The Administrative Timeline

Presented by:

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Employee Ownership as a Brand Advantage
Agenda

- Establishing a Calendar
- Coordinating Simultaneous Procedures – A Team Effort
- Gathering Data and Coordinating Multiple Plans
- Annual Administration Timeline
- Fiduciary Reminders – Get it ON the Calendar!

Develop A Calendar

**Why Develop a Calendar?**

- Best Practice
- Legal Rationale/Systematic Documentation
- Repetitive Nature of Annual Tasks / Methodical Documentation
- Changes in staff/Useful Training Tool
- Risk associated with failing to perform certain tasks

**The Calendar Cycle**

- For 12/31 Plan Year end: January to January
- For off-calendar year end: Timing is the same – Adjust the deadlines
It’s a Team Effort!

- Shareholders
- Board of Directors
- ESOP Trustee
- Officers/Management
- ESOP Participants
- Independent or External Trustees
- CPAs
- Valuation Advisor
- Third-party Administrator (TPA)

Coordinating Simultaneous Procedures

It’s a Team Effort
Annual ESOP Valuation Process –  
Company's Perspective  

- ESOP shares must be valued annually (plan year-end), in connection with the ongoing administration of the ESOP  
- Annual Company Financials prepared and submitted to financial advisor  
- Coordinate site visit with financial advisor/trustee  
- Senior management interviews  
- Trustee and financial advisor process with resulting value determination  
- Communicate to TPA to prepare Participant Statements & Annual Administration Reports

Annual ESOP Valuation Process Timeline  

- Trustee engages valuation expert  
  (Prior to year end)  
- Due diligence document review request sent  
  (Month 1)  
- Coordinate site visit: Company management, Financial Advisor, Trustee  
  (Month 1)  
- Interview senior management  
  (Months 2-3)  
- Internal research by valuation expert  
  (Months 2-3)  
- Valuation expert internal approval process  
  (Months 3-4)  
- Draft valuation report to Trustee  
  (Months 3-4)  
- Valuation expert presentation to Trustee  
  (Months 3-4)  
- Trustee committee approves valuation analysis  
  (Months 3-4)  
- Trustee notifies Company of new share price  
  (Months 3-4)  
- Company notifies TPA of new share price  
  (Months 3-4)  
- Valuation expert delivers final report to Trustee  
  (Months 3-4)  

* Ideal timeline – Actual timing may be faster or slower depending specific situation.
Trustee Annual Year End Processes

Accept Employer Contributions – Trustee receives Employer Contributions in cash or stock.

Collect Income – Collect and Post Income received on Plan Assets held by the Trust. Income such as Dividends on Stock, Cash Income on other Investments, S-Distributions.

Make the Loan Payment – If the Plan is leveraged then the Trustee will make the required Loan Payment to the Company which will release shares to be allocated to Plan Participants.

Establish the New Stock Price -
- Engage the Financial Advisor
- Schedule and attend an on-site Due Diligence Meeting with Management to review with management the past years performance and look at the projections created by management.
- Financial Advisor too look at Economic, industry and market research

Committee Approves stock price

Final report delivered – this report belongs to the Trustee and needs to be held confidential

- Trustee to prepare final year end certified annual trust statement
- Trustee to reconcile plan allocation and participant statements to trust holdings

Employee Ownership as a Brand Advantage
The Annual Administration PROCESS is a continuous cycle with both regulatory and practical deadlines.

Q1 – Gathering Info to Begin Annual Admin Process
Q1 – Closing Out Prior Year
Q2 – Finalizing Appraisal and Admin Reports / Analyses
Q3 – EE Communications
Q4 – Wrapping Up / Final tax deadlines, Distributions, etc

Gathering Data: Administration Checklists
For Plan Sponsor – Items needed for TPA

- Employee Census & Payroll Data
- Corporate Minutes & Resolutions relating to Plan Policies, Corporate Structure, & Contributions
- HCE / Key Employee / Officer / Shareholder Information
- Employer Contributions Deposits
- Info regarding Plan Distributions
- Plan Financial Data and Trust Statements reflecting all plan activity
- ESOP Loan Payment Information
- Participant Loan documents (if not prepared by TPA)
- Updated Beneficiary Forms
- Information about other aggregated plans
- Surety Bond
- Signed copies of plan Legal documents and amendments executed during the year including Service agreements for providers

Employee Ownership as a Brand Advantage
Coordinating Multiple Plans of the Employer

- Plan Documents – Combined or Separate Plan Documents
- Definitions of Highly Compensated Group – must be the same for all plans of the same employer
- Correction methods for failed Top Heavy or IRC 415 Test must be coordinated in multiple plans due to required aggregated testing
- Tax Deduction Limits are different for different types of plans
- Disclosures to participants – combined or separate
- 401k Safe Harbor provisions in a separate plan (most commonly ESOP)

General Plan Administration Calendar

<table>
<thead>
<tr>
<th>Dates</th>
<th>Focus: BEGINNING THE YEAR – KICK OFF DUTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>Send Request for Annual Administration &amp; Census Data to start the year rolling for allocations, compliance, plan distributions, and all other operational requirements. ESOP special Diversification rules IRC 401(a)(28) set the “Election Period” as the first 90 days following the close of each plan year. Election Period begins 1/1 TPA identifies eligible participants - Age 55 and 10 years of plan participation. New guidance (LRM-5) sets the timeline for getting Diversification Notices out to eligible participants – requires plan amendment to extend “Election Period”</td>
</tr>
<tr>
<td>February</td>
<td>Process census data and calculate max deductible contributions, Safe Harbor contributions, etc. for company auditors and CPA’s to have for company tax preparation. Also, check for RMDs for 5% Owners and terminated participants. ADP &amp; ACP Testing – deadline for returning excess contributions is March 15 without 10% excise tax (with EACA exception June 30). Also check for Excess Deferrals under IRC 402(g) – correction deadline April 15.</td>
</tr>
<tr>
<td>March</td>
<td>March 15 - Corporate Tax Returns are due OR extended to 9/15. Prior year Contributions must be deposited by the date corporate tax returns are filed to be deductible. ADP &amp; ACP Corrective distributions must be returned to participants.</td>
</tr>
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### Company's Annual Administration Calendar

#### Q1-New Year

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<th>Dates</th>
<th>Focus: BEGINNING THE YEAR – KICK OFF DUTIES</th>
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<tbody>
<tr>
<td>January</td>
<td>Financial Audit</td>
</tr>
<tr>
<td></td>
<td>Census Data to TPA for plan administration &amp; maximum deductible limits calculations to be performed</td>
</tr>
<tr>
<td></td>
<td>Review information for 1099-R (for in-house or 3rd party preparation)</td>
</tr>
<tr>
<td></td>
<td>File Form 945</td>
</tr>
<tr>
<td></td>
<td>Verify 401k deductions are correct on W-2s</td>
</tr>
<tr>
<td></td>
<td>Distribute W2’s &amp; 1099-Rs</td>
</tr>
<tr>
<td>February</td>
<td>Financial Audit is completed</td>
</tr>
<tr>
<td></td>
<td>ADP/ACP Test results are reviewed and any corrections approved</td>
</tr>
<tr>
<td>March</td>
<td>Valuation Kick off occurs with Trustee &amp; Valuation firm</td>
</tr>
<tr>
<td></td>
<td>Corporate Tax Filings (in a perfect world……or file extension now)</td>
</tr>
</tbody>
</table>

### General Plan Administration Calendar

#### Q2

<table>
<thead>
<tr>
<th>Dates</th>
<th>Focus: Gathering / Processing Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>April 1 – Deferred Deadline for beginning RMDs under IRC 401(a)(9)</td>
</tr>
<tr>
<td></td>
<td>April 15 - Deadline for processing corrective distributions for Excess Deferrals under IRC 402(g)</td>
</tr>
<tr>
<td></td>
<td>April 15 – Deadline for tax filing for unincorporated entities (Contributions due), can extend to October 15 (not applicable for ESOP companies)</td>
</tr>
<tr>
<td>May</td>
<td>March – October: Process plan data, reconcile trust assets, calculate released shares and all other operational requirements of the plan - finalize Allocations, Diversification amounts, Testing, annual reports &amp; Form 5500, payable distributions, and participant notices and statements</td>
</tr>
<tr>
<td>June</td>
<td>June 30 – deadline for processing failed ADP/ACP for EACA 401k plans without 10% excise tax</td>
</tr>
<tr>
<td></td>
<td>June 30 – earliest deadline for making ESOP Diversification distributions or rollovers (as elected) – 180 days after the plan year end unless plan has been amended for extended Election Period.</td>
</tr>
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Company's Annual Administration Calendar

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<tr>
<th>Dates</th>
<th>Focus: Establishing FMV &amp; Other Fiduciary Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Review performance of Service Providers and determines if a more formal review of market place options should occur (IRC 408(b) compliance)</td>
</tr>
<tr>
<td></td>
<td>Preliminary financial information and discussions with Valuation firm (as CPA prepares FINAL financials)</td>
</tr>
<tr>
<td></td>
<td>Working with CPA to finalize financials</td>
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<tr>
<td></td>
<td>Annual Board of Directors &amp; Trustees Meeting</td>
</tr>
<tr>
<td>May</td>
<td>Valuation effort is completed and results presented to Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Share price results, trust asset information, and SAR are communicated to TPA to prepare required documents and communications to Participants</td>
</tr>
<tr>
<td>June</td>
<td>5500's and final admin reports and testing are prepared (unless extended)</td>
</tr>
<tr>
<td></td>
<td>Distribute statements &amp; SAR to current participants, mail to terminated participants and follow up with participants eligible for distributions.</td>
</tr>
<tr>
<td></td>
<td>Diversification: Set END DATE of Election Period (if using LRM-5)</td>
</tr>
</tbody>
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General Plan Administration Calendar

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<tr>
<th>Dates</th>
<th>Focus: Reporting &amp; Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>July 29 – Deadline for sending out new SPD or SMM for new plan or any amendments that were adopted in prior year (210 days after the plan year in which the new plan or amendment was adopted).</td>
</tr>
<tr>
<td></td>
<td>July 31 – Deadline for filing Form 5500 OR Extension Form 5558 – can extend for 2 ½ months, i.e. to Oct 15 for calendar years.</td>
</tr>
<tr>
<td></td>
<td>July 31 - Deadline for filing Form 8955-SSA OR Extension Form 5558 – can extend for 2 ½ months, i.e. to Oct 15 for calendar years.</td>
</tr>
<tr>
<td>August</td>
<td>Review internal Disclosure documents and determine if any changes need to be communicated to clients for Fiduciaries to make their annual review of service providers under IRC 408(b) requirements.</td>
</tr>
<tr>
<td></td>
<td>Take Vacation</td>
</tr>
<tr>
<td>September</td>
<td>September 15 - Extended deadline for corporate tax return filing and deposit of Contribution for deductibility for prior year.</td>
</tr>
<tr>
<td></td>
<td>September 30 – Deadline to distribute SAR to participants (later of 9 months after plan year end OR 2 months after extended Due Date of Form 5500 (Dec 10).</td>
</tr>
<tr>
<td></td>
<td>Send notifications to clients regarding any required plan restatements or amendments.</td>
</tr>
</tbody>
</table>
Company’s Annual Administration Calendar

### Q3

<table>
<thead>
<tr>
<th>Dates</th>
<th>Focus: Assessment &amp; Moving Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>Complete Repurchase Obligation Study (if needed)</td>
</tr>
<tr>
<td></td>
<td>Wrap up Administration and Documentation (specify)</td>
</tr>
<tr>
<td>August</td>
<td>Midyear review with Trustee &amp; Valuation firm on Company’s financial performance</td>
</tr>
<tr>
<td>September</td>
<td>Deposit deadline for any remaining accrued Employer Contributions for prior year. Deadline for filing company tax return (final extension)</td>
</tr>
<tr>
<td></td>
<td>Review potential Plan and SPD changes with TPA – regulatory requirements or operational improvements.</td>
</tr>
<tr>
<td></td>
<td>Determine deadline for executing individual Diversification Elections (if LRM-5 is applicable)</td>
</tr>
</tbody>
</table>

General Plan Administration Calendar

### Q4

<table>
<thead>
<tr>
<th>Dates</th>
<th>Focus: Closing the plan year / Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td>October 15 – Extended final deadline for Form 5500 and Form 8955-SSA</td>
</tr>
<tr>
<td></td>
<td>October 15 – Deadline for adopting a retro-active amendment for prior year IRC 410(b) coverage or 401(a)(4) “benefits” nondiscrimination violation</td>
</tr>
<tr>
<td></td>
<td>October 15 – Extended final deadline for unincorporated entities (partnerships, LLCs, and Individuals) and final deposit deadline for prior year deductible contribution (not applicable to ESOP companies)</td>
</tr>
<tr>
<td>November</td>
<td>Preparation of 401k or KSOP Safe Harbor Notices</td>
</tr>
<tr>
<td>December</td>
<td>December 1 – Deadline for sending qualified default investment notice (QDIA) &amp; automatic contribution arrangement notice</td>
</tr>
<tr>
<td></td>
<td>December 15 – Extended deadline for distributing SAR to participants</td>
</tr>
<tr>
<td></td>
<td>December 31 – Deadline for adopting plan amendments to be effective for current year. 401k and KSOP – deadline to add or remove Safe Harbor from plan for upcoming year</td>
</tr>
<tr>
<td></td>
<td>December 31 – 401k and KSOP – deadline for correcting failed discrimination tests (with 10% excise tax on returned contributions OR with QNEC)</td>
</tr>
<tr>
<td></td>
<td>December 31 – RMDs due under IRC 401(a)(9)</td>
</tr>
</tbody>
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### Company's Annual Administration Calendar

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<tr>
<th>Dates</th>
<th>Focus: Closing the Plan Year / Communications / Fiduciary Planning</th>
</tr>
</thead>
</table>
| October | October 15 – Final deadline for filing company tax return (in an imperfect world)  
Wrap up all remaining administration and compliance reports in October  
Wrap up plan distributions to participants (Normal and Diversifications) |
| November | Start over again: Semi-Annual Company Board of Directors Meeting |
| December | Deposit ESOP Annual Contribution to Trustee  
Receive Loan Payment from Trustee on the Internal Loan |

### General Plan Administration Calendar

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<thead>
<tr>
<th>Dates</th>
<th>Focus: CLOSING THE PLAN YEAR – Year End Reporting for Plan Distributions</th>
</tr>
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</table>
| January | January 31 – Deadline for postmarked Forms 1099-R to Recipients of plan distributions in previous calendar year. Includes most types of payments greater than $10 made from the plan for any reason including payments to Beneficiaries, Alternate Payee for QDRO, participant loan defaults, Corrective distributions for excess deferrals or discrimination failures, Returns of excess contributions, RMDs, Rollovers, distributions of Company Stock, and C-Corp Dividends paid directly from the plan.  
January 31 – Filing deadline for Form 945 reporting tax withholding on plan distributions in previous calendar year. If all withholding tax is deposited timely throughout the year, the deadline is usually extended to a later specified date in February (Feb 10 in 2014).  
January 31 – If the COMPANY paid OUT C-Corp Dividends in prior year directly to ESOP participants, must report on Form 1099-DIV.  
Determine State filing requirements for individual forms and withholding tax transmittal forms. |
| February | February 28 – Deadline for filing PAPER Forms 1099-R with the IRS (E-FILING has an extended specified deadline usually about March 31)  
February 28 – common deadline for STATE reporting of 1099-Rs – STATE REQUIREMENTS VARY |
| March | March 31 – E-filing due date for 1099-R and 1099-Div – Actual Date is specified in 1099 filing instructions each year |
Timeliness of 401k Participant Deposits

- January 2010 – DOL issued final regulations on the “Seven Business day” Safe harbor for small plans
  - Plans with fewer than 100 participants, have a seven business day window to remit the participant’s deposit.
  - The seven business day window starts from the payroll date.
  - The seven business day safe harbor is not available to plans with 100 or more participants.
  - Fiduciaries are well advised to have their staff track timeliness of deposits in an effort to demonstrate their responsibility over this process.
  - Documentation in the key!

DOL – Written rule on timeliness of deposits for plans with 100 or more participants

- Employers are required to remit employee contributions to the plan as soon as they can be reasonably segregated from the employer’s general business assets, but no later than the 15th business day of the month following the month in which the participant contributions are withheld or received by the employer [DOL Reg.2510.3-102(b)].
  - What does “reasonably segregated” mean:
    - As soon as the employer has remitted payroll to the employee, knows what the required deposit is for the withheld employee benefit plan contributions, and can segregate the funds form the employer’s general assets, the employer is required to remit the contributions to the custodian.
    - The confusing aspect of the above rule relates to the term “no later than the 15th business day of the month following the month in which the participant contributions are withheld.”
    - When comparing these two concepts, the DOL has ruled that the “reasonable segregation” requirement overrides the “no later than 15th business day” exception.
Reminder: Required Fee Disclosures

What is required by the Plan Sponsor / Service Provider under § 408(b)(2) of ERISA?

➢ **Annual Disclosure to Participants**: Required following changes in investment fees and recordkeeping fees.

➢ **Additional Disclosures**: Required following changes to compensation or services no later than 60 days from the date changes are approved.

When is it required to be delivered to the Participant?

- **Initial Disclosure**: Required on or before the date when participants can first direct investments.

- **Annual Disclosure**: Required to be updated and distributed at least annually.

- **Additional Disclosures**: Required at least 30 days, but no more than 90 days, prior to plan related changes.
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Carla Klingler
Senior Pension Consultant

Carla Klingler began her pension career in 1980 at a national ESOP firm where she served as V.P. Administration, first in San Francisco and later in Atlanta. Her pioneer work in the pension industry included interpreting the practical and operational aspects of ERISA and developing administration procedures and mathematical models to address regulatory requirements. Her broad technical expertise effectively aids clients of all sizes and corporate structures in the practical aspects of their plan design, implementation, operations, legal compliance, accounting, & employee communications.

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Questions?

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