and Definiti's PlanSponsorLink gives us the ability to share data, documents and other plan information with you in an easy-to-use online environment. This portal is the best way to store plan materials securely. Through PlanSponsorLink, you can safely share plan files with others in your organization, with your Definiti RPC, and your financial advisor.

GET STARTED WITH PLANSPONSORLINK

- Visit https://definiti.plansponsorlink.com and choose "First Time User".
- Enter your email address, and a temporary password will be emailed to you to login for the first time. Then you'll be prompted to choose a unique password for your account.

We've prepared a video to show you how to use PlanSponsorLink. You can watch the video here.

Remember, your RPC can answer questions about PlanSponsorLink if you need help. Please be aware that not all the information stored in PlanSponsorLink may not be immediately available to your Financial Advisor or CPA.

Deliver Participant Notices and Summary Plan Descriptions

Throughout the year, you may be required to distribute plan notices to active or eligible participants. Definiti will generate these notices for your plan and make them available to you within PlanSponsrLink. You'll need to log in to PlanSponsrLink and download notices. To keep your plan data secure, Definiti will not email notices or Summary Plan Descriptions to you. Your RPC can give you more details about each of these notices and why they are required.

PARTICIPANT NOTICES

- **Safe Harbor Notice.** Plan sponsors should distribute a notice of intent to use a safe harbor formula each plan year. This notice must be provided to participants and plan beneficiaries no less than 30 days, but not more than 90 days, before the beginning of the plan year for which the election will apply.
- **Qualified Default Investment Alternative (QDIA) Annual Notice.** Regulations require a plan utilizing a default investment option issue an annual notice to all active participants, former employees with account balances, and plan beneficiaries who were previously defaulted into the QDIA and who have not subsequently directed the investment of their account. The notice must be delivered no less than 30 days prior to the beginning of the plan year.
- **Automatic Contribution Arrangements (EACA or QACA).** If a plan offers either an eligible or qualified automatic contribution arrangement, commonly referred to as auto-enrollment, the employer must provide a notice explaining election options under the plan to all employees who are eligible to participate no less than 30 days, and no more than 90 days, prior to the beginning of each plan year.

- **Summary Plan Description (SPD).** The SPD summarizes the more significant provisions of the plan document in language that an average participant can understand. It is required to be distributed to new participants within 90 days after becoming eligible for the plan.

For active participants, we suggest that you distribute notices via hand delivery or postal mail. For employees who use email as part of their regular job duties, electronic delivery may be appropriate. Keep in mind that if you distribute notices electronically, the cover email should include language indicating that a paper copy of the notice is available at no charge.

For terminated participants with a balance in the plan, we suggest that you send the notice via first-class mail.

Requesting Withdrawals, Distributions or Loans

Retirement plan money is held in a trust account, which does not operate the same way as a bank account. Because of this difference, withdrawals from a retirement plan take more time to process than withdrawals from a bank account.

Withdrawals may be in the form of loans, hardships, in-service distributions or distributions upon termination of employment. Definiti may also assist with Required Minimum Distributions (RMD) and executed Qualified Domestic Relations Orders (QDRO).

The timing and process for a withdrawal is dependent upon whether money is held in a pooled or self-directed brokerage account or with a recordkeeper. In some cases, the year-end accounting (valuation) may need to be completed before funds can be distributed to a terminated participant. This detailed process can take some time to complete the request.

Account balances held by a recordkeeper take approximately 7-10 days to process if everything is in good order. The withdrawal request can, in most cases, be done online. Regardless of the account type or recordkeeper, the plan sponsor or a trustee must approve the withdrawal.

Request DOL Signing Credentials for Form 5500

Now that your company has adopted a tax-qualified retirement plan, you will be given a Form 5500 to sign and file each year. It is due on the last day of the seventh month following the close of the plan year. While the form looks like an IRS form, the information reported on the form is automatically shared with the DOL, the IRS and the Pension Benefit Guaranty Corporation (PBGC) by the electronic system that captures the data. This system is known as the ERISA Filing Acceptance System (EFAST2) and is funded and managed by the DOL.

With EFAST2, a Form 5500 can be prepared and submitted (referred to as a “transmission”) by a third-party preparer, **but it must be “signed” electronically by the plan administrator**. Any form not signed electronically by the plan administrator may be rejected and subject to civil penalties. Third-party preparers, like Definiti, cannot register for filing signer credentials on behalf of their clients; rather, the person signing electronically must be the person registering for credentials.

HOW TO REQUEST DOL SIGNING CREDENTIALS

Follow the steps below to acquire your signing credentials for Form 5500:

1. Visit http://www.efast.dol.gov and click Register. Be sure to read and sign the Privacy Statement.
2. Complete your Profile and be certain to only select “Filing Signer” as your User Type.
    a. Select a Challenge Question and enter the answer. This will be used later to retrieve your User ID and PIN if you forget what it is.
    b. Confirm your Profile information and click “Submit” to continue.
    c. If you have provided valid Profile information, you will be taken to a “Register - Confirmation” screen where you will be instructed to check your email to complete the registration process.
3. To confirm your account, follow the link provided in the confirmation email and answer the Challenge Question you created earlier.
4. Sign the PIN Agreement and accept the Signature Agreement

IV. Compliance Matters

Keeping your plan compliant is a shared goal for you and your Definiti Retirement Plan Consultant. While your RPC will remind you of important dates and which tasks should be completed, there are a few things to keep in mind as you start your retirement plan.

Deposit Employee Deferrals on Time

It is vitally important that you deposit all plan contributions correctly and on time. The DOL considers you guilty of using employee deposits for business purposes if deposits are not made when required.

Do not risk an audit, fines or penalties because of late deposits. You may also risk potential lost earnings for plan participants if deposits are late. Make sure you deposit plan contributions into the correct source account (i.e., deferral, Roth, match, safe harbor match, profit sharing and safe harbor nonelective 3%).

The deposit rules are simple:

- If you have a **Small Plan** (less than 100 participants) deposit all money in the Trust within **seven business days from being withheld.**
- If you have a **Large Plan** (100 or more participants) - make deposits **as soon as administratively feasible after they are withheld.**

! Purchase a Fidelity Bond

Qualified retirement plans **must** purchase a fidelity or "honesty" bond. Check with your business insurance agent about issuing a bond for your plan.

- The bond must cover all persons who handle plan assets, contributions or funds.
- The amount of the bond must be equal to at least 10% of the value of plan assets (minimum $1,000).
- Plans that invest 5% or more of their assets in "non-qualifying assets" (limited partnerships, coins, diamonds, works of art, etc.) must carry a fidelity bond in an amount equal to 100% of the value of the plan's assets or be subject to a plan audit.

Note: A "one-participant plan" or a plan that covers only the sole owner of the sponsoring business and his or her spouse, or partners in the sponsoring partnership and their spouses, is not subject to ERISA**.** Therefore, a "one-participant plan" does not require a bond.

A "one-participant plan" immediately becomes subject to ERISA if **anyone** else meets the plan's eligibility requirements. The plan would then be subject to the ERISA and you'll need to purchase a fidelity bond.

For those plans whose assets grow rapidly, ask your insurance agent about an inflation guard rider. If you need a referral, contact your RPC.

HOW DO I OBTAIN AN ERISA FIDELITY BOND?

Colonial Surety Company is a national online insurance company that is U.S. Treasury listed and licensed in all states and territories. As experts in all aspects of ERISA regulations, Colonial Surety Company will ensure that you are properly bonded and that your bond is renewed prior to expiration so that your plan remains in compliance.

Use the below link to obtain the ERISA Fidelity Bond:

https://quote.colonialsurety.com/login/register_plan_sponsor?ref=TX0600

Schedule Annual Audits for 100+ Participant Plans

Generally speaking, if your plan has more than 100 participants at the beginning of the plan year then it is considered a large plan, and it must be audited by an independent audit firm every year. Keep in mind that active employees who are eligible to participate in the plan as well as terminated employees who maintain a balance under the plan are both considered plan participants and should be included in the participant count.

- The plan audit report is required along with the submission of Form 5500 that is filed annually.
- If a plan audit is required and the audit is **not** attached to your Form 5500, then your filing is incomplete. The same penalties for not filing your Form 5500 can apply to an incomplete return.

Remember to contact your audit firm every year to schedule your audit prior to your Form 5500 due date. Call your auditor shortly after the close of the plan year to schedule the plan audit to allow the auditor sufficient time to complete the audit prior to the due date of your Form 5500. **Let your RPC know when you schedule your audit so they can provide any necessary support to the auditor.**

Important Plan Year Dates

There are several important compliance activities that must be completed for your plan each year. The table below contains a condensed list. Refer to the Annual Compliance and Notice Requirements and Annual Compensation and Contribution Limits for Qualified Retirement Plans for a more complete listing.

Calendar year plan dates are shown in red.

ADP Discrimination Testing Refund Deadline March 15	Corrections are due two and a half (2½) months after the plan year end. Employee deferral and employer matching contributions must pass specific ratio test or refund money may be issued to some participants
Filing Deadline for Form 5500 July 31 or, if extended, October 15	Due seven (7) months after the last day of the plan year; a two and a half (2½) month extension may be requested by filing Form 5558
Summary Annual Report (SAR) September 30 or, if extended, November 30	Distribute to participants within nine (9) months after the close of the plan year
Plan Audit - Plans with 100+ participants July 31 or, if extended, October 15	Must be filed with Form 5500

Required Notices

Calendar year plan dates are shown in red.

Fee Disclosure December 1	60 days after the beginning of each plan year
Safe Harbor Notice for Nonelective 3% Plan, and/or Investment Change Notice December 1	30 to 90 days prior to the beginning of each plan year

Safe Harbor Notice for Safe Harbor Match Plan December 1	30 to 90 days prior to the beginning of each plan year
Auto-Enroll Notices (if applicable)	30 to 90 days prior to the beginning of each plan year

Distribute New Participant Notices

Some of the items below may be included in a New Hire Packet based upon the eligibility requirements of your plan.

***NOTE:** If you have selected The Fiduciary Studio as a 3(16) Administrator on your plan, the Summary Plan Description and Safe Harbor Notices will be distributed for you.

Summary Plan Description* (SPD) 90 days following enrollment	SPDs must be furnished to each participant and beneficiary no later than 90 days after becoming a participant
Safe Harbor Notice* (if applicable) 30 days before eligible	30 to 90 days prior to a participant's initial eligibility
Enrollment Kits (if available) 30 days before eligible	Please notify your investment platform for a current enrollment kit (may have online capabilities)
Auto-Enroll Notices (if applicable)	Initial notice must be provided as soon as administratively feasible prior to the participant entering the plan
Fee Disclosure 30 days before eligible	Initial notice must be provided as soon as administratively feasible prior to the participant entering the plan

V. Key Terms

You may hear some of these key terms during conversations with your Definiti Retirement Plan Consultant. The key terms and definitions listed here should help you understand some of the more complex functionality associated with your retirement plans. It is possible that recent regulatory updates or legislative changes may be more current than what is listed here, so check with your Retirement Plan Consultant when you have questions.

ADP/ACP NONDISCRIMINATION TEST

A test which compares the actual deferral percentage (ADP), and the actual contribution percentage (ACP) of the highly compensated employees (HCEs) to the nonhighly compensated employees (NHCEs) in a 401(k) plan. The average percentages of the highly compensated group must stay within certain limits of the nonhighly compensated group to pass testing.

AFFILIATED SERVICE GROUP

An affiliated service group is one type of group of related employers and refers to two or more organizations that have a service relationship and, in some cases, an ownership relationship, described in Internal Revenue Code (IRC) section 414(m). One example of an affiliated service group would be a doctor who has ownership in a surgery center and regularly performs surgery there. If you think this type of situation may apply to your organization, ask your RPC.

ANNUAL ADDITIONS

Term used in connection with the limitation (IRC §415) on the contributions that may be made for or by the participant in a defined contribution plan. It includes employer and employee contributions as well as forfeitures which are allocated to a participant.

CASH BALANCE PLAN

A cash balance plan is a defined benefit plan that defines the benefit in terms that are more characteristic of a defined contribution plan. In other words, a cash balance plan defines the promised benefit in terms of a stated account balance.

CENSUS

An employee census contains information about participants in your retirement plan. It consists mainly of participants' personal and contact information, as well as employment and contribution records. TPAs and Recordkeepers may ask for different data in a census.

The census information a sponsor prepares falls into these four categories:

1. Employee data, such as first and last name, date of birth, Social Security number, hire date, termination date, rehire date (plus a complete employment history if there are multiple rehire dates) and hours of service.
2. Compensation data, including gross compensation, compensation earned before the employee became a participant and any excluded compensation. (The plan document should outline the exclusions.)
3. Contribution data includes the deferral amount the employee contributed to the plan and whether they are pre-tax or Roth deferrals, as well as any employer contributions deposited during the year.
4. Plan sponsor-specific data — for example, company ownership percentages and any officers and family members working for the company.

COLLECTIVELY BARGAINED PLAN

Plans that provide retirement benefits under a collective bargaining agreement. Generally, if more than one employer is required to contribute to the plan, it is treated as a multi-employer plan, subject to special rules.

COMPENSATION

The amount of wages, salary or income an employee receives from services performed for the employer.

CONTRIBUTION
The amount which is deposited into a plan to fund retirement benefits.

CONTROLLED GROUP
- A Parent-Subsidiary Controlled Group exists if a company (parent) holds 80% or more of the stock in a second company (subsidiary). If the subsidiary is also a parent, the original parent is deemed to be the parent of both.
- A Brother-Sister Controlled Group exists if two or more companies are owned and are under the “effective control” of five or fewer common owners (Individuals, Estates and Trusts) who have a “controlling interest.”

Important Note: Family Attribution of Stock Ownership applies for the purpose of determining Brother-Sister Controlled Group Status. If any owner, their spouse or their children own stock in any other company (other than the sponsor of this plan), please contact our office for assistance on these rules.

It is possible to be a member of both types of Controlled Groups.

CORRECTIVE DISTRIBUTION
A distribution of an excess aggregate contribution, excess deferral or excess contribution. Normally used in conjunction with a 401(k) plan which does not pass the ADP or ACP test.

COVERAGE TEST
The test under IRC §410(b) which determines whether the minimum required percentage of nonhighly compensated employees is covered (benefit under) by the plan. Either the Ratio Percentage Test or the Average Benefit Test must be met to satisfy the coverage test.rm

DEDUCTIBLE CONTRIBUTION
The amount which an employer can contribute to the plan and use as a tax deduction. Deductible contributions are limited under IRC §404.

DEFAULT INVESTMENT
The fund or family of funds that have been selected for the plan to be used when participant contributions are remitted to the trust without investment directions from the participant. The decision to select this fund or funds should be well-documented along with the factors that were considered when making this decision. The plan’s Default Investment should be regularly reviewed to ensure that it is still a prudent selection.

DEFINED BENEFIT PLAN
An employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.

DEFINED CONTRIBUTION PLAN
A plan that provides an individual account for each participant in which benefits are based solely upon the amount contributed to the account, plus or minus any income, expenses, gains and losses allocated to the participant.

DEPARTMENT OF LABOR (DOL)
The government agency, which enforces Title I of ERISA. Title I is concerned with the rights of employees and plan participants. The DOL administers the non-tax (regulatory and administrative) provisions of ERISA.

DISCRIMINATION
Loss of qualified (tax-favored) status by a plan, generally resulting from operation of the plan in a manner that is contrary to the provisions of the plan or that discriminates against the nonhighly compensated employees.

ELECTIVE DEFERRAL
A contribution to a 401(k) plan made pursuant to an employee’s election to have such contribution made in lieu of receiving cash. Also, may be referred to as salary deferral or employee deferral.

ELIGIBILITY REQUIREMENTS

The conditions that an employee must satisfy to be eligible to participate in a retirement plan. Usually comprised of an age and/or service requirement.

ENTRY DATES

The date(s) during the plan year on which employees that have satisfied eligibility requirements can enter the plan and begin to earn benefits or receive contributions.

ERISA

Employee Retirement Income Security Act of 1974. This is the basic law covering qualified plans and is designed to protect the interests of plan participants.

EXCLUSIVE BENEFIT RULE

The standard that requires plan fiduciaries to act solely in the interest of plan participants and their beneficiaries. The plan must be operated for the exclusive purpose of providing benefits to the participants and beneficiaries.

FAMILY MEMBER

For determination of highly compensated employee (HCE) status, a family member includes the HCE's spouse and lineal descendants and ascendants and their spouses.

FIDUCIARY

Any person (individual or corporation) who exercises discretionary authority or control over the management or disposition of plan assets.

FIVE PERCENT (5%) OWNER

Any person who owns, directly or indirectly, more than 5% of the stock of the employer. If the employer is not a corporation, the ownership test is applied to the person's capital or profits interest in the employer. A 5% owner is both a key employee for top-heavy testing purposes and a highly compensated employee for discrimination testing purposes.

§415 LIMIT

The limit on the amount of retirement benefit which can be provided to a participant in a defined benefit plan or the limit on the additions of contributions and forfeitures to a participant's account in a defined contribution plan.

FUNDING DEFICIENCY

If less than the required minimum contribution (see Minimum Funding, below) is actually contributed, this is the difference between the actual contribution and the amount that is required to be contributed under the minimum funding standards. The employer is assessed a 10% excise penalty tax on the amount of the funding deficiency.

HARDSHIP WITHDRAWAL

A hardship withdrawal is an emergency removal of funds from a retirement plan, sought in response to what the IRS terms "an immediate and heavy financial need." This type of special distribution may be allowed without penalty from such plans as a traditional IRA or a 401(k), provided the withdrawal meets certain criteria regarding the need for the funds and their amount.

HIGHLY COMPENSATED EMPLOYEE (HCE)

An employee who is or was one of the following:

1. A 5% owner (or family members of 5% owners) during the year or the look back year (generally the prior year), or
2. Receives compensation in excess of $80,000 in the prior year, as indexed (see Annual Compensation and Contribution Limits for Qualified Retirement Plans for the current year's indexed amount), and, at the election of the employer, is a member of the top-paid group during the prior year.

INVESTMENT POLICY STATMENTMENT

An investment policy statement (IPS) is a document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance and liquidity requirements are included in an investment policy statement.

KEY EMPLOYEE

An employee who, any time during the plan year, is or was one of the following:

1. An includible officer who received compensation in excess of $150,000, as indexed *(see Annual Compensation and Contribution Limits for Qualified Retirement Plans for the current year's indexed amount)*,
2. A 5% owner (or family members of 5% owners), or
3. A 1% owner having annual compensation from the employer greater than $150,000 (or family members of 1% owners having annual compensation from the employer greater than $150,000).

Identification of key employees under a plan is necessary for determining whether the plan is "top heavy."

LOOKBACK YEAR

For purposes of determining Highly Compensated Employees, the lookback year is generally the prior year.

LUMP-SUM DISTRIBUTION

The distribution or payment within a single tax year of a plan participant's entire balance from all of the employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus plans). Additionally, a lump-sum distribution is a distribution that's paid:

- Because of the plan participant's death,
- After the participant reaches age 59½,
- Because the participant, if an employee, separates from service, or
- After the participant, if a self-employed individual, becomes totally and permanently disabled.

MATCHING CONTRIBUTION

An employer contribution in a 401(k) plan which is based on the amount an employee contributes to the plan as an elective deferral.

MINIMUM FUNDING

The minimum amount that must be contributed by an employer under the terms of a defined benefit, money purchase or target benefit plan under IRC §412.

MULTIPLE EMPLOYER PLAN (MEP)

A retirement plan to which two or more unrelated employers contribute, without involvement of a labor union.

MULTI-EMPLOYER PLAN

A plan maintained under a collective bargaining agreement that covers the employees of more than one employer. Generally, the various employers are not financially related, but rather are engaged in the same industry.

NONDISCRIMINATION TESTING

Tests designed to ensure a qualified retirement plan does not discriminate in favor of highly compensated employees.

NONHIGHLY COMPENSATED EMPLOYEE (NHCE)

An employee who is not a Highly Compensated Employee.

NONKEY EMPLOYEE

An employee who is not a Key Employee.

OFFICER

An administrative executive who is in regular and continued service.

ONE PERCENT (1%) OWNER

An employee who owns more than 1% of the stock, capital or profits of a business. A 1% owner (or family members of 1% owners) with annual compensation of more than $150,000 will be a key employee for top-heavy determination purposes.

PARTICIPANT

An employee who has satisfied the plan's eligibility requirements and has entered the plan.

PARTY-IN-INTEREST

An individual or entity, including:

- a fiduciary, counsel or employee of the plan,
- an individual providing services to the plan,
- an employer whose employees are covered by the plan,
- an employee organization whose employees are covered by the plan,
  an owner of at least 50% of a business whose employees are covered by the plan,
- an entity controlled by a party-in-interest,
- an employee, officer, director or 10% owner of a party-in-interest, or
- a relative of the first three categories.

If a "party-in-interest" engages in a transaction with the plan, it may be a "prohibited transaction."

PLAN ADMINISTRATOR

A person or company responsible for managing a retirement fund or a pension plan on behalf of its participants and beneficiaries. The plan administrator is tasked with ensuring the funds are properly collected and distributed to all qualified participants.

PLAN YEAR

The calendar, policy or fiscal year on which the records of the plan are kept. Although short plan years are permitted in some limited situations, a plan year is generally the 12-month period that was established when the plan became effective.

PROHIBITED TRANSACTION

Specified transaction that may not be entered into (directly or indirectly) by a party-in-interest with the plan. Those include, for example, sales or exchanges, leases and loans between the parties.

PRUDENT PERSON RULE

The standard which requires plan fiduciaries to act with the same care, skill, prudence and diligence as an expert or prudent person familiar with such matters.

QUALIFIED DEFAULT INVESTMENT ALTERNATIVE (QDIA)

A QDIA offers a degree of additional protection to Plan Fiduciaries. A Default Investment (see definition above) may be granted QDIA status if it satisfies these requirements:

1. Fund is one of the following:
   a. A risk-based allocation fund that was prudently selected based on the demographics of the plant,
   b. A family of funds that adjust risk levels based on the participant's expected retirement date. Commonly referred to as "Target Date" funds, or
   c. A managed portfolio with investments directed by a financial professional.
2. Participants are provided a notice prior to their funds being deposited into the QDIA and at least annually thereafter.

QUALIFIED PLAN

A plan that meets the requirements of the IRC §401(a) and, therefore, provides special tax considerations to the plan sponsor, the trust and the plan participants.

REQUIRED MINIMUM DISTRIBUTION (RMD)

The amount of money that must be withdrawn from an employer-sponsored retirement plan, traditional IRA, SEP or SIMPLE individual retirement account (IRA) by owners and qualified retirement plan participants of retirement age.

ROLLOVER

May include a number of actions, most popularly the transfer of the holdings of one retirement plan to another without creating a taxable event.

ROTH DEFERRAL

The compensation that a participant redirects into a 401(k) plan. Roth deferrals are after-tax employee contributions.

SALARY DEFERRAL

The compensation that a participant redirects into a 401(k) plan. Salary deferrals are employee contributions.

SUMMARY ANNUAL REPORT (SAR)

A report to plan participants containing basic financial information of the plan, minimum funding information, and a statement of a participant's right to additional information. This report must be provided to the participant each year.

SUMMARY PLAN DESCRIPTION (SPD)

A "plain English" description of the provisions of a retirement plan. An SPD must be provided to all plan participants within specified time frames.

TOP-HEAVY MINIMUM

The minimum contribution in a defined contribution plan (generally 3% of compensation) which must be provided to non key employees in a qualified plan that is top heavy.

TOP-HEAVY PLAN

A plan in which key employees hold more than 60% of the plan's assets. A top-heavy plan must satisfy additional requirements including minimum contributions in a defined contribution plan and minimum vesting requirements.

TOP-PAID GROUP

The top 20% most highly paid employees of the employer. To use the top-paid group limitation, the sponsor of a plan that contains a specific HCE definition must amend the plan to show that the top-paid group election has been made.

TRUST

A fund established under trust law to hold and invest the assets of the plan.

TRUSTEE

A person, firm or corporation responsible for managing the trust's assets.

VESTED BENEFIT

The portion of a participant's benefit that is non-forfeitable according to the vesting schedule of the plan.

VESTING

The extent to which a participant is entitled to plan benefits upon termination of employment. Vesting is based upon a participant's length of service and the vesting schedule is specified in the plan document.

YEAR OF SERVICE

A 12-month period during which an employee either works a specified number of hours (generally 1,000 hours) or is continuously employed.