



# LETTER

## May, 2002 32-bit Version 7.5 ADMINISTRATORS BEWARE!

If your client's plan document has a definition of compensation which includes Section 125 (Cafeteria) deferrals, they may be inadvertently providing incorrect salary information. Since Section 125 deferrals are not subject to any tax withholding, they are not always reported on W-2 forms. Therefore, using W-2 compensation for allocation purposes would be incorrect if the client does, in fact, have a Section 125 Plan. If the deferrals are reported on the W-2s, that amount must be added to Box 5, Medicare Wages & Tips. The total of the two would be the salary on which contributions should be allocated. If the client has a Section 125 plan and the deferrals are not reflected on the W-2s, make sure they are provided in addition to the W-2 salaries.

There is always a chance that an IRS auditor could catch the discrepancy. We all know how painful and time consuming re-dos are!

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## WHEN MATCHES AND ER CONTRIBUTIONS DIFFER.....

When the requirements to receive an allocation of Employer cont./forf. are more lenient than the ones to receive a match, you may have a testing problem. We would suggest that you have the more restrictive match requirements set-up in the Plan Parameters, "A" screen, then run your tests. After the required testing is complete, change the parameters in the "A" screen to reflect the more lenient requirements to receive a allocation of Employer contribution and or

## 16-bit Version 6.12

forfeiture. Allocate the latter.

## FLASH

California now has a law, SB 168, which restricts the use of Social Security numbers. In an attempt to curb the crime of identity theft, the new law will give the Participants the right to block the printing of their social security number on retirement plan communications, including benefit statements.

It will be generally effective July 01, 2002.

Similar laws are pending in Congress and at least two other states.

Since blocking the number on a one on one basis would be prohibitive, Incompass will be allowing the User to make the election of not having the social security numbers print on any given statement at the time they choose the statement

number/type. At the time the law was announced, the May updates were already complete. An update will be available by mid June.

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## COMPARABILITY TIP

Problem: An HCE is not entitled to an allocation of contribution or forfeiture. BUT, it is necessary to have him/her included in all the testing, ee counts and rate groups. How do you do that?

Answer: Go the the Participant's "B" screen. In "EE Classification" (3<sup>rd</sup> to last field), place a "Y".

Mission accomplished. You may also reference the Bulletin Board item of 11/07/00.

NEW RATES

These are the monthly rate increases since the last update:

PBGC Variable Premium Rates

Apr. 2002	5.71%	Mar. 2002	5.40%
Feb. 2002	5.45%	Jan. 2002	5.48%
Dec. 2001	4.35%	Nov. 2001	4.52%
Oct. 2001	4.66%	Sep. 2001	4.66%
Aug. 2001	4.77%		

GATT Interest Rates

May 2002	5.69%	Apr. 2002	5.69%
Mar. 2002	5.71%	Feb. 2002	5.40%
Jan. 2002	5.45%	Dec. 2001	5.48%
Nov. 2001	5.12%	Oct. 2001	5.32%
Sep. 2001	5.48%	Aug. 2001	5.48%

DB Quarterly Penalty Interest Rates

Apr. 2002	8.21%	Mar. 2002	7.97%
Feb. 2002	8.18%	Jan. 2002	7.92%
Dec. 2001	7.00%	Nov. 2001	7.29%

DB Current Liability Minimum\ Maximum Interest Rates and Lower "Upper Limit" Rates

Apr. 2002	5.13%	- 6.83%	- 6.26%
Mar. 2002	5.13%	- 6.83%	- 6.26%
Feb. 2002	5.13%	- 6.84%	- 6.27%
Jan. 2002	5.14%	- 6.85%	- 6.28%
Dec. 2001	5.15%	- 6.29%	- 6.01%
Nov. 2001	5.17%	- 6.32%	- 6.03%
Oct. 2001	5.18%	- 6.34%	- 6.05%

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ALL WINDOWS SCREENS

The capability to minimize or maximize a screen has been built into each of the menu screens. However, it can not prevent you from accidentally overlaying data in the master file. For instance, if you brought up a client in Option A, then minimized the screen on the taskbar to attend to something else, you may not realize that Incompass is still open. By double clicking on the Incompass icon, a second copy of the system would be opened.

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RUNNING A SAFE HARBOR PLAN

When running a "Safe Harbor" plan, screen #3 in the Plan Parameters needs to be set-up in a specific manner. If it is just a Safe Harbor allocation method, answer the question "Employment Req'd for Alloc." with an "S". "The Number of Hours Req'd for Alloc." should be 501. The system will allocate cont./forf. to all participants employed on the last day, regardless of hours worked. Terminees who work 501 or more hours will also receive an allocation. The Edit report will detail any changes the system makes. If the plan is a Safe Harbor plan, in addition to the two items mentioned above, the "Type of Plan" question also needs to be answered with an "S".

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## ANNUAL ADDITION LIMITS

Your Incompass Defined Contribution system will automatically apply the correct annual addition to any full plan year being processed. That amount appears in the Run Controls, "D" screen. For a shorter period, the User must make an adjustment to that field based on the number of months, divided by 12, times the applicable dollar limit. The system will accept a smaller number but not a larger one. Currently, the \$35,000 limit is applied to all plan years that begin or end in 2001. For plan years that begin and end in 2002, the limit is \$40,000. For plan years that end in 2003, the limit is \$41,000. REMEMBER: The annual addition limit is dictated by the plan year end except for the initial year of EGTRRA, 2002.

## INTEGRATED MONEY PURCHASE PLAN FORMULA AND ALLOCATION

If you have an integrated MPP formula that must be allocated in the same manner as calculated, it is a two step process.

Step I In the first screen of the Plan Parameters, indicate that the plan is Top Heavy and enter the base percentage of the formula as the Top Heavy Percentage. That means the % of Total Eligible Compensation on screen 4 is also the Top Heavy percentage. In the allocation parameters on screen 6, use allocation code 2 and enter 0 in the first field, the wage base being used and the actual percentage of excess on screen 4. After setting-up the run parameters, Option D, run Option H to calculate the contribution. DO NOT MERGE. Note the contribution amount calculated.

Step II Go back into the Plan Parameters and indicate that the plan is not Top Heavy. Change the Top Heavy percentage to 0.

Put the contribution calculated by Option H in the "D" screen, Run Controls. Run Option E. The contribution will be allocated correctly.

ATTENTION XP OPERATING SYSTEM USERS  
If you need blinding speed from your computer, and you have the XP Operating System with at least 512 MB of RAM, here is a suggestion. Go to [www.superspeed.com](http://www.superspeed.com) and click on Windows XP users. There you will find an explanation of how a RAM disk works. You continue to maintain the master files on a file server or even on your C drive, but all of the calculations, print files, and work files are maintained in memory which is MUCH faster than any hard disk.

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## Minimum Distribution Table

The IRS issued a new table to be used when calculating the required 70 ½ annual distributions in the 2001 Proposed Regulations. That table can be found with the manual, newsletters and YEIR instructions by clicking on the word "Manual" from the Main Menu.

However - the Final Regulations have been issued and they changed the table AGAIN! A copy of the new Uniform table to be used has been attached for your convenience. With the next update, you will be able to find it, by clicking on the word "Manual" from the Main Menu.

The Final Regulations are effective for required minimum distributions beginning on or after January 01, 2003. For the calendar year 2002, either the Final Regulations table, the 2001 Proposed Regulations table or the 1987 Proposed Regulations table may be used to calculate the benefit due.

## **SOME OLD NEWS BEARS REPEATING**

**When your plan is integrated, the maximum permitted disparity is limited to 5.7% of excess compensation (or 5.4% or 4.3%, depending on the integration level being used). There is a kicker though. If the Employer puts in a contribution that is LESS than your excess percentage, the maximum permitted disparity percentage is reduced to 2 times the actual contribution percentage.**

**For example, the Employer has a formula which allocates to 5.7% of compensation in excess of the Social Security Wage Base. The employer puts in a contribution which only equals 2% of compensation. The percentage that can be allocated to excess compensation must be reduced to 4%.**

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