# Pension Educator

Empowering
the Financial World

FIS

# Welcome

Pension Educator is an in-depth, 14-part series that delves into advanced concepts related to qualified retirement plans. To get the most out of this series, learners should have a basic knowledge of pension terms and concepts presented in Pension Elements.

When you complete this series, you will be familiar with some very important concepts and features of qualified plans.

You will understand:

- why employers sponsor qualified plans
- the typical types of plans available
- the basic characteristics of these plans
- when and how employees may participate
- who writes the rules and regulations

## First Things First

Welcome!

The Pension Educator Series is designed to introduce you to the terms and concepts related to employee benefits with emphasis on employer sponsored qualified retirement plans. The series concentrates on the concepts and vocabulary of industry rules and regulations. To get started, click on one of the topics within the menu on the left. To open the menu, click on the “Menu” button below, or click on the “Next” button in the navigation bar.

## How to Navigate the Course

- When the course has loaded, you can use the navigation buttons at the top of the page below the lesson title to go from page to page. Alternatively, you can use the arrow keys on your keyboard to navigate from page to page within the course. We recommend using the keyboard for faster navigation.
- Click on a link in the menu on the left of the screen to navigate to a lesson in the course. Depending on your screen width, you may need to click on the “Menu” button to open or close it. Clicking on the links will take you directly to a lesson. The course content will appear in the main area next to the menu.
- You can also use the navigation panel to print the current content page, launch the course glossary, or exit the course completely.
- When you select “Print,” a menu will appear allowing you to select to print either the page in view or the entire course. When you print the whole course, you get the course content and learning interactions (without the answers). We recommend printing the course to a PDF file for better portability.
- The Glossary contains over 500 terms that may be viewed by selecting the letter of the glossary entry (alpha) from the dropdown menu, and then selecting the glossary entry from its drop-down menu (terms).
- Throughout the course content, you will find links for glossary terms. To view the glossary entry, simply hover your mouse cursor over the link and the definition will appear. Moving your mouse cursor away will close the glossary entry.

## Taking & Scoring Quizzes

Each course concludes with a quiz. In order to access the quiz, click on the “Start Quiz” link on the Summary page of the course. You may expect 10 to 20 multiple choice questions. Each quiz question will provide feedback whether your answer is correct or not. A score of 80% is needed to pass the quiz. After you finish the quiz, please note the following:

- Your score will automatically appear on the quiz summary page.
- If you received less than 80%, you can exit and re-launch the course when most convenient to you.
- If you received a score of 80% or better, you will be given the option to submit the score. Click this button to receive credit for this course. Once you click this button, you will exit the course and it will appear in your training transcript.

## Checking Your Progress

When you have completed a course by successfully passing a quiz or exam, exit the course and return to the “My Courses” screen. There you may click on the “Transcript” tab to display a summary of the courses you have taken. Your most recent scores are available for your review.

- To view the completion detail, simply click on the course title.
- Click the link “Back to Course Information” to return to your transcript
- Return to the “Registered” tab to launch any remaining courses and continue your learning path.

# PES201 | Introduction to Retirement Plans

### Introduction

The federal government is aware of the increased reliance on employer-sponsored plans to ensure the financial and social well-being of our nation's retirees. As part of a national social policy, our government encourages individuals to increase their own personal savings and employers to establish retirement plans for their employees. This encouragement is in the form of tax savings. To encourage personal savings in addition to deferring the maximum to their employer's 401(k) plan, individuals can establish individual retirement accounts such as IRAs and Roth IRAs.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Introduction to Retirement Plans
- Types of Qualified Plans
- Sources of Authority
- Introduction to Retirement Plans II
- Summary & Quiz

### Learning Objectives

Welcome!

In this course, we begin our look at qualified retirement plans and the reasons why employers sponsor them. After completing this course, you will:

- know why employers sponsor retirement plans
- be able to identify the basic types of retirement plans
- be able to identify the primary laws and agencies that govern qualified retirement plans

# PES202 | Qualification Requirements

**Introduction**

Employers who decide to sponsor a retirement plan must decide whether it will be a qualified or non-qualified plan. The major advantage of a qualified plan is its favorable tax treatment. However, to receive this treatment, the plan must satisfy certain requirements that are set forth in the Internal Revenue Code, also referred to as the Code.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Communication
- Qualification Requirements
- Exclusive Benefit
- Minimum Vesting Standards
- Qualifications
- Summary & Quiz

**Learning Objectives**

Welcome!

This course examines the basic Qualification Requirements for employer sponsored retirement plans. An employer must follow certain guidelines and procedures in order to enjoy all of the advantages of sponsoring a qualified plan. After completing this course, you will be able to:

- identify the document and communication requirements for establishing a qualified plan
- identify the basic requirements of the plan's trust including permanency and the exclusive benefit rule
- identify the minimum vesting requirements of qualified retirement plans
- know the basic limits on compensation and contributions for qualified plans

# PES203 | Defined Contribution Plans

**Introduction**

A defined contribution or DC plan specifies either the amount the employer must contribute to the plan each year or how the contribution will be allocated and/or divided among participants, which leads to its name. DC plans are usually grouped into two families: profit sharing plans and money purchase plans.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Common Features
- Allocation of Contributions
- Defined Contribution Plans
- Profit Sharing & Money Purchase Plans
- Summary & Quiz

**Learning Objectives**

Welcome!

This course discusses the key characteristics of Defined Contribution Plans. These plans are so named because either the amount that the employer must contribute or the method of dividing that contribution among participants is specified. After completing this course, you will be able to:

- define the common features of Defined Contribution Plans
- understand the basic eligibility requirements
- list the common employer contribution allocation methods
- list the main types of Defined Contribution Plans
- understand that there are various employer contribution allocation methods

# PES204 | 401(k) Plan

**Introduction**

A 401(k) plan is a profit sharing plan with a feature that allows participants to contribute part of their compensation, before federal income taxes, into their retirement plan. Employers like the concept of employees sharing in the cost of saving for retirement. 401(k) plans also appeal to employees who would like to save for retirement on a tax-favored basis. Because of the tax incentives for both the employer and employees, 401(k) plans have become the most popular type of qualified retirement plan, surpassing traditional defined benefit plans. However, 401(k) plans are also one of the more difficult types of defined contribution plans (DC plans) to operate and administer.

Most employers can sponsor a 401(k) plan. Governmental units (states and political subdivisions of states) are ineligible to sponsor 401(k) plans. Beginning in 1997, tax-exempt organizations and Indian tribes became eligible to sponsor 401(k) plans. For-profit entities have always been eligible to sponsor 401(k) plans.

The name 401(k) plan is derived from Code §401(k), which sets forth the rules for this type of plan. 401(k) plans are technically referred to as “cash or deferred arrangements” or CODAs. In a traditional cash or deferred arrangement, plan participants are given the option or election either to take all or a portion of an employer contribution in cash or to keep all or a portion of the employer contribution in the plan. However, most 401(k) plans actually use a salary reduction arrangement. Under a salary reduction arrangement, participants elect to forgo a portion of their compensation and have that portion redirected into the 401(k) plan by the employer on either a “pre-tax” basis or “after-tax” basis (Roth deferrals).

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Characteristics
- 401(k) Plans
- Summary & Quiz

**Learning Objectives**

Welcome!

This course defines the characteristics of IRC Section 401(k) plans. These plans allow employees to save for retirement by deferring part of their salary into the plan before taxes. 401(k) plans have become the most popular type of retirement plans. After completing this course, you will be able to:

- identify the 4 basic requirements of 401(k) plans
- identify the limitations on salary deferrals
- identify other types of contributions that can be made to a 401(k) plan
- recognize the requirements for in-service and hardship withdrawals from 401(k) plans

# PES205 | Introduction to ADP / ACP Testing

**Introduction**

401(k) plans are subject to unique nondiscrimination tests. All 401(k) plans are generally subject to the Actual Deferral Percentage test, or the ADP test, for salary deferrals. The ADP test is sometimes referred to as the 401(k) test, from the Code Section in which it is explained. If a 401(k) plan has matching contributions and/or after-tax employee contributions, then the plan is subject to the Actual Contribution Percentage Test, or the ACP test. The ACP test is sometimes referred to as the 401(m) test, from the Code Section in which it is explained. These tests must be satisfied each year based on the deferrals, matching contributions, forfeitures allocated as matching contributions, and after-tax employee contributions made during the plan year. These tests are often costly to administer, which adds to the burden of a 401(k) plan.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- ADP / ACP Testing
- Safe Harbor 401(k) Plans
- Test Correction
- Summary & Quiz

**Learning Objectives**

Welcome!

This course examines the special nondiscrimination requirements and testing procedures for 401(k) plans. In order to comply with the laws and regulations, a 401(k) plan must show that the contributions made to the plan do not discriminate in favor of Highly Compensated Employees. After completing this course, you will be able to:

- identify Highly Compensated Employees versus Non-Highly Compensated Employees
- determine deferral ratios and contribution ratios for participants
- perform the ADP and ACP tests
- identify the different testing methods that can be used in 401(k) plans
- identify the correction methods are available if either or both of these tests are not passed

# PES206 | Defined Benefit Plans

### Introduction

Defined Benefit or DB plans are the traditional type of retirement pension plan. A DB plan promises to pay specific benefits to participants at retirement. DB plans were at one time the most popular type of plan for large, older corporations and unions. However, any employer can sponsor a DB plan and, as the “baby boom” generation ages, the popularity of DB plans is increasing with small employers with older, high-income employees such as doctors, dentists and lawyers.

A DB plan’s retirement benefit is defined by the plan’s benefit formula. This formula is written in the plan, so that benefits are always definitely determinable. A “definitely determinable” benefit is a benefit that can be calculated using the benefit formula and specific information about a particular participant.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Funding Benefits
- Benefit Formulas
- 415 Limits
- Accruing the Benefit
- Actuarial Assumptions
- PBGC Requirements
- Summary

### Learning Objectives

Welcome!

This course provides an introduction to the fundamentals of Defined Benefit plans. These traditional types of plans promise to pay a specified benefit to participants upon retirement. After this course, you will be able to:

- understand how benefits are funded in a Defined Benefit plan
- identify the various compensation formulas used in Defined Benefit plans
- identify the different types of benefit formulas used in Defined Benefit plans
- recognize the ways Defined Benefit plans can be “integrated” with Social Security
- understand the limitations imposed on benefits in Defined Benefit plans
- understand how participants accrue benefits
- recognize the actuarial assumptions that can be used to determine benefits
- understand the requirements of the Pension Benefit Guaranty Corporation (PBGC)

# PES207 | The Plan Document

## Introduction

Qualified plans are required to have a written plan document. Most of the provisions that are in the written plan are required because of the Internal Revenue Code and/or ERISA. However, there are many provisions where an employer has flexibility in designing the plan. The extent of this flexibility varies depending on a number of factors such as the type of entity sponsoring the plan, the type of plan, and the form of the plan document.

The plan document must specify who is eligible to participate in the plan, the formula for the allocation of contributions and forfeitures in a Defined Contribution (DC) plan, and the level of benefits in a Defined Benefit (DB) plan. It must also contain vesting, top-heavy, distribution, administrative, and trust provisions.

The plan and trust documents may be combined into a single document or designed as separate documents. The most common approach is to combine the plan and trust into a single document. The trust portion of the plan must identify the plan's trustees; their powers and responsibilities for investing and safekeeping plan assets, and define any investment limitations.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Business Structures
- Types of Documents
- Summary & Quiz

## Learning Objectives

Welcome!

This course covers the different types of business entities and the different types of plans that they might sponsor. There are many different types of plan documents that can be adopted when setting up a plan. After this course, you will be able to:

- identify the types of business entities that may sponsor qualified retirement plans
- know restrictions affecting owners and partners in these different types of businesses
- recognize characteristics of Controlled Groups, Affiliated Service Groups and Separate Lines of Business
- recognize characteristics of Master and Prototype plan documents
- recognize characteristics of Volume Submitter and IDP plan documents
- know about the determination letter process and the advantages of seeking one from the IRS

## PES208 | Plan Design

**Introduction**

Flexibility in plan design can be limited by the type of plan, the employer's business structure, and also by the form of the document that the employer chooses to adopt. When designing a plan, features regarding compensation, benefits, contributions, eligibility and loan provisions must be addressed.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Compensation
- Contributions to the Plan
- Eligibility
- Rules
- Loans
- Summary & Quiz

**Learning Objectives**

Welcome!

In this course, we explore the various features of plan design, including the rules surrounding employee loans. Depending on the type of document that will be adopted, as well as the type of business sponsoring the plan, there may be extensive flexibility in designing the plan's features and provisions. After this course, you will:

- know the ways in which a plan must specify a definition of compensation
- know the ways in which employer and employee contributions must be specified in a plan
- be able to identify and understand various plan design requirements including:
  - eligibility and plan participation for each type of contribution,
  - entry dates, and
  - other benefits under a plan
- know the plan loan requirements including IRS and DOL rules

## PES209 | Compliance Testing

**Introduction**

For a retirement plan to be considered "qualified" it must pass certain qualification tests. These tests determine whether the plan unfairly benefits highly compensated employees (HCEs) and whether key employees have accumulated too many benefits under the plan. Generally, a plan must satisfy the qualification tests each year in order to remain qualified. In very limited situations, certain tests may be done as infrequently as once every three years.

There are four separate tests that will be addressed in this chapter: the coverage test of Code §410(b), the minimum participation test of Code §401(a)(26) for certain defined benefit plans, the nondiscrimination tests of Code §401(a)(4), and the top-heavy tests of Code §416.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Minimum Coverage Tests
- Average Percentage Tests of 410(b)
- Minimum Participation Standards
- 401(a)(4) Tests
- Top-Heavy Rules Under 416
- Summary & Quiz

**Learning Objectives**

Welcome!

In this course, we cover the key nondiscrimination requirements of the Internal Revenue Code and the qualified plan tests that must be performed to demonstrate compliance with the requirements of the Code. After completing this course, you will be able to:

- determine which employees are Key Employees or Highly Compensated Employees
- identify the minimum coverage requirements of Code §410(b)
- identify the nondiscrimination requirements of Code §401(a)(4)
- identify the top-heavy requirements of Code §416
- identify the minimum participation standards of Code §401(a)(26) for Defined Benefit plans
- perform various tests and calculations associated with each of the Code Sections
- understand the different testing methods available to show compliance with the Code Sections

## PES210 | Other Retirement Arrangements

### Introduction

Qualified plans may not be the solution to retirement funding for all employers. The law prohibits certain employers from establishing 401(k) plans. Some employers may provide for salary deferrals by means of Code §403(b) or 457 plans. Even though a tax-exempt employer can now establish and maintain a 401(k) plan, that employer may well choose a Code §403(b) plan, to avoid performing the actual deferral percentage test (known as the ADP test) annually. Other small employers may not want the difficulties of maintaining traditional qualified plans, and instead may choose less complicated SIMPLE or SEP plans. Individuals cannot establish qualified plans for themselves unless they have self-employed sole proprietorships, and instead may wish to save on their own by means of individual retirement accounts or IRAs.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- 403(b) Plans
- Other Retirement Arrangements
- SIMPLE Plans
- Other Retirement Plans
- Summary

### Learning Objectives

Welcome!

In this course, we look at the main types of retirement arrangements. Qualified retirement plans are not the only type of retirement savings program that organizations and employees can use. 403(b), 457, Regular and Roth IRAs, SEPs, SAR/SEPs and SIMPLE as well as Regular and Roth IRAs. After completing this course, you will be able to:

- identify the various entities who can sponsor these different types of retirement arrangements
- recognize and identify the different types of retirement arrangements that are available
- recognize and identify the different requirements and limitations that apply to these other retirement arrangements

# PES211 | Funding & Deductibility

### Introduction

The federal government is aware of the increased reliance on employer-sponsored plans to ensure the financial and social well-being of our nation's retirees. As part of a national social policy, our government encourages individuals to increase their own personal savings and employers to establish retirement plans for their employees. This encouragement is in the form of tax savings. To encourage personal savings in addition to deferring the maximum to their employer's 401(k) plan, individuals can establish individual retirement accounts such as IRAs and Roth IRAs.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Funding & Deductibility I
- Plan Investments
- Funding & Deductibility II
- Summary & Quiz

### Learning Objectives

Welcome!

In this course, we discuss the funding and deductibility requirements for qualified retirement plans. There are certain requirements that an employer must meet in order to deduct the contributions made to the plan from its taxes. After completing this course, you will be able to:

- identify the maximum amount an employer can deduct from its taxes as a contribution to the plan and how this amount is determined
- understand the minimum funding requirements for qualified retirement plans
- identify which plans must satisfy the minimum funding requirements and the consequences if these requirements are not met
- understand the various methods of investing and managing the plan assets
- recognize when the plan assets are valued for participants and understand how the assets are valued

## PES212 | Distributions

### Introduction

The earliest time at which distributions may be made to participants varies depending upon the type of plan. This is a basic distinction between profit sharing plans and pension plans (such as defined benefit and money purchase plans). A pension plan, by definition, must be designed to provide benefits at death, disability, retirement, or termination of employment. A profit sharing plan, however, can permit distributions upon the attainment of a stated age, upon the occurrence of an event (such as death, disability, retirement, termination of employment, or hardship), or after a specific number of years.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Distributions I
- Distributions Upon Termination
- Distributions II
- Retirement Benefits
- Tax Consequences of Distributions
- Summary & Quiz

### Learning Objectives

Welcome!

In this course, we examine the circumstances, requirements and possible tax consequences of taking a distribution from a qualified plan. Since a qualified retirement plan is designed to provide income at retirement, there may be conditions attached to receiving a distribution from the plan under other circumstances. After completing this course, you will:

- be able to identify the requirements that must be met in order to take in-service or hardship distributions from a qualified plan
- be able to recognize when a distribution can be made to a participant who has terminated employment
- be able to recognize when a distribution can be made without the participant's consent
- be able to identify the various payment methods available for retirement benefits
- understand how these different methods are calculated
- be able to identify requirements for survivor and other benefits in qualified plans
- be able to recognize the tax consequences of distributions from qualified plans
- understand when a "rollover" occurs and its requirements and consequences
- understand qualified reservist distributions

## PES213 | Compliance Issues

### Introduction

ERISA is designed to protect the interests of plan participants and their beneficiaries. Many of the rules in ERISA are the same as the rules in the Code regarding vesting, coverage, and participation. However, ERISA contains additional rules concerning the management and administration of the plan and the investment of plan assets. These additional compliance issues include fiduciary responsibility, prohibited transactions, unrelated business taxable income, filings with the Department of Labor and the IRS, and informing participants of the plan's existence and terms.

In this module we cover the following topics:

- Things To Know First
- Learning Objectives
- Introduction
- Fiduciary Responsibilities
- Prohibited Transactions
- Reporting and Disclosure
- Summary & Quiz

### Learning Objectives

Welcome!

In this course, we explore various compliance and reporting issues surrounding administering qualified retirement plans. There are many requirements that administrators, investment managers and plan sponsors must meet as well as many restrictions on the actions of these and others involved in managing qualified plans. Also, reports and filings must be done each year to show that the plan is following the law and meeting these requirements. After completing this course, you will:

- be able to identify who is a fiduciary, what his or her responsibilities are, and what standards must be met
- be able to identify possible liabilities and penalties, if a fiduciary breaches his or her responsibility
- understand the definition of Unrelated Business Taxable Income (UBTI) and its taxation consequences
- be able to identify who is a “Party-In-Interest” and a “Disqualified Person”
- be able to identify prohibited transactions in qualified plans and the available exemptions
- be able to identify tax consequences and penalties
- know what is required to be in a Summary Plan Description (SPD)
- know what is required to be in a Summary Annual Report (SAR) or annual statement to the plan's participants
- be able to identify the various reports and forms that must be filed with the government and their deadlines

# PES214 | Case Study: Deerwood Medical Group

**Introduction**

This case study will offer many opportunities to apply the concepts that have been learned in the first thirteen courses of Pension Educator. The case consists of questions in several areas that will apply newly learned concepts to a given sets of facts.

This case study will test your knowledge in the following general areas:

- Eligibility and Plan Requirements
- Compensation and Plan Limits
- Distribution Rules

The following information will help answer these questions about the Deerwood Medical Group plan and its participants. It is strongly recommended that this information be printed so that you will have it as reference while working through the case questions.

In 1991, Maria Smith founded Deerwood Medical Group, Inc., a “C” Corporation. Since its inception, Maria Smith has owned 100% of company stock and she is the only officer of the company. In 1993, the company established the Deerwood Medical Group 401(k) Plan, a qualified retirement plan under Code §401(a).

In this module we cover the following topics:

- Things To Know First
- Introduction
- Plan Specifications
- Employee & Account Information
- Summary & Quiz

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