



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.

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 STATEMENT

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 \$130,000, 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 plan,
 - 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.

NOTE: The existing law and regulations currently in effect will govern any contradiction between what is presented here and actual law and/or government regulations.

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