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

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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.

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Additional resources such as the Abbreviation List, IRC Sections and 3-year COLA summary that will be provided during the actual examination can be found on the ASPPA Study Guide References & Errata webpage at www.asppa-net.org/errata.

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2017 DC-1 Practice

Question 1:

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 2:

All of the following are considered key employees, EXCEPT:

A. A 2% owner earning $200,000
B. A 25% owner who is an officer
C. A 0.5% owner earning $180,000
D. A 50% owner earning $10,000
E. A 4% owner earning $400,000

Question 3:

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 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 maximum deductible contribution for the following profit sharing plan for 2016:

- The plan was effective January 1, 2016.
- The plan has a nonintegrated allocation formula.
- The employer sponsors no other plans in 2016.
- The IRC §401(a)(17) compensation limit in 2016 is $265,000.

Eligible Participants	2016 Compensation
President	$350,000
Employee A	$ 50,000
Employee B	$ 30,000

A. $46,000
B. $51,000
C. $77,500
D. $86,250
E. $107,500

Question 6:

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

A. Seasonal employees who work only 6 months each year

B. Nonresident aliens with no earned income from sources within the United States

C. Employees covered by a collective bargaining agreement where retirement benefits are the subject of good faith bargaining

D. Employees who do not satisfy the age and service requirements of the plan

E. Nonbenefiting participants who terminated with fewer than 500 hours of service

Question 7:

All of the following statements regarding the IRS submission process are TRUE, EXCEPT:

A. The submission cycle for individually designed plans is once every seven years.

B. Form 2848 must be included in the submission process unless the submitting individual is the plan sponsor.

C. The IRS issues a Revenue Procedure each year outlining the determination letter process.

D. CPAs qualify as designated representatives on Form 2848.

E. The submission cycle for pre-approved plans is once every six years.

Question 8:

All of the following plans are subject to top-heavy rules, EXCEPT:

A. SIMPLE IRAs

B. Profit sharing plans

C. SEPs

D. Money purchase plans

E. Target benefit plans

Question 9:

All of the following statements regarding characteristics of defined contribution plans are TRUE, EXCEPT:

A. Actuarial certifications are never required.

B. The employer bears the risk of investment gain/loss.

C. Individual participant account balances must be maintained.

D. Forfeitures may be used to reduce employer contributions.

E. Annual additions are limited to the lesser of 100% of compensation or $40,000, as indexed.

Question 10:

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

- The eligibility requirements are three months (elapsed time) and the attainment of age 21.
- The entry date is the earlier of January 1st or July 1st following the date the eligibility requirements are satisfied.
- Employee A's date of birth is July 19, 1971.
- Employee A began working part-time on March 15, 2014.
- Employee A became a full-time employee on August 6, 2015.

A. June 15, 2014

B. July 1, 2014

C. March 15, 2015

D. November 6, 2015

E. January 1, 2016

Question 11:

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

I. The plan may use a short plan year as an eligibility computation period.

II. The intial eligibility computation period must begin on an employee’s employment commencement date.

III. The eligibility computation period may be defined as the 12-month anniversary period following the first computation period.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II, and III

Question 12:

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 13:

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

A. A plan may exclude employees from participating in the plan once they have reached age 70 1/2.

B. A 401(k) portion of a plan may not require more than one year of service for eligibility purposes.

C. A plan may not exclude a group of employees as a classification if they are defined on the basis of a customary work schedule, such as "part-time".

D. A money purchase plan may require two years of service for eligibility.

E. A plan may impose a different set of age and service requirements for different contribution features of the plan.

Question 14:

All of the following types of service must be credited to a participant in order to avoid a break in service, EXCEPT:

A. Unpaid employer-approved personal leave

B. Family and Medical Leave

C. Military service

D. Unpaid maternity leave

E. Unpaid paternity leave

Question 15:

Which of the following is/are amendments that may affect the ability of a participant to continue plan participation prospectively?

I. Amend the service requirement for eligibility

II. Amend the age requirement for eligibility

III. Amend to exclude a class of employees

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 forfeitures in a defined contribution plan is/are TRUE?

I. Forfeitures allocated on the basis of account balances may be discriminatory.

II. Forfeitures may not be reallocated to other participants until a one-year break in service has occurred.

III. Forfeitures that are reallocated are deductible as an employer contribution each plan year.

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

Question 17:

Based on the following information, determine the HCEs for 2016:

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

Employee	2015 Compensation	2015 Ownership	2016 Compensation	2016 Ownership
A	$150,000	50%	$160,000	45%
B	$30,000	0%	$31,000	0%
C	$122,000	0%	$128,000	10%
D	$50,000	50%	$53,000	45%
E	$113,000	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 18:

All of the following statements regarding the calendar year data election are TRUE, EXCEPT:

A. The election is independent of the top-paid group election.

B. The election may be withdrawn by a plan amendment.

C. The election is applicable to the compensation test.

D. The election is not applicable to the ownership test.

E. The election applies to calendar year plans.

Question 19:

Which of the following employees is/are excludable under the top-paid group limitation?

I. Employees who normally work fewer than 17½ hours per week

II. Employees who are under age 21

III. Employees who normally work fewer than six months per year

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

Question 20:

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

A. The employer loses its deduction for vested contributions only.
B. Participant distributions may not be eligible for rollover.
C. The statute of limitations is generally three years from the due date of a filed tax return.
D. To avoid disqualification, defects must be corrected for all affected years, even if they are closed tax years.
E. HCEs may be taxed on the entire vested account balance if the plan is disqualified solely due to a coverage violation.

Question 21:

Based on the following information, determine the top-heavy ratio as of December 31, 2015:

Participant	Key	12/31/15 Account Balance	Termination Date	Distribution	Year Paid
A	Yes	$270,000		$30,000	2009
B	No	$60,000		$0	
C	Yes	$30,000		$0	
D	No	$0	10/15/2014	$15,000	2015
E	No	$27,000		$0	
F	No	$13,000	08/01/2015	$0	
G	Former	$150,000		$0	

A. $300,000 / $400,000
B. $300,000 / $415,000
C. $300,000 / $445,000
D. $330,000 / $430,000
E. $330,000 / $445,000

Question 22:

All of the following statements regarding top-heavy plans are TRUE, EXCEPT:

A. All employers of a controlled group are considered when determining key employees.
B. In-service distributions from a plan during the five-year period ending on the determination date are included in the top-heavy determination.
C. The determination date for a profit sharing plan is always the last day of the preceding plan year, except for the first plan year.
D. All rollover accounts are included in the top-heavy determination.
E. The ratio of the accrued benefit of key employees to the accrued benefit of all employees included in the top-heavy test must exceed 60% for the plan to be top-heavy.

Question 23:

All of the following are requirements a plan must meet in order to qualify for filing Form 5500-SF, EXCEPT:

A. The plan must cover fewer than 100 participants as of the first day of the plan year.
B. The plan must meet eligibility requirements for the small plan audit waiver on the basis of qualifying assets.
C. The plan must invest at least 95 percent of plan assets in investments that have a readily ascertainable fair market value.
D. The plan may hold no employer securities at any time during the plan year.
E. The plan may not be a multiemployer plan.

Question 24:

Which of the following statements regarding aggregation for top-heavy purposes is/are TRUE?

I. Plans that are not part of a required aggregation group must be tested separately for top-heavy purposes.

II. A required aggregation group includes any plan of the employer that enables each plan with key employees to satisfy coverage testing under IRC §410(b).

III. The top-heavy ratio for aggregated plans is calculated using values as of determination dates that fall within the same plan year.

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 number of employees in the benefiting group for coverage testing under IRC §410(b):

- The plan is a calendar year profit sharing plan.
- All employees have satisfied the plan's initial eligibility requirements.
- There are no allocation requirements for the profit sharing contribution.

Total nonexcludable employees	100
Nonexcludable active employees who worked more than 1,000 hours	86
Nonexcludable active employees who worked fewer than 1,000 hours	4
Nonexcludable employees who terminated with more than 500 hours of service	8
Nonexcludable employees who terminated with fewer than 500 hours of service	2

A. 86

B. 90

C. 92

D. 98

E. 100

Question 26:

Which of the following is/are acceptable correction methods for a plan that fails to satisfy minimum coverage testing under IRC §410(b)?

I. An employer may correct a coverage failure by adopting a corrective amendment up to 9½ months after the close of the plan year.

II. In a defined contribution plan, contribution amounts that have already been allocated may be adjusted and the contribution amount reallocated after a coverage failure has been identified.

III. One way to correct a coverage failure is to expand the group of NHCEs who benefit under the plan.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II, and III

Question 27:

Which of the following is/are plan designs that satisfy the minimum coverage requirements of IRC §410(b)?

I. A plan that benefits only HCEs and excludes NHCEs

II. A plan that benefits 30% of the NHCEs and excludes HCEs

III. A plan that benefits all NHCEs and 50% of the HCEs

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

Question 28:

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

Status	Employed	Excludable	Coverage Testing Group	Benefiting
HCE	10	1	9	9
NHCE	100	10	90	80

A. 70.00%
B. 80.00%
C. 80.91%
D. 88.89%
E. 100.00%

Question 29:

Based on the following information, determine the number of participants that have satisfied the IRC §415 annual additions limit:

- The employer sponsors one plan, a 401(k) plan.
- The plan year and limitation year is calendar year 2015.
- The defined contribution annual addition dollar limit for 2015 is $53,000.
- The plan satisfies all coverage and nondiscrimination requirements.

Participation	IRC §415 Compensation	Elective Contributions	Catch-up Contributions	Catch-up Eligible	Employer Contributions
A	$300,000	$17,500	$5,500	Yes	$33,500
B	$235,000	$17,500	$0	No	$45,000
C	$90,000	$15,000	$0	No	$13,500
D	$50,000	$5,000	$0	No	$7,500
E	$20,000	$17,000	$0	No	$5,000

A. One only

B. Two only

C. Three only

D. Four only

E. Five

Question 30:

Based on the following information, determine the allocation to Participant C for 2015:

- The plan is a calendar year profit sharing plan with an effective date of January 1, 2015.
- The allocation formula is pro rata based on compensation.
- There are no forfeitures for 2015.
- The plan is not top-heavy.
- The 2015 contribution totals $60,000.
- The IRC §401(a)(17) compensation limit in 2015 is $265,000.

Eligible Participants	2015 Compensation
A	$350,000
B	$70,000
C	$50,000
D	$30,000

A. $0

B. $6,000

C. $7,229

D. $7,895

E. $8,000

Question 31:

Which of the following statements regarding excess annual additions is/are TRUE?

I. Excess annual additions may be corrected by reallocating such amounts to other participants.

II. Excess annual additions allocated from a suspense account are treated as annual additions in the year of allocation.

III. A plan may provide for a refund of elective deferrals that are 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 32:

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

A. Employees may be required to work two years of service before becoming eligible for a matching contribution.
B. A plan may have different eligibility conditions for different groups of employees.
C. A plan with age 21 and one year of service eligibility requirements may waive those requirements for employees employed when the plan was first established.
D. A money purchase pension plan may require two years of service for eligibility.
E. A plan amendment that changes the eligibility requirement must grandfather in existing participants.

Question 33:

Which of the following statements regarding conditions for receiving an allocation of contributions under a qualified plan is/are TRUE?

I. The hours-of-service requirement to receive an allocation of contributions may not exceed 1,000 hours.

II. It is permissible for a plan to waive allocation requirements for a participant if the participant dies or becomes disabled during the plan year.

III. Allocation conditions, such as the last-day rule or the 1,000-hour rule, may not be applied to a safe harbor 401(k) nonelective contribution.

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 actions is/are violations of the ASPPA Code of Professional Conduct?

I. Performing a client's ADP test in a careless manner without gathering sufficient data

II. Being convicted of a misdemeanor due to traffic violation

III. Providing a plan amendment to a client after December 31, knowing that the client intends to back date the document

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II and III

Question 35:

Which of the following statements regarding deduction limits rules is/are TRUE?

I. Compensation used to determine deduction limits includes taxable fringe benefits.

II. Forfeiture allocations made to participants in a plan year reduce an employer’s overall deduction limit.

III. Compensation used to determine deduction limits is based on the employer’s tax year.

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II, and III

Question 36:

Based on the following information, determine the contribution deadline for a deductible contribution made for the 2016 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, 2016
B. March 15, 2017
C. April 15, 2017
D. September 15, 2017
E. October 15, 2017

Question 37:

All of the following statements regarding plan qualification under IRC §401(a) are TRUE, EXCEPT:

A. A contribution may be returned to the employer if it was made due to a mistake of fact.
B. A qualified plan must limit the compensation used to determine benefits, under IRC §401(a)(17).
C. Contributions to a profit sharing plan must be recurring and substantial.
D. A qualified plan must satisfy the minimum vesting standards under IRC §401(a)(7).
E. Contributions may be returned to the employer due to plan disqualification.

Question 38:

All of the following statements regarding nondeductible contributions are TRUE, EXCEPT:

A. A 10 percent excise tax may apply to nondeductible contributions.
B. Nondeductible contributions may be carried forward and deducted in succeeding taxable years.
C. Nondeductible contributions are not allocated to plan participants until they are deducted.
D. Form 5330 is filed to pay the excise tax on nondeductible contributions.
E. Tax-exempt organizations are not subject to an excise tax on nondeductible contributions.

Question 39:

All of the following statements regarding correction principles under the EPCRS programs are TRUE, EXCEPT:

A. Correction of operational errors must take into account the terms of the plan at the time the error was made.
B. If the earnings are negative, a corrective contribution need not reflect the loss.
C. Full correction must generally be made for all plan years except those years that are closed for audit purposes.
D. A correction method should generally keep the assets in the plan except when rules require corrective distribution.
E. The correction should restore the plan to the position it would have been in had the error not occurred.

Question 40:

Based on the following information, determine the participant’s vested percentage as of December 31, 2016:

- The participant’s date of birth is November 30, 1964.
- The participant’s date of hire is May 1, 2012.
- The participant has worked at least 40 hours/week since date of hire.
- The profit sharing plan is a calendar year plan.
- The plan provides for full vesting at early retirement (age 55).
- The plan uses the six-year graded vesting schedule and counts all years of service in which the participant worked at least 1,000 hours.
- The vesting computation period is the plan year.

A. 20%

B. 40%

C. 60%

D. 80%

E. 100%

Question 41:

Based on the following information, determine Participant A’s vested balance:

- The plan is a calendar year.
- A year of service for vesting is a plan year with 1,000 hours or more.
- The plan uses the six-year graded vesting schedule.
- Participant A’s date of hire is March 1, 2013 and date of termination is August 30, 2016 and he worked at least 1,000 hours in each plan year.
- Participant A’s account balance is $23,000 of which $3,000 represents the rollover account and $12,000 represents the elective contribution account.

A. $15,000

B. $16,600

C. $18,200

D. $19,800

E. $23,000

Question 42:

Based on the following information, determine the amount that must be deposited into the plan in order to satisfy the required minimum top-heavy contribution for the non-key employees:

- All contribution sources, as permitted by law, may be used to satisfy the required top-heavy minimum contribution.
- The plan document does not limit the use of particular contributions for this purpose.
- The contributions included in the following chart have already been deposited into the plan.

Participant	Compensation	Elective Contribution	Catch-Up Contribution	Matching Contribution
Key	$200,000	$10,000	$5,000	$2.500
Non-Key A	$75,000	$1,500	$0	$375
Non-Key B	$60,000	$0	$0	$0

A. $3,675

B. $4,050

C. $5,025

D. $5,400

E. $10,050

Question 43:

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

I. The one-year break-in-service rule allows a plan to temporarily disregard prior service until at least one year of service has been completed.

II. Under the rule of parity, a participant must be 0% vested as of the date of termination in order to permanently lose credit for prior service.

III. The five-year break-in-service rule applies when determining whether vesting is increased for benefits that accrued before the five-year break-in-service period.

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 are protected benefits under IRC §411(d)(6), EXCEPT:

A. Timing of distribution
B. Participant loan option
C. Early retirement age
D. Normal retirement age
E. Vested percentage

Question 45:

Which of the following is/are events that require full vesting of a participant's benefit?

I. Plan entry after satisfying a 15-month eligibility requirement

II. Attaining the plan's NRA

III. Merging of the plan with another plan of the employer

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

Question 46:

Based on the following information, determine the forfeiture allocation for Participant D for the 2015 plan year:

- The plan is a calendar year profit sharing 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 February 15, 2015.
- Participant B was 40% vested with a total account balance of $6,250.
- Participant B received a lump sum distribution of $2,500 in October, 2015.
- The plan is not top-heavy and satisfies coverage requirements.

Participant	Hours Worked	Compensation
A	2,040	$200,000
B	350	$30,000
C	2,040	$40,000
D	2,040	$45,000
E	2,040	$35,000

A. $352

B. $482

C. $527

D. $804

E. $878

Question 47:
Based on the following information, determine the number of nonexcludable employees in the coverage testing group:

- The total number of employees is 100.
- Participants must be employed on the last day of the plan year in order to receive an allocation.
- No employee in the table below is counted more than once.

Employees who have not met the plan’s eligibility requirements	15
Nonbenefiting participants who terminated with less than 500 hours of service	5
Employees excluded by job description	10

A. 70

B. 80

C. 85

D. 90

E. 100

Question 48:

All of the following schedules satisfy minimum vesting standards in a defined contribution plan, EXCEPT:

A. Six-year cliff (0% until year 6, then 100%)

B. Three-year cliff (0% until year 3, then 100%)

C. 100% immediate vesting

D. Three-year graded (33.3% each year)

E. Four-year graded (25% each year)

Question 49:

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 50:

Which of the following is/are types of plans that may be subject to the ERISA §204(h) notice requirements?

I. Target benefit plan

II. Cash balance plan

III. Money purchase pension plan

A. I only

B. II only

C. I and III only

D. II and III only

E. I, II and III

Question 51:

Which of the following statements regarding ERISA §204(h) notices is/are TRUE?

I. A small plan is required to give the ERISA §204(h) notice no fewer than 30 days before the effective date of the ERISA §204(h) amendment.

II. A 401(k) plan is not subject to the ERISA §204(h) notice requirements.

III. An ERISA §204(h) notice must be provided to all plan participants and beneficiaries.

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

Question 52:

All of the following statements regarding plan compensation used for a profit sharing allocation are TRUE, EXCEPT:

A. The definition of compensation must be included in the plan document if the allocation is based on compensation.
B. The definition of compensation must be the same as that used for calculating employer matching contributions.
C. The definition of compensation may be IRC §414(s) compensation.
D. The definition of compensation may exclude commissions.
E. The definition of compensation may be IRC §415 compensation.

Question 53:

Which of the following statements regarding Form 5500 schedules is/are TRUE?

I. Schedule D reports actuarial information.

II. Schedule G reports financial transaction information.

III. Schedule R reports minimum funding requirements.

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

Question 54:

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

I. Form 5500 Schedule C is required for any large plan filer that changes the actuarial firm during the year.

II. A one-participant owner plan with $500,000 of plan assets is not required to file Form 5500.

III. SEP plans are generally exempt from Title I Form 5500 reporting requirements.

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

Question 55:

Based on the following information, determine the latest date for filing the Form 5500:

- The plan year begins June 1, 2015 and ends May 31, 2016.
- Form 5558 has been filed timely.

A. August 15, 2016

B. December 31, 2016

C. February 15, 2017

D. March 15, 2017

E. April 15, 2017

Question 56:

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 57:

All of the following are qualifying plan assets for purposes of the small plan audit waiver, EXCEPT:

A. Qualifying employer securities
B. Assets held by a regulated financial institution
C. Registered mutual funds
D. Coins held in a safe deposit box of a bank
E. Annuity contracts

Question 58:

All of the following statements regarding ASPPA’s Code of Professional Conduct are TRUE, EXCEPT:

A. An ASPPA member may only use ASPPA's membership titles and credentials in accordance with ASPPA's Code of Professional Conduct.
B. An ASPPA member must not disclose confidential information relating to a client to another party, unless authorized by the client or required by law.
C. An ASPPA member must perform professional services with honesty, integrity, skill and care.
D. The ASPPA Code of Professional Conduct must be prominently displayed in the offices of an ASPPA member.
E. An ASPPA member must take reasonable steps to ensure that professional communications are appropriate to the circumstances and the intended audience.

Question 59:

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

A. A complete discontinuance of contributions in a profit sharing plan causes the affected participants to become 100% vested.
B. The plan sponsor may choose not to request a determination letter from the IRS.
C. The freezing of a money purchase pension plan does not require accelerated vesting.
D. All plan participants must become fully vested if a partial plan termination occurs.
E. A partial termination may occur if there is a significant reduction in the number of participants.

Question 60:

All of the following schedules satisfy minimum vesting standards for defined contribution plans, post-PPA, EXCEPT:

A. Seven-year graded (0% until year 3, then 20% each year thereafter)

B. Five-year graded (20% each year)

C. Two-year cliff (0% until year 2, then 100%)

D. Six-year graded (0% until year 2, then 20% each year thereafter)

E. Three-year cliff (0% until year 3, then 100%)

Question 61:

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 62:

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 63:

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

A. An M&P plan consists of a basic plan document and a trust document.
B. A favorable determination letter provides assurance from the IRS that a plan document satisfies the qualification rules.
C. An individually designed plan is not required to obtain a favorable determination letter.
D. A volume submitter plan is not required to obtain a favorable determination letter.
E. An M&P plan is not required to obtain a favorable determination letter.

Question 64:

All of the following statements regarding allocation conditions are TRUE, EXCEPT:

A. A plan may require a participant to be employed on the last day of the plan year to receive a profit sharing allocation.
B. A plan may require a participant to be employed on the last day of the quarter to receive an employer matching allocation.
C. A plan may require a participant to complete 1,200 hours of service to receive a profit sharing allocation.
D. A plan may require a participant to complete a year of service to receive a profit sharing allocation.
E. A plan may make a profit sharing allocation to a participant who died during the plan year, ignoring other applicable allocation conditions.

Question 65:

All of the following statements regarding top-heavy plans are TRUE, EXCEPT:

A. Top-heavy plans are subject to minimum vesting requirements.
B. Top-heavy minimum contributions are allocated based on compensation from the participant’s date of entry.
C. A SEP is subject to top-heavy rules.
D. Account balances from after-tax employee contributions are included in the top-heavy determination.
E. The determination date for a newly established 401(k) plan is the last day of the first plan year.

SHORT ANSWER KEY

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

END SHORT ANSWER KEY

ANSWER KEY WITH EXPLANATIONS

1.	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)
2.	C	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. (Syllabus Topic 5)
3.	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)
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	The compensation limit in 2016 is $265,000. Total compensation for deduction purposes is $345,000 ($265,000 + 50,000 + 30,000). The maximum deductible contribution is $86,250 ($345,000 * 25%). (Syllabus Topic 8)
6.	A	Excludable employees are those that do not satisfy the plan's age and service requirements, are not benefiting and terminate with 500 or fewer hours of service (provided the plan has allocation requirements to receive a contribution), are collectively bargained or are nonresident aliens. Seasonal employees are not excludable specifically by statute. (Syllabus Topic 6)
7.	A	The submission cycle for individually designed plans is once every five years. The submission cycle for pre-approved plans is once every six years. If the submitting individual is not the plan sponsor, a signed Power of Attorney (Form 2848) must be included. Only attorneys, CPAs, enrolled agents, enrolled actuaries and enrolled retirement plan agents (ERPAs) may be designated as representatives under Form 2848. The IRS issues a Revenue Procedure each year outlining the determination letter process. Revenue Procedure XXXX-8 (where the first four digits are the year of issuance) is updated annually to reflect current user fees. (Syllabus Topic 1)
8.	A	SIMPLE IRA and SIMPLE 401(k) plans are exempt from top-heavy rules. (Syllabus Topic 2)

9.	B	Actuarial certifications are not required for defined contribution plans, only defined benefit plans. The employee bears the risk of investment gains/losses in a defined contribution plan. (Syllabus Topic 2)
10.	B	Employee A attained age 21 on July 19, 1992 and had three months of service on June 15, 2014. The entry dates are January 1 and July 1. Employee A enters the plan on July 1, 2014. When a plan uses the elapsed time method instead of the counting hours method, hours of service are not counted. Thus, status as a part-time or full-time employee is irrelevant with the elapsed time method. Service requirements for eligibility purposes are satisfied once the employee has satisfied the required period of service. (Syllabus Topic 3)
11.	D	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. A short plan year may not be used. 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)
12.	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). 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)
13.	A	A plan may not prohibit an employee from becoming a participant (or from continuing participation) merely because the participant reaches a certain age. Doing so would put the plan at risk for disqualification and is also an age discrimination issue. Exclusion of part-time employees by category is an impermissible service condition if the term "part-time employee" is defined on the basis of a customary work schedule (such as, less than 20 hours per week). This is because the exclusion relates solely to the employee's service. (Syllabus Topic 3)
14.	A	Plans are not required to credit service for unpaid employer-approved personal leave under the break-in-service rules. (Syllabus Topic 3)

15. E All of these types of amendments may result in a participant no longer being eligible to participate. Even if an employee has satisfied the age and service requirements for participation and is a participant, a future amendment to change eligibility conditions could result in that employee no longer being eligible to participate. When the eligibility conditions are amended, the plan may provide that the existing participants are grandfathered in, meaning that their participation continues even if they do not satisfy the new eligibility conditions. However, grandfathering of existing participants is not required. (Syllabus Topic 3)

16. A Depending on plan document provisions, forfeitures may be reallocated as soon as the participant receives a distribution of his or her vested balance. Reallocated forfeitures are not deductible contributions for the employer at the time of reallocation, as they were likely deductible at the time of the original contribution. (Syllabus Topic 9)

17. C An employee is an HCE in 2016 if they are a more than 5% owner in 2015 or 2016, or if they earn more than $120,000 in 2015. Employees A, B, C and D satisfy the ownership requirements. While Employee B is not a direct owner, Employee A's ownership is attributed to Employee B due to the fact they are married. Employees A and C also satisfy the compensation requirement. Employee E will not be an HCE until 2017 since compensation earned during the current plan year is not considered when determining HCE status. (Syllabus Topic 4)

18. E 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 does not impact a calendar year plan. It applies only to non-calendar year plans.

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. The calendar year data election is independent of the top-paid group election.

The calendar-year data election must be reflected in the document only if a plan otherwise contains an HCE definition. If included in the plan document, the calendar year data election may be withdrawn with a plan amendment. If a plan does not include a definition of HCE, the calendar year data election may be made operationally. (Syllabus Topic 4)

19. E All of these employees may be excluded when determining the top-paid group.

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.
(Syllabus Topic 4)

20. A If a plan is disqualified, the employer loses its deduction for **nonvested** contributions made to the plan for open tax years. (Syllabus Topic 1)

21. A First determine the participants included. Participant D is not included because Participant D did not have at least one hour of service in the determination year (2016). The top-heavy ratio does not include the value of a former employee’s account or distributions if he or she has not been credited with at least one hour of service during the determination period. Participant G is not included because Participant G is a former key employee. The account of a former key employee and any distributions made to a former key employee are excluded from both the numerator and the denominator of the top-heavy ratio—that is, it is like that person never existed.

Second determine which distributions need to be included – none, since the in-service distribution to Participant A occurred more than five years ago. The numerator is the key employee balances ($270,000 + $30,000) and the denominator is the total balances of all includable employees ($270,000 + $60,000 + $30,000 + $27,000 + $13,000). The top-heavy ratio is ($300,000 / $400,000). (Syllabus Topic 5)

22. D Whether rollover accounts are included in the top-heavy determination depends on whether the account came from a related or unrelated rollover. Only related rollover accounts are included in top-heavy determination of the recipient plan. Unrelated rollover accounts are not part of the top-heavy ratio. (Syllabus Topic 5)

23. C 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.

The other statements regarding requirements a plan must meet in order to qualify for filing Form 5500-SF are true. The plan must cover fewer than 100 participants as of the first day of the plan year, it must meet eligibility requirements for the small plan audit waiver on the basis of qualifying assets, it may hold no employer securities at any time during the plan year and it may not be a multiemployer plan. (Syllabus Topic 11)

24. B Plans may be permissively aggregated, even if they are not required to be aggregated. The top-heavy ratio for aggregated plans is calculated using values for determination dates that fall within the same calendar year. (Syllabus Topic 5)

25. E The benefiting group consists of the employees in the coverage testing group who benefit from the plan for the plan year. An employee benefits under a defined contribution plan if his or her account balance receives an allocation of employer contributions or forfeitures for the plan year.

The plan in this example has no allocation requirements and every employee has satisfied the initial eligibility requirements. Thus, every employee will benefit and will be included in the benefiting group. Note that the coverage testing exclusion of terminated participants with 500 or fewer hours of service does not apply unless a plan has allocation requirements (*e.g.,* 1,000 hours of service or employment on the last day of the plan year as a condition to receive a contribution allocation). (Syllabus Topic 6)

26. C In a defined contribution plan, contribution amounts that have already been allocated may not be adjusted and reallocated after a coverage failure has been identified. This is not a permissible correction method. (Syllabus Topic 6)

27. D A plan that benefits only HCEs and excludes NHCEs will not satisfy the minimum coverage requirements if there are any NHCEs that meet the eligibility requirements for the plan.

In contrast, a plan that excludes HCEs would satisfy the minimum coverage requirements regardless of how many HCEs met the eligibility requirements or the percentage of NHCEs benefiting. If there are no HCEs benefiting under the plan, the plan is deemed to satisfy coverage for the plan year.

A plan that benefits all NHCEs and 50% of the HCEs would satisfy the minimum coverage requirements with a plan ratio percentage of 200%. 100% NHCE ratio percentage / 50% HCE ratio percentage = 200%. This is well above the 70% ratio needed to satisfy the ratio percentage test. (Syllabus Topic 6)

28. D The NHCE ratio is the number of NHCEs benefiting divided by the total number of nonexcludable NHCEs in the coverage testing group (80 / 90 = 88.89%). The HCE ratio is the number of HCEs benefiting divided by the total number of nonexcludable HCEs in the coverage testing group (9 / 9 = 100.00%). The plan ratio percentage is the NHCE ratio divided by the HCE ratio (88.89% / 100.00% = 88.89%). Note that the ratio percentage test is satisfied because the plan ratio percentage is at least 70%. (Syllabus Topic 6)

29. C IRC §415 limits the annual additions credited to the participant's account for a limitation year to the lesser of:

- 100 percent of the participant's IRC §415 compensation; or
- The defined contribution dollar limit in effect for that year ($53,000 for 2016).

Catch-up contributions are not counted towards as annual additions for catch-up eligible participants, thus, total annual additions for Participant A ($17,500 + $33,500 = $51,000), Participant C ($15,000 + $13,500 = $28,500) and Participant D ($5,000 + $7,500 = $12,500) are within the 100 percent of compensation limit and the indexed dollar limit.

Participant B's total annual additions ($17,500 + $45,000 = $62,500) exceed the dollar limit. Participant E's total annual additions ($17,000 + $5,000 = $22,000) exceed the Participant E's IRC §415 compensation for the year. (Syllabus Topic 7)

30. C Compensation is limited to $265,000 in 2016. Total compensation is $415,000 ($265,000 + $70,000 + $50,000 + $30,000). Participant C's allocation is $7,229 (($50,000 / $415,000) * $60,000). (Syllabus Topic 7)

31. E All of the statements are true. If, absent the excess allocation, the amount would have been allocated to other participants, the plan should reallocate the excess amounts to other participants who are not at their IRC §415 limits. If the excess amount would not have been allocated to other participants in absence of the overallocation, the excess amount is placed in an unallocated suspense account and used (along with earnings on the unallocated amounts) in the following limitation year(s) to reduce employer contributions other than elective deferrals. If an excess amount is allocated to a participant's account and there have been elective deferrals or after-tax employee contributions made by the participant for the limitation year, the plan may provide for the distribution of elective deferrals and/or the return of after-tax employee contributions equal to the excess amount. (Syllabus Topic 7)

32. E Plan amendments changing eligibility requirements often grandfather in existing participants, but it is not a requirement to do so. (Syllabus Topic 3)

33. E All of the statements are true. The hours-of-service requirement to receive an allocation of contributions may be less than 1,000 hours, but may not exceed 1,000 hours. Plans are not required to waive allocation requirements for a participant that dies or becomes disabled during the plan year, but the plan may allow for such a waiver, if desired. No allocation conditions may be applied to a safe harbor 401(k) nonelective or a safe harbor matching contribution. (Syllabus Topic 7)

34. C Performing work for a client in a careless manner without gathering sufficient data is a violation of the professional integrity portion of ASPPA's Code of Professional Conduct which states that an ASPPA member shall perform professional services with honesty, integrity, skill and care.

Although not advised, being found guilty of a misdemeanor that is not financially-related does not violate ASPPA's Code of Professional Conduct. 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.

Providing a documentation to a client with knowledge that the client intends to back date the document is a violation of the "control of work product" portion of ASPPA's Code of Professional Conduct which states that an ASPPA member shall not perform professional services when the member has reason to believe that they may be used to violate or evade the law. (Syllabus Topic 12)

35. C Forfeiture allocations made to participants in a plan year do not reduce an employer's overall deduction limit.

Forfeitures represent benefits that are reallocated from one participant's account (*i.e.,* the person forfeiting the benefit) to the accounts of the other participants. The employer already received a deduction for the amounts that generated the forfeitures in a prior year. Thus, they do not reduce the employer's deduction limit in the current year. (Syllabus Topic 8)

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, 2017. (Syllabus Topic 8)

37. E Plan disqualification does not result in a return of contributions to the employer. (Syllabus Topic 1)

38.	C	An employer contribution is still allocable to the plan participants whether or not it is currently deductible. The other statements are true. A 10 percent excise tax may apply to nondeductible contributions. Nondeductible contributions may be carried forward and deducted in succeeding taxable years. Form 5330 is filed to pay the excise tax on nondeductible contributions. Tax-exempt organizations are not subject to an excise tax on nondeductible contributions. (Syllabus Topic 8)
39.	C	If an error has occurred historically over several years, the EPCRS correction procedures require that the error be corrected for all affected years, even if the years are closed for audit purposes. (Syllabus Topic 1)
40.	D	The participant is age 52, so has not satisfied the requirements for full vesting at normal or early retirement. The participant has 5 years of vesting service (2012, 2013, 2014, 2015, and 2016). A six-year graded vesting schedule is 80% vested after 5 years. (Syllabus Topic 9)
41.	D	Rollovers and elective contributions are always 100% vested. $15,000 of the participant's balance represents fully vested accounts ($3,000 rollover account + $12,000 elective contribution account). The remaining account balance of $8,000 is subject to vesting ($23,000 - $15,000 fully vested portion). The participant has four years of vesting service (2013, 2014, 2015, 2016) and is 60% vested in this portion of the account balance. $8,000 * 60% = $4,800. The participant's vested balance is $19,800 ($15,000 + $4,800). (Syllabus Topic 9)
42.	A	The minimum required top-heavy contribution is 3% of the total non-key compensation. To determine the amount to be deposited, the minimum required top-heavy contribution should be reduced by any employer contributions that are eligible to be used toward satisfying the requirement. The total non-key compensation is $135,000 ($75,000 + $65,000). $135,000 x 3% = $4,050. $4,050 – $375 in employer matching contributions = $3,675 to be deposited. The top-heavy minimum must be satisfied with employer contributions and/or forfeitures. Employer contributions include nonelective profit sharing contributions, pension contributions, matching contributions, QNECs, QMACs, safe harbor matching contributions and safe harbor nonelective contributions. Note that it is permissible for plan documents to limit the use of certain contributions for top-heavy minimum purposes. For example, a plan sponsor may elect in the plan document that matching contributions are not to be used toward satisfying the top-heavy minimum. That is not the case in this particular example. (Syllabus Topic 5)
43.	E	All of the statements regarding break-in-service rules and vesting are true. (Syllabus Topic 9)
44.	B	IRC §411(d)(6)(B) protects only optional forms of benefit, early retirement benefits and retirement-type subsidies. It does **not** protect ancillary benefits or rights and features that are not optional forms of benefit under the plan. An ancillary benefit is any of the following: (1) a social security supplement; (2) a disability benefit that is not in excess of a qualified disability benefit (i.e., a disability benefit provided by the plan that does not exceed the benefit that would be provided for the participant if he or she separated from service at normal retirement age); (3) a life insurance benefit; (4) a medical benefit; (5) a death benefit (other than a death benefit that is part of an optional form of benefit, such as a survivor annuity component of a

joint and survivor annuity form of benefit; or (6) a plant shutdown benefit or similar benefit that does not continue past normal retirement age and does not affect the payment of the accrued benefit. Rights and features under the plan that are not optional forms of benefit are **not** protected from elimination under this rule. These include: (1) the availability of participant loans; (2) the right to direct investments; (3) the right to make after-tax employee contributions; (4) the right to make elective deferrals under a 401(k) arrangement; (5) the right to a particular form of investment (e.g., employer securities); (6) allocation dates and valuation dates under the plan; and (7) rights that derive from administration and operational provisions (e.g., mechanical procedures for allocating investment experience amount account balances in a defined contribution plan. In this question, the participant loan option is not protected (Syllabus Topic 10)

45. C Eligibility requirements that exceed one year and attainment of Normal Retirement Age (NRA) are both events that require immediate 100 percent vesting of account balances; however, plan mergers do not usually require full vesting of account balances. (Syllabus Topic 9)

46. C Participant B's total account balance was $6,250. Participant B's distribution of $2,500 represents 40% of Participant B's total account balance. The remaining 60% of Participant B's account balance is $3,750 ($6,250 - $2,500).

Participant B is not eligible for an allocation since he did not work 1,000 hours. The remaining compensation totals $320,000 ($200,000 + $40,000 + $45,000 + $35,000). The allocation to Participant D is ($45,000 / $320,000) x $3,750 = $527. (Syllabus Topic 9)

47. B 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.	A	A defined contribution plan may satisfy the legal vesting requirements for employer contributions under one of two statutory minimum schedules: three-year cliff vesting or six-year graded vesting. A plan may also design a customized cliff or graded vesting schedule, provided that participants are no less vested at any point in time than they would be under the statutory cliff or graded vesting schedules. Under three-year cliff vesting, the employee becomes 100 percent vested once he or she is credited with three years of service. Prior to his or her completion of the third year of service, the employee's vesting percentage is zero. Under six-year graded vesting, the minimum vesting percentages per year are as follows: Upon completion of one year of service - 0% vesting Upon completion of two years of service - 20% vesting Upon completion of three years of service - 40% vesting Upon completion of four years of service - 60% vesting Upon completion of five years of service - 80% vesting Upon completion of six years of service - 100% vesting Because the six-year cliff vesting schedule (0% until year six, then 100% upon completion of year six) does not meet the minimum vesting percentages for years two through five, the six-year cliff vesting schedule is not permissible in a defined contribution plan, post-PPA. (Syllabus Topic 9)
49.	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)
50.	E	All of the listed plans may be subject to the ERISA §204(h) notice requirements. An ERISA §204(h) notice is required when an ERISA §204(h) amendment is adopted under a pension plan. An ERISA §204(h) amendment is one that significantly reduces or ceases the rate of future benefit accrual under the pension plan or one that eliminates, ceases or significantly reduces an early retirement benefit or retirement-type subsidy. A pension plan for this purpose means a defined benefit plan, a money purchase plan, or any other defined contribution plan that is subject to the minimum funding requirements under IRC §412. A cash balance plan is a type of defined benefit plan. A target benefit plan is a type of money purchase pension plan. (Syllabus Topic 10)
51.	B	The law requires that an ERISA §204(h) notice must be given within a reasonable time before the effective date of the amendment. The regulations define a reasonable time generally to be no less than 45 days before the effective date of the ERISA §204(h) amendment for plans with 100 or more participants. A small plan is not required to provide the notice until 15 days before the effective date of the amendment. A **small plan** is defined as a plan that is reasonably expected to have fewer than 100 participants with accrued benefits as of the effective date of the ERISA §204(h) amendment.

The ERISA §204(h) notice does not necessarily have to be provided to all participants and beneficiaries. Instead, the notice is required for each **applicable individual.** An applicable individual is: (1) each participant or alternate payee under a QDRO whose rate of future benefit accrual is reasonably expected to be significantly reduced, or for whom an early retirement benefit or retirement-type subsidy may reasonably be expected to be significantly reduced, by the ERISA §204(h) amendment, and (2) each employee organization (i.e., union) that represents participants in the plan. (Syllabus Topic 10)

52.	B	The plan may use different definitions of compensation for different plan purposes (*e.g.,* matching allocations and profit sharing allocations). (Syllabus Topic 7)
53.	D	Schedule D does not report actuarial information. Schedule D is used by a Direct Filing Entity (DFE) when filing Form 5500. It is also used to report plan participation in a DFE (an investment offered by a financial institution that is required to, or may, file as a DFE). Master trust investment accounts (MTIAs) are required to file as a DFE. Common/collective investment trusts (CCTs), insurance company pooled separate accounts (PSAs), investment entities covered under DOL Reg. §2520.103-12 (103-12IEs) and group insurance arrangements (GIAs) may choose to file as a DFE. (Syllabus Topic 11)
54.	B	No 5500 filing is required for a one-participant owner plan with assets of $250,000 or less as of the end of the plan year. A one-participant owner plan with $500,000 of plan assets will likely qualify for the simplified reporting requirements of Form 5500-EZ, but is not exempt from 5500 filing requirements altogether. (Syllabus Topic 11)
55.	D	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. The maximum extension is 2½ months. Thus, for a plan year ending May 31st, Form 5500, with extension, is due March 15th. (Syllabus Topic 11)
56.	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)
57.	D	Qualifying plan assets are investments described in any of the following six categories: Category 1: Qualifying employer securities; Category 2: Participant loans that satisfy the prohibited transactions exemption requirements under ERISA §408(b)(1); Category 3: Assets held by a regulated financial institution; Category 4: Shares issued by an investment company registered under the Investment Company Act of 1940 (i.e, a registered mutual fund); Category 5: Investments and annuity contracts issued by an insurance company qualified to do business under the laws of any state; and Category 6: Assets in the individual account of a participant beneficiary over which the participant or beneficiary has the opportunity to exercise control and with respect to which the participant or beneficiary is furnished, at least annually, a statement from a regulated financial institution describing the assets held (or issued by) such institution. Coins held in a safe deposit box are not qualifying plan assets. (Syllabus Topic 11)
58.	D	There is no such requirement regarding displaying the ASPPA Code of Conduct in an ASPPA member's office. (Syllabus Topic 12)

59. D A profit sharing or stock bonus plan must have recurring and substantial contributions to be a qualified plan. If there is a complete discontinuance of contributions to a profit sharing or stock bonus plan, the affected participants must be 100 percent vested.

Filing for a determination letter with the IRS is not required by law to maintain qualified status, but is recommended. This filing, which takes place on a Form 5310, will obtain a ruling from the IRS that the termination of the plan does not negatively affect its qualified status.

A money purchase or target benefit plan is not subject to the same obligations as a profit sharing plan or a stock bonus plan to have recurring and substantial contributions to the plan. Freezing a money purchase or target benefit plan is tantamount to amending the contribution formula to zero percent of compensation and does not require accelerated vesting.

A partial plan termination causes the affected participants to become 100 percent vested in their funded benefits. The affected participants who receive the 100 percent vesting are those who are eliminated from participation, in the case of a significant reduction, or the participants affected by the plan amendment that resulted in the partial termination. Participants who are not affected by the amendment continue to be subject to the vesting schedule with respect to their benefits. Generally, a partial plan termination occurs when a significant reduction in the number of participants occurs, either by plan amendment or by involuntary termination of employment. (Syllabus Topic 10)

60. A A defined contribution plan may satisfy the legal vesting requirements for employer contributions under one of two statutory minimum schedules: three-year cliff vesting or six-year graded vesting. A plan may also design a customized cliff or graded vesting schedule, provided that participants are no less vested at any point in time than they would be under the statutory cliff or graded vesting schedules.

Under three-year cliff vesting, the employee becomes 100 percent vested once he or she is credited with three years of service. Prior to his or her completion of the third year of service, the employee's vesting percentage is zero. Under six-year graded vesting, the minimum vesting percentages per year are as follows:
Upon completion of one year of service - 0% vesting
Upon completion of two years of service - 20% vesting
Upon completion of three years of service - 40% vesting
Upon completion of four years of service - 60% vesting
Upon completion of five years of service - 80% vesting
Upon completion of six years of service - 100% vesting

Because the seven-year graded (0% until year three, then 20% each year thereafter) does not meet the minimum vesting percentages for years two through six, the seven-year graded schedule is not permissible in a defined contribution plan, post-PPA. (Syllabus Topic 9)

61. D Certain years of service may be exclude in determining an employee's vesting percentage. These exclusion 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) excludion 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)

62. 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)

63. A A master or prototype (M&P) plan made up of two parts: a basic plan document and an adoption agreement. A plan is never required to obtain a favorable determination letter, regardless of the plan document type, but it is recommended as a favorable determination letter provides assurance from the IRS that a plan document satisfies the qualification rules. (Syllabus Topic 1)

64. C Not all participants in a defined contribution plan will necessarily receive an allocation of employer contributions. The plan may impose certain conditions a participant must satisfy to share in the allocation for a plan year, These conditions are known as accrual requirements or **allocation conditions** because they determine whether the participant accrues a benefit (i.e., receives an allocation to his or her account) for the plan year. A common accrual requirement in a defined contribution plan is that the participant must satisfy a minimum number of hours requirement for the plan year. **This minimum requirement may not exceed 1,000 hours.** Another common allocation condition under a defined contribution plan is to require the employee to be employed with the employer on the last day of the plan year. A variation of this rule is to require employment on a specific allocation date, if employer contributions are allocated more than once per plan year (e.g., quarterly allocation dates for nonelective employer contributions and/or employer matching contributions). Some plans provide that, if a participant dies or becomes disabled during the plan year, the participant is excused from certain allocation conditions, such as the hours requirement or the last day requirement. The plan could provide this exception just for death, just for disability or for either occurrence. Another common exception is for the participant who has reached normal retirement age stated in the plan and retires before the end of the year. The document must expressly provide for such exception for the participant to be excused from an allocation condition on account of death, disability or retirement. (Syllabus Topic 7)

65. B Compensation for purposes of determining top-heavy minimum allocations is IRC §415 compensation. IRC §415 compensation includes compensation from the beginning of the plan year, rather than from the participant's date of entry. (Syllabus Topic 5)

END ANSWER KEY WITH EXPLANATION