Quick Start Guide

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This guide is intended to give a quick tour of how the ftwilliam.com DB Proposal Module works. If you have additional questions, please contact support by clicking the drop-down box in the upper right corner of the software that displays your username, select the Contact Support option, complete the form and press the send button.

Here is the suggested order of tasks for the Proposal Module.

Step 1: Log-in and Access Proposal

- Create company/plan or select company/plan.
- Navigate to Proposal.

Step 2: Enter Census Data

- Click on the Work with Census link in the Participant Data/Calculate/Reports section.
- Use one of three methods to add a company's employee data to DB Proposal census.
    - Copy from Compliance: Instantly copy all census data from DB Compliance (note: This feature is not available if you don't have an active DB Compliance subscription).
    - Add New Participant: Manually enter one participant at a time.
    - Upload Census: Upload a saved census file in .csv format. You can click the Download Census button to get a copy of file contents to include. If you have a DC Proposal subscription, you can create a census file using the Export button on any DC Proposal Option then upload into DB Proposal.

Step 3: General Information

Complete the General Information section for each item below.

- Title: This will populate on the proposal report. Typically users will enter the plan name here, followed by the text proposal. For example "Plan X's Proposal".
- Prepared by: This will populate on the first page of the proposal report and on the second page as the contact person/company. Users will typically enter their firm's name.
- Plan Year End: Select the plan year end that the proposal is applicable to. The system assumes the year is a calendar year, ending on 12/31. The year selected dictates which limits are used.
- Number of Proposals: Select an option from 1 to 5. Users can compare up to 5 options in a single proposal report.
- Normal Retirement Age: This is the age used in calculating the normal retirement date and used for test purposes.
- Nondiscrimination Testing Interest Rate & Post-Retirement Mortality Table: Change the defaults to use different testing assumptions.
- Marginal Income Tax Rate: Enter a typical tax rate to be used in calculating value to the company
- DB Plan Assumptions: Enter the actuarial equivalence assumptions you would expect to be defined in the Plan or use the defaults.
- Segment Rates: Enter interest rates in-line with the timing of an expected first annual actuarial valuation for minimum funding and maximum tax-deductible contributions or use the defaults.

Step 4: Complete the Studies Specifications Section

The number of options you have available to complete depend on the number of proposals selected in the General information section. For each proposal option that is available, complete the below fields as applicable.

- Option Name: Enter a descriptive name for the option.
- Plan Types and Sources: These options let you choose to create a proposal for a combo plan scenario, a Cash Balance-only plan scenario, a 401(k) Plan scenario, or a Profit Sharing-only plan scenario.
    - Defined Benefit: Select “Cash Balance” if you wish to include a Cash Balance arrangement in the proposal option. Select “None” if you wish to have a Defined Contribution plan option only.
    - Defined Contribution: Select “Yes” to include Defined Contribution allocations in the proposal option. Select “No” to exclude all Defined Contribution allocations entered in the census from being included in the proposal option, for a DB plan only option. Select “PS Only” to include only Profit-Sharing contributions in the proposal option.
- Cash Balance Benefit Formula - only applies if Cash Balance is selected in the Defined Benefit Plan Type option.
    - Enter the Interest Crediting Rate
    - Select Principal Credit Allocation Formula
- Profit Sharing Allocation (only applies if you are including a Defined Contribution Plan Type): Choose between allocating PS amounts by Group or to be read in directly from the Census data.
- Groups (this link will only appear if Cash Balance and/or Profit Sharing allocations are defined as Groups): Click the link to open a table where you can select the formula and relevant % and/or $ amounts for each Group.

Step 5: Calculate

Return to the top section. Pressing the calculate link will run all plan benefit calculations, minimum, maximum, and recommended funding calculations, and perform compliance tests for each option.

When the calculations are complete, review the online compliance test results screen. If the result is in blue text, it is a link to further detail. You can modify your options at this point and recalculate until you have all the options you want to include in the Proposal report.

Step 6: Print Report

Print Settings: Click this link to set options for printing (font type, logos, etc.).

Pressing the Print Report link will generate the proposal report. The proposal report includes the following pages:

- Cover Page
- Defined Benefit Plan Disclaimer
- Defined Benefit Summary
- Allocation Summary
- Option Detail Pages
- Compliance Test Results

ftwilliam.com DB Proposal – How to

Accomplish . . .

This section presents the condensed general process, scenarios for various situations, and helpful hints.

A. General Process

This is a summary of the general process for every proposal. The additional scenarios below use this general process, along with additional recommendations on how to accomplish the likely goals.

Steps

1. Census Data - Census data can either be copied from DB Compliance (available when DB Compliance is active), added or updated manually through the Census screen, uploaded from an outside spreadsheet or from a file created by a ftwilliam DC proposal export file.
2. General Info – These specifications will be used for all Options.
3. Options Specifications - These specifications are unique to each Option. Use Options Specs to create the different plan designs under consideration (DB only, DB/DC, etc.). The Profit Sharing and Cash Balance Group allocation formulas (for up to 10 Groups) are unique to each Option and operate independently.
4. Calculate – Use the Calculate button to complete all compliance testing and funding calculations.
5. Resolve testing errors – Use the "PASS/FAIL" results as well as links in the online test results "pop up" screen to view and identify areas to be resolved.
6. Recalculate (as necessary)
7. Print Report – Once testing errors are resolved, use the "Print" button to create the report in editable rich text format.

B. Owner Only Plan

A company that consists of only the owner (or owner and spouse) desires an arrangement to provide the maximum allowable contributions and benefits. The defined benefit plan will not be covered by the PBGC, therefore IRC 404(a)(7) deduction limits apply.

Step Details

1. Census Data
    a. Put each employee into separate Groups if 3b below is applicable; otherwise, they can all be in a single Group 1.
    b. If 7a below applies, create an opening balance of the cash balance account. Be aware that this is only available when the person has service prior to the effective date of the plan.
2. General Info
3. Options Specs
    a. Set Cash Balance formula - Determine the desired maximum contribution for participants. There are formulas built into the system that can help:
        i. "Max 415 LS Current" – This formula produces a principal credit that puts the participant's cash balance account at the maximum IRC 415 lump sum limit at the end of the first plan year. This is the largest distributable amount at year-end.

ii. "Max 415 LS at NRA" – This formula produces a principal credit that puts the participant's cash balance account at the amount that will accumulate to the IRC 415 lump sum limit at NRA. This may produce a larger amount than what can be paid at year-end; therefore, may be a good longer-term solution.

b. If the participant's high three-year average compensation is notably different than their current year's compensation, you will want to do the following:
   i. Manually calculate the high three-year average compensation and enter this as the participant's compensation in the census.
   ii. Calculate and save the IRC 415 Benefit Limits report.
   iii. Put each participant into a separate allocation group.
   iv. Change the cash balance principal credit formula type for the Group to "Dollar Amount" and enter the amount for the participant based on the maximum lump sum benefit per the report.
   v. Reset the participant's compensation in the census equal to the actual current year amount. This will allow proper calculation of the DC 415 and deduction limits.

4. Calculate
5. Resolve testing errors
   a. The IRC 404(a)(7) combined deduction limit applies if there is a defined contribution plan. Be sure to review the Deduction Test Summary report for information on the deductible contribution amount.
6. Recalculate (as necessary)
7. Print Report
   a. If you want to present the plan as the sum of the principal credits being the recommended contribution amount, you will want to review the Defined Benefit Summary page of the report to make sure that it is not being constrained by the minimum required or maximum deductible contribution amounts. This occurs sometimes when the person with the largest principal credit is either less than five years or more than twenty years away from the normal retirement age. To widen the gap between the minimum and maximum contributions, you may need to shift part of the principal credit into the opening balance of the cash balance account. Be aware that this is only available when the person has service prior to the effective date of the plan.

      Example – A person is receiving a $100,000 principal credit. The plan's interest crediting rate is 5%. This results in a minimum required contribution that is more than $100,000. Try setting an opening balance in the cash balance account of $23,809.52 ($25,000 / 1.05) and a principal credit of $75,0000. This will result in an ending cash balance account of $100,000 (the same as setting a $100,000 principal credit). However, the plan now has a funding target at the beginning of the year that will lower the minimum and increase the maximum contribution amounts.

C. Plan with Nonhighly Compensated Employees

A company that consists of an owner and one or more Nonhighly Compensated Employees ("NHCEs") desires an arrangement to provide large benefits to the owner(s) and the lowest allowable contribution to the NHCEs. You will likely want to consider using some of the suggestions presented in the Owner Only Plan scenario for the HCEs in this scenario.

Step Details

1. Census Data
    a. Separate HCEs and NHCEs into separate Groups, and possibly multiple separate Groups if you want different allocations for sets of HCEs or NHCEs.
2. General Info
3. Options Specs
    a. Set the cash balance principal credit for the owner (or preferred employees) based on one of the maximum 415 formulas, or use a flat dollar amount or percentage of pay.
    b. Set the cash balance principal credit for the NHCEs (or subset of NHCEs) in an amount necessary to pass the IRC 401(a)(26) minimum participation test – "Min for 401(a)(26)" formula type. Alternatively, you can use a flat dollar amount or percentage of pay to the entire group. To determine this amount, you may wish to calculate the plan first to see the Minimum Credit amount for each employee on the 401(a)(26) Minimum Participation Test report, then adjust NHCE Groups as needed.
4. Calculate
5. Resolve testing errors
    a. Fixing a failed Gateway test – The Gateway must pass by providing all NHCEs either 7.5% or the Non-Safe Harbor percentage. To determine the amount of DC nonelective contributions (profit sharing) needed to pass, take the rate you are trying to achieve and subtract the NHCE DB average from the Gateway Test report.Example – The Non-Safe Harbor percentage is 9%, so the most efficient way to pass the Gateway will be to provide the 7.5% Safe Harbor. The average NHCE DB rate is 1.5%. This means that all NHCEs need to receive at least 6% in DC nonelective contributions. The DC plan is already providing a 3% Safe Harbor nonelective contribution; therefore, the additional profit sharing contribution to all NHCEs is 3%.
    b. Fixing a failed Rate Group test – The Rate Group test requires all HCE rate groups to pass at 70%. Alternatively, the rate groups may pass at the midpoint if the average benefits percentage test also passes. A person is in a rate group only if both their EBAR and Most Valuable EBAR ("MVAR") are equal to or greater than the EBAR and MVAR of the benchmark HCE. The Rate Group Test report lists all employees in descending order based on their EBAR and displays the rate group results for the HCEs. Below are some tips for passing testing.
        i. If there is a DC plan, manipulate NHCE profit sharing contributions (not cash balance principal credits). It is generally more advantageous to provide NHCEs greater contributions in the DC plan, because they are projected to the testing date at a higher interest rate and result in larger EBARs/MVARs per dollar of contribution.
        ii. Use the group functionality to subdivide the NHCEs into the ones you wish to increase vs. the ones who should remain at the Gateway amount.
        iii. It is possible to provide different profit sharing amounts to each NHCE (assuming the plan document supports this). Therefore, you can increase the profit sharing amounts for individual NHCEs as needed to make a certain rate group pass. You can do this by entering the profit sharing amounts for individual NHCEs into the census, or by putting them all into separate groups and using the group formulas.
        iv. If rate group testing is passing at the midpoint, but the average benefits percentage test does not pass, consider providing larger contributions to the NHCE with the highest EBAR to efficiently improve the average benefits percentage test results.
        v. Since both the EBAR and MVAR must be higher than the benchmark HCE in order for a person to be in their group, in a plan with more than one HCE it is possible to manipulate contributions such that neither HCE is in the other one's rate group. This will reduce the number of NHCEs needed to be in one of the rate groups for testing to pass.

c. The IRC 404(a)(7) combined deduction limit may apply if there is a defined contribution plan and the defined benefit plan is not covered by the PBGC. Be sure to review the Deduction Test Summary report for information on the deductible contribution amount.

6. Recalculate (if necessary)
7. Print Report

D. Plan with Many Owners

A company that consists of more than 10 partners wants to provide a plan with an individualized principal credit amount for each. Note that if there are 10 or fewer partners you can use the process below or put each partner into their own Group.

Step Details

1. Census Data
    a. Put all the partners in Group 1, or alternatively if you prefer and there are fewer partners, you can put each into their own Group.
2. General Info
3. Options Specs
    a. Provide a de minimis cash balance flat dollar amount principal credit amount of perhaps $10 for each partner Group.
    b. Calculate the plan and open the IRC 415 Benefit Limits report. The maximum lump sum benefit at the valuation date is the maximum principal credit that is distributable and can therefore safely be provided to each partner. Send this information to the prospect and have them provide the actual amount that they wish to go to each partner.
    c. Export the census data into excel and enter each partner's principal credit into the "CashBalanceBenCred" column. Save and import the new census data. Note – you can also enter the principal credits online via the online census interface.
    d. Set the principal credit formula for Group 1 to "Census Data". If each partner is in their own Group and you do not enter CashBalanceBenCred in the census data, you can set the amounts as dollar amounts in the Groups' formulas.
    e. Calculate the plan. The system will use the census information (or Group formula dollar amounts) as the principal credit for each person.
4. Calculate
5. Resolve testing errors
6. Recalculate (if necessary)
7. Print Report

E. Floor Offsets

While the proposal system does not have a direct method for calculating a concurrent floor offset for IRC 401(a)(26), you can follow this process to create the same numerical results for a design wherein the non-preferred participants are receiving the minimum principal credit for a meaningful benefit and all participant benefits are offset by the DC nonelective balance.

Step Details

1. Census Data
    a. Preferred employees
        i. Put all into Group 1
        ii. Determine the cash balance principal credit you want for each employee and reduce it by the amount of their anticipated DC contribution, then enter this amount in the "CashBalanceBenCred" column.
    b. Non-preferred employees – Put all into Group 2
2. General Info
3. Options Specs
    a. Set the cash balance interest credit rate to be the same as the actuarial equivalence pre-retirement interest rate.
    b. Preferred employees (Group 1) - Use the cash balance group formula "Census".
    c. Non-preferred employees – Set the cash balance principal credit to a Dollar Amount of $0 d. Set the Profit Sharing allocation to the same percentage for all employees.
4. Calculate
5. Resolve testing errors
    a. Increase Profit Sharing allocation percentage and/or decrease preferred pay credit, as needed, to pass IRC 401(a)(4) testing.
    b. Run the minimum participation test report to determine if the DC nonelective contribution is completely offsetting the cash balance account based on the minimum benefit for each non- preferred participant. If so, they can all stay at a $0 principal credit. If any are not completely offset, set their principal credit at the net amount (difference between the minimum principal credit for a meaningful benefit and their actual DC nonelective contribution).
    c. Adjust preferred employees' principal credits for DC nonelective contribution changes.
6. Recalculate (as necessary)
7. Print Report

F. Additional Helpful Hints

- General Information section
    - Normal Retirement Age - Use age of 62 for the largest future lump sum for those restricted by the IRC 415 limits
    - Nondiscrimination testing interest rate - If the preferred group is generally older than the non-preferred group, use 8.5%.
    - Marginal income tax rate – This is the income tax rate on the owner's top level of income that will be contributed to the plan (i.e., if it were taken into income instead of being contributed to the plan).
    - Actuarial Equivalence - Use the applicable mortality table and 5% interest to achieve the highest possible IRC 415 limits.
    - Segment Rates - The IRC 430 and 404 segment rates should be those that will be applicable for the first plan year. The IRC 430 segment rates are static based on the plan year beginning date. The IRC 404 rates are based on a lookback month that can be the month that includes the valuation date or up to four months prior (i.e., August rates may be used for a December 31st valuation date).
- Studies Specifications section
    - Maximize Profit Sharing - The profit sharing contribution in a DC plan can be maximized to the IRC 415 limit

by setting the formula to 100% of pay. The system automatically reduces the amount to not exceed IRC 415.

- Misc. notes
  - If a prospect does not have three years of historical service for establishing the IRC 415 average compensation, be aware that future compensation decreases may result in lower distribution limits than what is shown in the report.
  - The sum of the cash balance principal credits will not always fall within the minimum required or maximum deductible contribution amounts. See the Owner Only Scenario regarding shifting principal credits into the opening balance if you want to remedy this situation.
  - If there are more than ten allocation groups, you can import the profit sharing and/or cash balance allocations using the census. Apply these amounts by selecting “census data” for the profit sharing and/or cash balance formula.
  - Be aware that the system does not test for satisfaction of the top heavy requirements. In a DB/DC combination arrangement, the top heavy minimum contribution is generally 5% of pay in the DC plan. Make sure all non-key participants are receiving this minimum contribution if you believe the combined plans to be top heavy.