

DC-2: Defined Contribution Administrative Issues – Compliance Issues

Course Overview

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

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

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

Along with the increase in 401(k) plans comes the clamor from participants to be able to direct their investments. Candidates will learn how compliance with ERISA §404(c) may help a fiduciary limit liability for investment choices made by participants. In addition, candidates will learn about qualified default investment options (QDIAs) and about disclosure rules applicable to participant-directed plans.

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

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

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

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

Suggested Reading

DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 8th Edition*. Arlington, VA: ARA, 2018.

Bloom, Lauren. *Elegant Ethical Solutions*. Elegant Solutions Consulting: Goodlettsville, TN.

Supplementary Study Materials

Practice examinations are available for purchase at <https://www.asppa.org/professional-development/product-quick-links>.

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Exam

The corresponding exam will include 60 multiple choice questions for which a candidate will have 2½ hours to complete. Candidates will receive a grade immediately upon completing the exam. Exams are given in a proctored setting at Prometric Testing Centers.

Additional Information

All candidates are encouraged to visit ASPPA's Examination Policy (<https://www.asppa.org/sites/asppa.org/files/PDFs/Education/NewEducation/Policies/ASPPA%20Exam%20Policy.pdf>) for additional information. It is the candidate's responsibility to check the ASPPA Web site for the most current information on examinations and publications. The policy includes instructions for locating Prometric test centers and scheduling examinations, study tips, current information on regulatory limits and other helpful information. You may also contact ASPPA with questions at rpa@usaretirement.org.

Topic 1 – 401(k) Basics

Overview

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

Learning Objectives

The successful candidate will be able to:

- 1.01 Identify the basic concepts that apply to cash or deferred arrangements including eligibility, vesting and distribution conditions.
- 1.02 List the various types of contributions permitted in a 401(k) plan.
- 1.03 Describe enrollment in a 401(k) plan including automatic enrollment and describe the rules associated with EACAs and QACAs.
- 1.04 Describe how the limits of IRC §§401(a)(30) and 402(g) apply to elective deferrals.
- 1.05 Calculate and correct excess deferrals and state how the timing of the correction affects the tax consequences of an excess deferral.
- 1.06 Describe designated Roth contributions, how they are tested and how they are taxed.
- 1.07 Describe catch-up contributions and situations that result in catch-up contributions.
- 1.08 Identify catch-up eligible participants.
- 1.09 Explain the advantages/disadvantages of not matching catch-up contributions.
- 1.10 List the distributable events as they pertain to elective deferrals, QNECs, QMACs and safe harbor contributions.

Exam Weighting

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

Suggested Reading

Chapter 1: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 2 – 401(k) Coverage and Nondiscrimination

Overview

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

401(k) plan. Regarding nondiscrimination, candidates will learn how the different types of contributions in a 401(k) plan are tested for nondiscrimination, including which participants are included, the compensation used for testing, and how the tests are performed.

Learning Objectives

The successful candidate will be able to:

- 2.01 Describe the mandatory disaggregation rules that apply to coverage testing of 401(k) plans.
- 2.02 Describe the differences between participants in the testing group and the benefiting group with respect to elective deferrals and matching contributions for coverage test purposes.
- 2.03 State the rules for testing elective deferrals, after-tax employee contributions and matching contributions for coverage and nondiscrimination.
- 2.04 Explain prior year and current year testing methods and the rules for changing from one method to another.
- 2.05 Identify the types of contributions included in the ADP and/or ACP tests.
- 2.06 Identify participants included in the ADP and/or ACP tests.
- 2.07 Calculate the ADP and/or ACP nondiscrimination tests using the prior year testing method and the current year testing method.
- 2.08 Determine whether the ADP and/or ACP tests satisfy the nondiscrimination requirements.

Exam Weighting

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

Suggested Reading

Chapter 2: DC-2: DC-2 *Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 3 – Correction of Failed ADP/ACP Tests

Overview

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

Learning Objectives

The successful candidate will be able to:

- 3.01 List methods used to correct failed ADP and/or ACP tests.
- 3.02 Calculate the amount of excess contributions, excess aggregate contributions, and applicable earnings adjustments.

- 3.03 Identify the timing and tax consequences (including calculating applicable excise taxes) of distributions of excess contribution and excess aggregate contributions, including differences for automatic enrollment plans.
- 3.04 Describe the reporting of corrective distributions.
- 3.05 Describe QNECs and QMACs and explain how they are used to correct failed ADP and/or ACP tests.
- 3.06 Calculate the amount of QNEC and/or QMAC necessary to correct a failed test.
- 3.07 State when and how shifting techniques can be used to correct failed ADP and/or ACP tests.

Exam Weighting

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

Suggested Reading

Chapter 3: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 4 – Special Coverage and ADP/ACP Testing Rules

Overview

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

Learning Objectives

The successful candidate will be able to:

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

Exam Weighting

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

Suggested Reading

Chapter 4: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

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

Overview

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

Learning Objectives

The successful candidate will be able to:

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

Exam Weighting

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

Suggested Reading

Chapter 5: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 20198.

Topic 6 - Participant Investment Direction

Overview

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

Learning Objectives

The successful candidate will be able to:

- 6.01 Describe the disclosure rules under ERISA §404(a) for participant-directed plans and to what types of plans the rules apply.
- 6.02 Determine whether a disclosure for a participant-directed plan has been timely made.
- 6.03 Describe the purpose of ERISA §404(c), to what types of plans it applies, and the requirements for compliance.
- 6.04 Describe the limited protection available for employer securities under ERISA §404(c).
- 6.05 Identify fiduciaries for purposes of ERISA §404(c) and describe situations in which a fiduciary may decline to follow a participant's instructions without jeopardizing ERISA §404(c) relief.
- 6.06 Identify the disclosure rules for qualified default investment alternative requirements.
- 6.07 Identify the requirements for default investments to qualify for relief under ERISA §404(c)(5).
- 6.08 Describe the timing and content requirements of blackout notices and determine when a blackout notice applies.

Exam Weighting

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

Suggested Reading

Chapter 6: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 7 - Allocation Methods

Overview

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

Learning Objectives

The successful candidate will be able to:

- 7.01 List the conditions a defined contribution allocation method must satisfy to qualify as a safe harbor.
- 7.02 Differentiate between design-based safe harbor allocations and non-design-based safe harbors.
- 7.03 Identify the types of plans that may use an allocation formula with permitted disparity.

- 7.04 Describe permitted disparity as it applies to defined contribution plans.
- 7.05 Calculate a contribution allocation using permitted disparity.
- 7.06 Describe the new comparability allocation method.
- 7.07 Explain the gateway requirements that must be satisfied in order to use cross-testing.
- 7.08 Describe the concept of cross-testing.
- 7.09 Define rate group (or general) testing and identify when it is utilized.
- 7.10 Explain how to determine the rate groups that will be used to perform general testing and identify rate group members.

Exam Weighting

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

Suggested Reading

Chapter 7: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 8 - Distributions

Overview

Retirement plan professionals are expected to know about the various types of distributions applicable to qualified plans. Under this topic, candidates will learn about the different forms of distributions, spousal consent requirements, qualified joint and survivor annuity (QJSA) rules, hardship withdrawals, required minimum distributions (RMDs) and Qualified Domestic Relations Orders (QDROs).

Learning Objectives

The successful candidate will be able to:

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

Exam Weighting

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

Suggested Reading

Chapter 8: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 8th Edition*. Arlington, VA: ARA, 2018.

Topic 9 - Taxation

Overview

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

Learning Objectives

The successful candidate will be able to:

- 9.01 Describe the tax impact of rolling a distribution into a Roth IRA.
- 9.02 Identify distributions that are eligible rollover distributions.
- 9.03 List the rules and penalties that apply to premature retirement plan distributions, including the exceptions to the general rules.
- 9.04 Identify distributions that are subject to mandatory federal income tax withholding and calculate applicable withholding.
- 9.05 State the rules and tax implications applicable to eligible rollover distributions, including in-plan rollovers (or Roth conversions).
- 9.06 Identify the reporting requirements for plan distributions, including the deadlines for filing Form 1099-R and Form 945.

Exam Weighting

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

Suggested Reading

Chapter 9: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 10 - Participant Loans

Overview

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

Learning Objectives

The successful candidate will be able to:

- 10.01 Explain the requirements for participant loans including repayment rules and conditions under which loans may be suspended.
- 10.02 Calculate the maximum loan amount available to a participant.
- 10.03 Explain the refinancing rules and determine whether a refinancing request satisfies the requirements for qualified plan loans.
- 10.04 Determine whether a loan must be treated as a deemed distribution and explain the associated taxation rules and reporting requirements.

Exam Weighting

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

Suggested Reading

Chapter 10: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Topic 11 - ASPPA Code of Professional Conduct

Overview

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

Learning Objectives

The successful candidate will be able to:

- 11.01 Demonstrate knowledge of the provisions of the ASPPA Code of Professional Conduct.
- 11.02 Identify the action required of an ASPPA member in areas relating to the ASPPA Code of Professional Conduct.

Exam Weighting

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

Suggested Reading

Chapter 11: DC-2: *DC-2 Study Guide: 401(k) Plans and Intermediate Administration Topics, 9th Edition*. Arlington, VA: ARA, 2019.

Bloom, Lauren. *Elegant Ethical Solutions*. Elegant Solutions Consulting: Goodlettsville, TN.