

ASPPA

PFC-1: Plan Financial Consultant 1

2008 Syllabus

Course Overview:

PFC-1 is the first of two courses building on the material covered in RPF 1 & 2, that lead to the Qualified Plan Financial Consultant designation (QPFC). This course focuses on the administrative and consulting issues commonly encountered by financial consultants who service the retirement plans market. All types of defined contribution and defined benefit plans are covered, from nonqualified SERPs to cash balance plans to ESOPs to the Roth 401(k). Plan design issues such as eligibility, vesting, non-discrimination testing, plan documents, top heavy, and the deductibility of contributions are discussed. This course also examines the role played by the type of business sponsoring the plan, controlled group issues, and the impact that leased employees, independent contractors and PEOs have on the plans. Finally, the ethical responsibilities of the financial consultant are addressed.

Study Materials:

The reading material consists of the book, *Retirement Plan Consulting for Financial Professionals*, 1st Edition by Sarah E. Simoneaux, CPC. The relevant chapters are listed with each topic below, although the candidate is encouraged to be familiar with the contents of each chapter in order to develop a thorough understanding of the material.

Exam:

The corresponding exam will include 65 multiple choice questions, for which you have a 2½ hour period to answer.

Additional Information:

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

PFC-1 Webcourse:

ASPPA offers webcourses to assist candidates preparing for examinations. These webcourses are designed to address the most challenging topics covered on corresponding examinations. Online course sessions are approximately 50-60 minutes in length. The number of sessions depends on the course selected — ranging from five to six sessions. It is expected that webcourse registrants preparing for an examination

thoroughly study the topics covered in the required reading for the corresponding examination – outlined in this syllabus. The webcourse sessions should not be used as a substitute for these materials. Visit www.asppa.org/webcourses for more information.

TOPIC 1: DOCUMENT ISSUES, GUIDANCE and RESTATEMENTS

Overview:

The plan document is the basis for determining qualified plan provisions. This topic explains the document requirements for on-going plans and terminating plans. Also, factors to consider when merging or spinning off plans are addressed.

Learning Objectives:

The successful candidate will be able to:

- 1.1 List the basic requirements for a plan to be "qualified" under IRS regulations.
- 1.2 Discuss what being "qualified" means and the reasons a company would want a qualified plan.
- 1.3 List the consequences of disqualification.
- 1.4 Describe when an employer would request a letter of determination, and summarize the process involved.
- 1.5 Summarize the differences in the types of documents which can be used for a qualified plan.
- 1.6 Identify the deadlines for adopting a plan document or an amendment.
- 1.7 Describe when an employer is required to furnish an SPD or SMM.

Exam Weighting:

This topic will comprise approximately 5% - 7% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 1 and 15.

TOPIC 2: ELIGIBILITY, PARTICIPATION AND VESTING RULES

Overview:

Qualified plans must satisfy the eligibility, participation and vesting regulations of ERISA and the IRC. This topic discusses the various types of provisions allowed, and how they impact the administration of a plan.

Learning Objectives:

The successful candidate will be able to:

- 2.1 List the statutory eligibility requirements, and summarize how they apply to different contribution sources and different plan types.
- 2.2 Describe a year of service for eligibility purposes.
- 2.3 Identify the vesting schedules that apply to different contribution sources.
- 2.4 List the circumstances under which a participant would become 100% vested.
- 2.5 Describe the impact of a plan termination on the vested percentage of a participant.
- 2.6 Determine the impact that changing a vesting schedule would have on participants.

Exam Weighting:

This topic will comprise approximately 6% - 8% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 8, 12 and 15. Refer to the various chapters relating to different plan types for further information.

TOPIC 3: DEDUCTIBILITY OF DEFINED CONTRIBUTION AND DEFINED BENEFIT CONTRIBUTIONS

Overview:

An important reason that a plan sponsor establishes a qualified plan is to take advantage of the tax benefits. This topic discusses the deduction limits, and the treatment of non-deductible contributions.

Learning Objectives:

The successful candidate will be able to:

- 3.1 Identify the contribution deduction deadlines applicable to different types of employer entities.
- 3.2 State the maximum deduction limits for all types of qualified plans.
- 3.3 Explain the deduction limits when an employer sponsors both a DB and a DC plan.
- 3.4 Describe the treatment of nondeductible contributions and any excise tax that would be applicable.
- 3.5 Discuss the flexibility that a company might achieve from having a plan year that is different from the fiscal year.

Exam Weighting:

This topic will comprise approximately 3% - 5% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 1, 2, 5, 7 and 10.

TOPIC 4: BUSINESS ENTITIES AND LEASED EMPLOYEES

Overview:

It is vitally important to identify any controlled group situations when discussing qualified plans. This topic discusses the different structures a business can assume, and the impact of that structure on the business's qualified plan, as well as different types of controlled groups and affiliated service groups and their impact, including attribution of ownership. Also, the impact of leased employees, independent contractors and Professional Employer Organizations on qualified plans is addressed.

Learning Objectives:

The successful candidate will be able to:

- 4.1 Distinguish how a self-employed business differs from an incorporated business relative to profits and compensation.
- 4.2 Discuss the impact that being self-employed has on the allocation of contributions to qualified plans.
- 4.3 Identify types of compensation that may be considered for qualified plan purposes including how different types of business entities affect allowable compensation.
- 4.4 Describe the implication of leased employees, PEO arrangements and independent contractors on a qualified plan, including the issues related to independent contractors and common law employees.
- 4.5 Summarize the implications in plan design of controlled groups and affiliated service groups, including the attribution rules under IRC §1563, including distinguishing between the different types of controlled groups and affiliated service groups.
- 4.6 List the circumstances for which a controlled group or an affiliated service group may be treated as a single employer.
- 4.7 Identify who may be considered an owner using the attribution rules of IRC §§1563 & 318.

Exam Weighting:

This topic will comprise approximately 6% - 8% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 2, 3 and 12.

TOPIC 5: TYPES OF DEFINED CONTRIBUTION PLANS AND ALLOCATION METHODS

Overview:

There are many types of defined contribution plans in the market place, both qualified plans and nonqualified plans. This topic compares and contrasts these types of plans, identifying the distinguishing characteristics of each. Different methods of allocating contributions are also discussed.

Learning Objectives:

The successful candidate will be able to:

- 5.1 List the distinguishing characteristics and the differences between SIMPLE IRAs and SEPs.
- 5.2 Identify the distinguishing characteristics and the differences between Profit Sharing, Money Purchase, 401(k) and Target benefit plans.
- 5.3 List the distinguishing characteristics and the differences between 403(b) and 457 plans.
- 5.4 List the contribution sources available to various plan types.
- 5.5 List the contribution limits of various plans (PS, SEP, 403(b), and 457, etc.).
- 5.6 Summarize the impact of terminated employees' forfeitures on plan contributions.
- 5.7 Identify safe harbor allocation methods.
- 5.8 Explain how employer demographics impact age based plans.
- 5.9 Explain how an age weighted plan differs from salary ratio and integrated plans.
- 5.10 Explain the concept/implication of a non-safe harbor allocation method and the impact such an allocation has on the plan design and compliance.
- 5.11 Explain the impact of not including certain portions of compensation for allocation purposes in nondiscrimination testing.
- 5.12 Determine the DC plans available to government and nonprofit employers.

Exam Weighting:

This topic will comprise approximately 10% - 12% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 1, 2, 4, 6, 7, 8, 10 and 11.

TOPIC 6: 401(k) OPTIONS AND ADP/ACP TESTING

Overview:

The 401(k) continues to be a popular choice amount plan sponsors. It is important to recognize the options available to plan sponsors and the regulations applicable to these plans. This topic describes the characteristics of the various types of 401(k) options, including the Roth 401(k). The special testing rules applicable to 401(k) plans are explained and also explained is how using a Safe Harbor allocation can avoid these tests.

Learning Objectives:

The successful candidate will be able to:

- 6.1 Identify characteristics of the types of 401(k) plans (traditional, SIMPLE 401(k), Roth).
- 6.2 Determine which entities are eligible to adopt and maintain a 401(k) plan.
- 6.3 Identify characteristics of Roth 401(k) contributions.
- 6.4 Identify when Roth 401(k) contributions are more favorable than traditional pre-tax elective deferrals, and vice versa.
- 6.5 Identify the differences between Roth IRA and Roth 401(k) funds/accounts.
- 6.6 Describe how excess deferrals are corrected.
- 6.7 Describe the tax implications of the timing of a 402(g) correction.
- 6.8 Identify catch-up eligible participants.
- 6.9 Identify situations that will result in catch-up contributions (differences in 403(b), 401(k), SIMPLE IRA and 401(k) and 457).
- 6.10 Identify the types of contributions included in the ADP and ACP tests.
- 6.11 List actions that may improve ADP and ACP test results.
- 6.12 Identify the two primary methods of correcting failed ADP and ACP tests (distributions, additional contributions).
- 6.13 Identify the time frames associated with the different methods of correction and the consequences of missing the deadlines.
- 6.14 Describe the timing requirements of a safe harbor notice.
- 6.15 Identify the rules for converting a profit sharing or traditional 401(k) plan to a safe harbor 401(k) plan.
- 6.16 Identify circumstances under which the safe harbor election can be revoked.
- 6.17 Identify the additional requirements of the "maybe" notice for the safe harbor non-elective contribution.
- 6.18 Identify the requirements of a safe harbor 401(k) plan.

- 6.19 Identify the vesting schedule that is applicable to safe harbor contributions in a 401(k) plan.
- 6.20 Determine if a given matching contribution satisfies the ADP and/or ACP test safe harbor requirements.
- 6.21 Explain the implications of the various employer contributions under the 401(k) safe harbor rules.
- 6.22 Describe what matching contribution would be considered an enhanced matching contribution to a safe harbor plan, when it could be used, and what impact it would have on the plan.
- 6.23 Explain how a plan can satisfy the Safe Harbor requirement using a nonelective contribution.
- 6.24 Explain how a Safe Harbor contribution benefits a Top-heavy plan.

Exam Weighting:

This topic will comprise approximately 19% - 22% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 2, 4, 6, 10, 11 and 14.

TOPIC 7: DEFINED BENEFIT TYPES, CHARACTERISTICS AND 415 CALCULATIONS

Overview:

Defined benefit plans are suitable in many situations. This topic discusses the types of plans, including cash balance and 412(i) fully insured plans, and the characteristics of each.

Learning Objectives:

The successful candidate will be able to:

- 7.1 Describe the maximum benefit limitations under IRC §415 and recognize when adjustments are needed for distributions.
- 7.2 Describe how compensation, years of service and social security offsets impact participant benefits in a defined benefit plan.
- 7.3 Describe the concepts of accrued benefit, present value of accrued benefits versus DC plan account balance, and projected benefits.
- 7.4 Define the actuary's role in the preparation of the Form 5500 Annual Report and why it is important for the actuary to be consulted in the design of a defined benefit plan.
- 7.5 Describe the distinguishing features of a cash balance plan and why a plan sponsor might benefit from a cash balance plan instead of a traditional defined benefit plan, including the advantages and

disadvantages of a cash balance plan as compared to a traditional defined benefit plan.

- 7.6 List the attributes and components of a 412(i) plan.
- 7.7 List the various optional benefits that a defined benefit plan can provide.
- 7.8 Describe the various types of benefit formulas commonly found in traditional defined benefit plans.

Exam Weighting:

This topic will comprise approximately 2% - 4% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 5 and 7.

TOPIC 8: DEFINED BENEFIT PLAN FUNDING

Overview:

A properly funded defined benefit plan is important to participants and employers alike. This topic discusses the funding requirements and the impact of interest rates on the present value of accrued benefits. The role of the PBGC is described and the consequences of an under-funded plan situation.

Learning Objectives:

The successful candidate will be able to:

- 8.1 Describe the role of the PBGC and the two basic components of the PBGC premiums.
- 8.2 Describe the guarantees provided to plan participants by the PBGC.
- 8.3 Describe the effect of defined benefit plan funding on the financial statement.
- 8.4 Describe the consequences to a plan sponsor if quarterly contributions are not made timely.
- 8.5 Describe the minimum and maximum funding requirements, and the timing of contributions and deductions.
- 8.6 Discuss the requirements for a plan sponsor to obtain a funding waiver.
- 8.7 Summarize the impact of freezing accruals in a defined benefit plan.
- 8.8 State the relationship of interest rates on the present value of benefits in a defined benefit plan.
- 8.9 Discuss the impact of favorable and unfavorable investment return on funding a defined benefit plan.
- 8.10 Describe the impact of over-funding or under-funding on defined benefit plan termination.

Exam Weighting:

This topic will comprise approximately 2% - 4% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapter 5.

TOPIC 9: EMPLOYEE STOCK OWNERSHIP PLANS

Overview:

ESOPs can play an important role in shaping employees' morale and determining the future success of a company. This topic discusses the features of ESOPs, including the special rules, and the best uses for these plans.

Learning Objectives:

The successful candidate will be able to:

- 9.1 List the reasons a plan sponsor might want to establish an ESOP.
- 9.2 Discuss the rules regarding diversification as they relate to an ESOP: a) who can elect, b) diversification amount, c) methods of satisfying diversification.
- 9.3 Describe the special rules that apply to an ESOP regarding: manner of distributions, cash dividends, 1042 Rule, put option rights, special company share rules, and modifying distribution options.
- 9.4 Describe a leveraged ESOP and list three ways an ESOP may receive money to acquire stock from the company.

Exam Weighting:

This topic will comprise approximately 1% - 3% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapter 4.

TOPIC 10: TOP-HEAVY RULES

Overview:

Top heavy plans are common among professional service companies. This topic outlines the rules pertaining to determining top heavy status and discusses the impact this has on the plan sponsor and plan administration.

Learning Objectives:

The successful candidate will be able to:

- 10.1 Identify the contributing factors to determine a plan's top heavy status.
- 10.2 Define key employee, former key employee and a non-key employee.
- 10.3 Summarize the additional contribution, benefit and vesting requirements that apply when a plan is top heavy.

Exam Weighting:

This topic will comprise approximately 3% - 5% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapter 12.

TOPIC 11: COVERAGE TESTING

Overview:

All qualified plans must meet the coverage testing rules under the IRC in order to meet the non-discrimination requirements. This topic describes the application of these tests and the impact they have on plan administration.

Learning Objectives:

The successful candidate will be able to:

- 11.1 Identify the information needed to perform the ownership test, the compensation test and family attribution as related to the determination of HCEs.
- 11.2 Determine an individual's HCE status under IRC §414(q).
- 11.3 Describe when the top paid group rule would be advantageous.
- 11.4 Describe the application of the minimum participation rules of IRC §401(a)(26).
- 11.5 Describe the two tests (ratio percentage test or average benefits test) that may be used to demonstrate that a plan satisfies the minimum coverage requirements under IRC §410(b).
- 11.6 Describe the impact of certain allocation conditions on coverage testing.
- 11.7 Describe the impact that excluding certain employees has on coverage testing.
- 11.8 Determine which plans or components of a plan may or must be aggregated or disaggregated for minimum coverage purposes.
- 11.9 Identify situations that are not safe harbors under the benefits, rights and features rules.

- 11.10 Identify plan provisions that are protected benefits under IRC §411(d)(6)(B).
- 11.11 Identify scenarios in which a plan's definition of compensation for allocation purposes may be subject to nondiscrimination testing.
- 11.12 List the options for correcting IRC §410(b) and 401(a)(4) coverage failures.

Exam Weighting:

This topic will comprise approximately 13% - 15% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 3, 7, 9, 12 and 13.

TOPIC 12: PLAN DESIGN ISSUES

Overview:

At the heart of installing a qualified plan is determining the most appropriate plan design for an employer. The topic will lead to an understanding of the factors involved in making that determination, as well as recognizing how future events in a business and changes in the regulations might cause what was a good design to no longer be the most appropriate.

Learning Objectives:

The successful candidate will be able to:

- 12.1 Describe the impact of various plan design on future years.
- 12.2 Determine when it would be more beneficial for an employer to sponsor both DB and DC plans.
- 12.3 Explain the impact that the small business credit has on companies considering establishing a qualified plan.
- 12.4 Summarize the differences between DB and DC plans relative to the size of a company, the purpose of the plan, cash flow requirements, and demographics of the company.
- 12.5 Demonstrate which of the various allocation methods for DC plans would be most suitable for an employer relative to the size of the company, the purpose of the plan, cash flow requirements, and employee demographics.
- 12.6 Determine the circumstances under which a discretionary match would be more suitable than a mandatory match.
- 12.7 Demonstrate when a Safe Harbor 401(k) or SIMPLE-IRA or traditional 401(k) is appropriate.
- 12.8 Explain how a plan sponsor can use automatic enrollments to encourage deferrals by NHCEs.

- 12.9 Discuss the implications for including or excluding loans and/or hardship withdrawals in a plan.
- 12.10 Discuss the impact of including participant directed investments, and the reasons a plan sponsor might want to include or not include them.
- 12.11 List the advantages and disadvantages of including life insurance in a plan.

Exam Weighting:

This topic will comprise approximately 12% - 14% of the exam questions.

Required Reading:

This topic draws information from many portions of the textbook. It is assumed that the candidate is familiar with the basic information in these chapters in order to apply it to this topic. Specific references can be found in the following cites: *Retirement Plan Consulting for Financial Professionals*, 1st Edition by Sarah E. Simoneaux, CPC, chapters 2, 4, 6, 7, 9, 10 and 11.

TOPIC 13: PLAN CLOSINGS, MERGERS/ACQUISITIONS

Financial consultants must be aware of basic plan issues involved when a merger or acquisition takes place between companies. This topic addresses the implication of merging plans or spinning one plan off from an existing plan. Finally, the factors involved in terminating a qualified plan are investigated.

Learning Objectives:

The successful candidate will be able to:

- 13.1 Describe the requirements for terminating a DB or DC plan (i.e. the document must be up-to-date).
- 13.2 Identify the factors that an employer must take into consideration (from the standpoint of plan operations and plan provisions) during a merger and/or acquisition, including nondiscrimination issues and distributable events.
- 13.3 Differentiate between a terminated plan and a frozen plan.
- 13.4 Describe the functions of the PBGC in regards to plan closings.

Exam Weighting:

This topic will comprise approximately 3% - 5% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapters 5 and 16.

TOPIC 14: NONQUALIFIED PLANS

Overview:

In many cases, there is a need to provide additional benefits to a select group of employees beyond what can be provided in a qualified plan. This can be done through the use of a nonqualified plan. This topic discusses the different types of plans available, and the differences between qualified and nonqualified plans.

Learning Objectives:

The successful candidate will be able to:

- 14.1 List the different types of nonqualified plans, including who they benefit, and how they are taxed and funded.
- 14.2 Compare and a nonqualified plan and a qualified plan.
- 14.3 Describe the circumstances when it would be advantageous for a company to include a nonqualified plan to provide benefits.

Exam Weighting:

This topic will comprise approximately 1% - 2% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapter 1.

TOPIC 15: ETHICS AND PROFESSIONALISM

A financial consultant must be bound by certain ethical duties to the plan sponsor and to the participants. This topic explains the ASPPA Code of Conduct and its impact on the professional.

Learning Objectives:

The successful candidate will be able to:

- 15.1 Summarize actions that do and do not violate the ASPPA Code of Conduct.

Exam Weighting:

This topic will comprise approximately 1% - 2% of the exam questions.

Required Reading:

Retirement Plan Consulting for Financial Professionals, 1st Edition by Sarah E. Simoneaux, CPC, chapter 17.