

Self Assessment Problems for Chapter 4

1. Employees who are excludable for coverage testing under IRC 410(b) are determined separately with respect to each plan tested. Similarly, in determining whether two or more plans that may be permissively aggregated and treated as a single plan for the coverage rules, an employee may be excluded only if he/she fails to satisfy both plans' age and service requirements. True False

2. Assume that the ratio percentage of a qualified plan's coverage falls between its applicable safe and unsafe harbor percentages for purposes of the average benefit percentage test. All of the following facts and circumstances may be considered by the IRS in determining nondiscrimination EXCEPT:
 - a. The business reason for the classification used in the plan (e.g. reduction in benefit costs is appropriate)
 - b. The percentage of employees benefiting under the plan (e.g., the higher the percentage, the more likely to be nondiscriminatory)
 - c. Whether the plan benefits a representative number of employees in each salary range (e.g., the more representative the percentages of those benefiting in each salary range, the more likely to be nondiscriminatory)
 - d. How close the plan's ratio percentage is to the employer's unsafe harbor percentage (e.g., the smaller the difference, the more likely to be nondiscriminatory)
 - e. The extent to which the plan's average benefit percentage exceeds 70%

3. Princeton, Inc. has three wholly-owned subsidiaries – Lawrenceville, Princeton HS Inc., and SAT Educational Inc. – none of which constitutes a separate line of business nor employs any collectively bargaining employees. Each subsidiary maintains its own separate qualified plan. The Lawrenceville Plan maintains a defined benefit plan for its employees age 21 and employed at the campus with "senior status." Princeton HS Inc. maintains a §401(k) plan and SAT Educational Inc. maintain cash balance plans, with an age 21 exclusion.

Assuming the following breakdown of employees and participants for the current plan year, would the Lawrenceville Plan satisfy the ratio percentage test of IRC §401(k)? If not, could it be aggregated with any other plan for purposes of the coverage test?

<u>Plan</u>	<u>Total employee</u>	<u>Ineligible due to age</u>	<u>Benefiting</u>	<u>HCEs</u>
Princeton Inc.	1,000	0	1,000	80
Lawrenceville	500	10	250	65
Princeton HS	250	0	250	5
SAT	<u>1,000</u>	<u>40</u>	<u>960</u>	<u>50</u>
Total	2,750	50	2,460	200*

*all HCEs benefit under a plan, none excludable due to age

QUESTIONS

SELF ASSESSMENT PROBLEMS

- a. Regardless of your answer above, assume that the Lawrenceville Plan will be relying on the average benefits percentage test. What would be the results of using that test for the plan year (assume that the average benefits percentage prong of the test can be satisfied)?
 - b. How does the Lawrenceville Plan comply with the minimum participation test of IRC §401(a)(26)?
4. PDQ employees 32 employees, at two locations (plant and headquarters (HQ)). Of these 32 employees, 5 are union employees with a collective bargaining agreement. PDQ is a small, privately held business, owned by a father and daughter, each of whom works for the company. The employer maintains a discretionary profit sharing plan for the employees located at headquarters, with an age 21 and one-year waiting period. A list of the employees by location is as follows:

Name	Location	Status	Salary
Father	HQ	75% owner	\$250,000
Daughter	HQ	25% owner	90,000
A	HQ	officer	65,000
B	HQ	sales	60,000
C	HQ	sales	45,000
D	HQ	sales	35,000
E	HQ	clerical	20,000
F	HQ	clerical	20,000
G	Plant	supervisor/officer	85,000
H	Plant	supervisor	67,000
10 employees	Plant	full-time	30,000 (average)
5 employees	Plant	part-time	10,000 (average)
2 employees	Plant	under age 21	20,000 (average)
5 employees	Plant	union drivers	hourly

a. Identify which employees are HCEs for the ~~2006~~ plan year.

b. Identify the Test Group and the HCEs and NHCEs.

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