

Plan Administrator Operating Guidelines

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Forward

I. **Plan Administrator Operating Guidelines (PAOG)**

To help you find the information you need, we have converted the PAOG manual from a notebook to a CD with links by topic and search functions.

II. **Who is the Plan Administrator?**

The Plan Administrator is named in the Plan document and is often the company that sponsors the Plan. Since the company must act through people, the company's board of directors may authorize a person, or group of people, to perform this important function. Throughout this manual, we will use the words "you" and "your" to refer to the individual or group who has been appointed to act as the Plan Administrator.

III. **What are the Plan Administrator Operating Guidelines?**

The administration of your Plan involves a partnership between you and UMB Bank, n.a. – the Trustee or Custodian of the Trust assets of your Plan. This manual is a reference tool and an explanation of how we will work together and share information to administer your Plan.

A. Section 1: **Responsibilities**

This section is an overview of important roles, functions and responsibilities that are assumed by you and UMB Bank, n.a. (UMB). Included in this section is a list of duties or responsibilities that may be delegated to UMB.

B. Section 2: **Procedures**

This section contains instructions concerning the basic administrative operations of your Plan: from enrolling new participants, making contributions, authorizing benefit payments and approving loans.

C. Section 3: **Filings and Disclosures**

This section describes the filings and disclosures that are required for a qualified retirement plan: What are they? When are they due? Who prepares them? Who files them?

D. Section 4: **Compliance**

This section describes the rules, regulations, tests and requirements that may apply to your Plan. Sample administrative policies are included in this section.

E. Section 5: **Forms**

Frequently used administrative forms are provided in this section.

F. Section 6: **Glossary**

Section 1 – Responsibilities

I. Your Responsibilities as Plan Administrator

For most retirement plans, the employer serves as the Plan Administrator. Throughout this manual, we will use the words "you" and "your" to refer to the individual or group appointed to act as Plan Administrator. You may delegate some duties to plan service providers, but you are responsible for the administration of your Plan. Your responsibilities include all of the items listed below. UMB Bank (UMB) offers services or assistance to help you with the responsibilities marked with an asterisk ().*

- A. Resolving ambiguities and conflicting Plan provisions and acting as the point-of-contact for all interested parties regarding the Plan*
- B. Securing the services of accountants, actuaries (for defined benefit plans only), attorneys, consultants and others as may be necessary for the proper operation of the Plan*
- C. Determining eligibility for Plan participation, entitlement to allocations of contributions and forfeitures, vesting and accrual of benefits, according to the rules of the Plan* (refer to [Procedures](#))
- D. Counseling participants and beneficiaries as to their rights under the Plan*
- E. Ruling on claims for benefits*
- F. Informing participants who are currently entitled to benefits of their payment options and their right to elect not to have federal income tax withheld from benefit payments*
- G. Directing the Trustee to pay benefits and withholding of federal income tax* (refer to [Benefit Payments](#))
- H. Insuring that all fiduciaries of the Plan are in compliance with bonding requirements of Section 412(a) of the Employee Retirement Income Security Act of 1974 (ERISA) (refer to [Fiduciary Bonding](#))
- I. Reporting to participants and government agencies such as the Internal Revenue Service (IRS), the Department of Labor (DOL) and the Pension Benefit Guaranty Corporation (PBGC) (for defined benefit plans only), as required by law and regulations* (refer to [Filings and Disclosures](#))
- J. Maintaining participant service records, benefit records, vesting records and other information specified below:
 1. You are required to maintain records that will provide in sufficient detail the necessary information from which required reports to the IRS, the DOL, and the PBGC (for defined benefit plans only) may be prepared. These records must be kept available for at least six years after the filing dates of the reports.*
 2. You must also maintain records to determine the accrued benefits of any Plan participant who:
 - a. Requests information (but you need not provide the information more than once in any 12-month period)
 - b. Terminates his or her service with the employer

- c. Has a break in service, as defined in the Plan document
- 3. You should have access to the following records, as necessary to administer specific provisions of the Plan:
 - a. Accurate age records are often necessary to validate those aspects of plan administration that may be based on attainment of a given age, for example, eligibility to participate, vesting, early retirement, or normal retirement.
 - b. Service records of time worked by all employees must generally be available so that determinations of eligibility, vesting or benefit accruals may be substantiated. Most plans place emphasis on the performance of 500 or 1,000 hours of work during specified time periods; others use different criteria. Whatever measurements of service are used, precise records must be available. In this regard, many defined contribution plans provide different eligibility requirements for participation in the Plan, participation in the allocation of contributions and determination of vested percentage. As Plan Administrator, you should be thoroughly familiar with the criteria for each.
 - c. Records of wages must be available and in proper order so that benefits or contributions for employees may be determined.
- 4. Failure to comply with recordkeeping requirements can subject the Plan Administrator to a civil penalty of \$10 for each employee for whom adequate records are not maintained.
- K. Maintaining individual accounts for each participant (refer to [Additional Services](#))
- L. Determining that the Plan complies with all applicable annual testing requirements*
 - 1. [Coverage Test](#) (percentage ratio test only)
 - 2. [Compensation Ratio Test](#)
 - 3. [Maximum Annual Addition Test](#)
 - 4. [Actual Deferred Percentage \(ADP\) Test](#) for 401(k) Plans
 - 5. [Average Contribution Percentage \(ACP\) Test](#) for Plans that allow voluntary non-deductible contributions and for 401(k) Plans with a company match
 - 6. [Top-Heavy Testing](#)
 - 7. [Maximum Deferral Limits](#)
 - 8. Other IRS limitations
- M. Adopting and following a written loan policy, if participant loans are allowed by the Plan* (refer to [Loans](#) and [Participant Loan Programs](#))
- N. Identifying participants subject to [minimum distributions rules](#)* and obtaining distribution or deferral elections

**UMB offers services or assistance to help you with the responsibilities.*

II. Trustee Responsibilities

Your Trust Agreement (which may be incorporated in the Plan or be in the form of a separate document) will identify which of the trustee responsibilities apply to your specific Plan Trust:

- A. Holding legal title to all assets
- B. Receiving and recording all contributions from the employer and participants
- C. Investing and reinvesting the assets in accordance with the Trust Agreement
- D. Maintaining custody of all securities
- E. Collecting interest, dividends and other income on Plan assets
- F. Processing all security transactions
- G. Providing an annual statement listing assets held and transactions occurring over the reporting period
- H. Making benefit payments directed by the Plan Administrator and filing IRS Form 1099-R
- I. Withholding federal and state income tax

III. Additional Services

Arrangement for UMB to provide any of these services must include supplying UMB with the information necessary to perform the responsibility.

- A. Establishing and maintaining individual participant account records, as required by the Plan, and providing statements and reports to you and plan participants at least annually. UMB provides the following services for adding contributions to participant accounts:
 - 1. Calculate company contributions based on a fixed allocation formula
 - 2. Allocate company contributions
 - 3. Post the employee and company contributions determined by the company and reported to UMB for each participant
- B. Performing applicable compliance tests
 - 1. [Coverage Test](#) (percentage ratio test only)
 - 2. [Compensation Ratio Test](#)
 - 3. [Maximum Annual Addition Test](#)
 - 4. [Actual Deferred Percentage \(ADP\) Test](#) for 401(k) Plans
 - 5. [Average Contribution Percentage \(ACP\) Test](#) for Plans that allow voluntary non-deductible contributions and for 401(k) Plans with a company match.
 - 6. [Top-Heavy Testing](#)
 - 7. [Maximum Deferral Limits](#)
 - 8. Other IRS limitations

- C. Preparing the annual IRS Form 5500 series report
 - 1. Forwarding the completed IRS Form 5500 series report to you to sign and file (refer to [Annual Report IRS Form 5500](#))

Section 2 – Procedures

Note: IRS forms and instructions referenced in this section can be found at WWW.IRS.GOV. Under Forms and Publications Finder, type the form name you're looking for.

I. Enrollment Procedures

A. Eligibility Standards

The Plan's eligibility standards are specified in the Adoption Agreement of prototype plans. If you have an individually drafted plan, they are set forth in the plan document. This information is also discussed in the Summary Plan Description (SPD). Your Plan may use multiple entry dates for various features. For example, the Plan may require a full year of employment before an employee becomes eligible to receive a profit sharing contribution, while allowing an employee to immediately begin making 401(k) salary deferral contributions to the Plan.

B. Collection of Employee Information

You will need to maintain a complete list of employees with the following information:

1. Date of birth
2. Date of hire
3. Hours of service for each year

During the Plan year, you should continually update your list of employees to determine if anyone has met the requirements to become a participant.

C. Determination of Plan Entry Dates

Even though an employee may meet the eligibility requirements, the employee does not officially enter the Plan until the Plan Entry Date. You will need to refer to your SPD, Adoption Agreement or Plan Document for the definition of Plan Entry Date. Most Plans have two official entry dates: the first day of the plan year and six-months following the first day of the Plan year. For a calendar year plan, this would be January 1 and July 1 of each year.

D. Enrollment

Shortly before each Plan Entry Date, you should:

1. Enroll new participants who become eligible to enter the Plan
 - a. Provide education about the Plan
 - b. Furnish new participants with administrative forms
 - [Designation of Beneficiaries Form](#)
 - [Salary Deferral Agreement](#), if your Plan includes a 401(k) feature
 - Initial Investment Election Form, if your Plan provides for investment direction by participants

- SPD, within 90 days of the date they enter the Plan
2. Allow current participants to make changes
 - a. Provide education about the Plan
 - b. Change election options
 - c. Change designated beneficiary
 - d. Change salary deferral amounts

Your enrollment process will depend upon the size of your organization and your budget. You may simply provide printed enrollment materials to employees who have met the eligibility requirements of the Plan. A more comprehensive program would include educational meetings designed to generate enthusiasm and appreciation for the retirement program your company sponsors. Question and answer periods before, during or after meetings help employees become more comfortable with the Plan. Basic investment education is also important, especially when your Plan provides for participant investment direction. Your UMB Representative can help you determine what best fits your situation.

II. Designation of Beneficiary

A. [Designation of Beneficiaries to Receive Death Benefits Form](#)

1. Completed during enrollment
2. Updated when family circumstances change

B. Spousal Benefits

1. The laws that govern qualified retirement Plans generally require that a participant's spouse receive at least 50 percent of the participant's account balance in the Plan; unless there is no spouse or the spouse has consented to the designation of another beneficiary.
2. A designation of beneficiary election is generally ineffective, unless the spouse is named as the beneficiary or there is no spouse.
3. If the named beneficiary is someone other than spouse, the spouse must consent and the signature must be witnessed by
 - a. Notary public or
 - b. You as the Plan Administrator

C. Hierarchy of Beneficiaries

Refer to your SPD for the specific rules relating to this feature. In addition, your Plan will identify the hierarchy of beneficiaries when the participant is not married at the time of death, or when you do not have a signed designation form on file.

D. Maintenance of Beneficiary Designations

Since you may need to refer to this information at a later date, you will want to maintain these beneficiary designations where you can find them in the future. Most Plan Administrators keep them with their general records for their retirement Plan. You should encourage your participants to review their

designation of beneficiary forms periodically since life style changes can happen at any time.

III. Contributions

A. Where to Send Contributions

1. Make checks payable to: UMB Bank, n.a.
Mail to: UMB Bank, n.a., Trustee for
(Fill in Name of Your Plan)
(Fill in the Trust Account No. of Your Plan)
Attn: (Fill in the Name of Your UMB Administrator)
P.O. Box 417014
Kansas City, MO 64141-7014
2. Send wires to: UMB Bank, n.a.
ABA Routing No. = 101000695
BNF Name = Trust Operations/AC-9800006823
OBI Field = Your Plan Name, Trust Account No.
Attn: Your UMB Administrator
3. Transfers: If you have a checking account with UMB, we can debit your account upon authorization from you. We will need a letter authorizing the debit along with your account number. Please contact your UMB Administrator for details.

B. Contribution Documentation

In order to process your contributions properly, your UMB Administrator needs the following information with each contribution.

1. Plan year for which the contribution is made
2. Type of contribution(s)
3. Data for allocation of contributions (Defined Contribution Plans only)

C. Additional Information for Defined Contribution Plans

Refer to your Adoption Agreement, Plan document or SPD to find out what types of contributions may be made to your Plan. We sometimes call these types of contributions "sources" of funds. Types of contributions commonly allowed by Defined Contribution Plans include:

1. Employer Profit Sharing Contribution
A contribution made by the employer based upon profits or a desire to contribute to the Plan for all eligible employees.
 - a. Timing: Employer contributions are allocated to participant accounts annually (after the close of the Plan year). Normally, these contributions will be made within two and one-half months after the end of the Plan year. If your Plan requires contributions to be made more frequently or before the end of the Plan year, refer to [Preallocation Accounts](#) or contact your UMB Administrator.

- b. **Deductibility:** Employer contributions must be received by the Trust no later than the due date for filing the employer's federal income tax return, with extensions, to be deductible for that year.
- c. **Data for Allocation:** Annually, we will provide to you a [Data Request List \(DRL\)](#) which requests information about all of your employees. This information is needed for us to be able to allocate the employer contribution and perform annual testing (refer to [Annual Testing](#)) for the Plan.

2. Employer Matching Contribution

A contribution made by the employer for employees who make 401(k) or voluntary nondeductible contributions to the Plan.

- a. **Timing:** The timing of Employer Matching Contributions will depend partly on Plan design and partly on preference. Normally, these contributions will be made during the first two and one-half months after the end of the Plan year.
 - **Participant Eligibility for Matching Contributions**

If your Plan has either an "hours of service" or "employment on the last day of the year" requirement, you will not be able to allocate the matching contribution until such time as the participants have met those requirements; usually at the end of the Plan year. You are not required to contribute the matching contribution before the end of the year.
 - **Frequency of Matching Contributions**

Contact your UMB Administrator to discuss the advantages and disadvantages of allocating matching contributions more frequently than annually.
- b. **Deductibility:** Employer contributions must be received by the Trust no later than the due date for filing the employer's federal income tax return, with extensions, to be deductible for that year.
- c. **Data for Allocation:** You may calculate the matching contribution and send this data to UMB in an electronic file for each participant, identified by social security number. Or, you can arrange for UMB to calculate the matching contribution from the DRL information that you provide annually.

3. 401(k) Salary Deferral Contribution

A pre-tax contribution made by employees through payroll deduction and forwarded to the Plan by the employer.

- a. **Timing:** Department of Labor (DOL) regulations require timely transfer of 401(k) contributions to the Plan – as soon as the contributions can be segregated from employer assets and no later than the 15th business day of the month following the date of the payroll.
- b. **Allocation Data:** Send an electronic file of salary deferral amounts for each participant identified by social security number. An Excel spreadsheet in a consistent format is acceptable. Total 401(k) contributions on this list must agree with the contribution amount transferred to the Plan.

If you need help in transmitting this information to us, please contact your UMB Administrator.

4. Voluntary Nondeductible Employee Contribution

A contribution by employees being made by payroll deduction with after-tax dollars (the employee has already paid taxes on the contribution).

- a. Timing: Department of Labor regulations require timely transfer of employee contributions to the Plan – as soon as the contributions can be segregated from employer assets and no later than the 15th business day of the following month.
- b. Allocation Data: Send an electronic file of voluntary nondeductible amounts for each participant identified by social security number. An Excel spreadsheet in a consistent format is acceptable. Total contributions on this list must agree with the contribution amount transferred to the Plan.

5. Qualified Nonelective Employee Contribution (QNEC)

Contributions by the employer to nonhighly compensated participants to pass the annual anti-discrimination tests.

- a. Timing: Typically, QNECs are allocated to participant accounts annually.
- b. Deductibility: Employer contributions must be received by the Trust no later than the due date for filing the employer's federal income tax return, with extensions, to be deductible for that year.

6. Rollover Contributions

Contributions made by employees who receive a distribution from the qualified retirement plan of a previous employer. (Refer to [Rollover Contributions](#).)

IV. Participant Loans

As Plan Administrator, you are responsible for interpreting and administering plan loan provisions. UMB provides supporting documents, procedures and maintenance of loan records, but you will need to approve participant loans.

A. Plan Provisions and Loan Program

1. Participants may not borrow from your Plan unless the Plan document specifically states that participant loans are allowed.
2. If your Plan allows participant loans, you must have a written loan program and distribute it to your participants. (Refer to [Participant Loan Program](#).)
3. The following procedures assume that your Plan allows participant loans and that you have a written loan program. For more information about requirements for loans, refer to [Loans](#).

B. Loan Application

1. Participants should request a loan application and promissory note online through UMB BenefitDirect® or by telephone through BenefitLine®.
2. If your Plan is not connected to UMB BenefitDirect or BenefitLine, your participants will need to contact you or other company representatives to

obtain a loan application form. Please coordinate with your UMB Administrator to establish procedures for your Plan.

C. Loan Approval

1. Participants should return a signed loan application to you for approval.
2. As Plan Administrator, you are responsible for determining that the form has been properly completed and that spousal consent, if required, is properly signed and attested.
3. If your company maintains more than one retirement plan or is a member of a controlled group or an affiliated service group of companies that have other retirement plans, you should verify that the participant will not exceed the maximum loan limit when combined with all loans from other Plans.
4. You must either approve or disapprove the loan request on the basis of the Loan Program.
5. If you approve the loan application, you should sign and forward the application and signed promissory note, if applicable, to your UMB Administrator.

D. Promissory Note

1. A promissory note will be prepared by UMB. The promissory note is designed to comply with the Truth-in-Lending Act and Regulation Z.
2. When a participant requests a loan through UMB BenefitDirect or BenefitLine, a promissory note is mailed to the participant with the loan application.
3. If your Plan does not have UMB BenefitDirect or BenefitLine,
 - a. The note will be prepared and mailed to you after we receive an approved loan application.
 - b. You will need to obtain the participant's signature.
 - c. The signed note must be return to your UMB Administrator.

E. Loan Proceeds

1. Upon receipt of the signed promissory note (and an approved loan application), UMB will complete the loan processing and issue a check to the participant.
 - a. If the loan was requested through UMB BenefitDirect or BenefitLine, the check will be mailed directly to the participant.
 - b. If the loan was not requested through UMB BenefitDirect or BenefitLine, the check will be mailed to you to forward to the participant.
2. In some cases, funds are not immediately available. Your UMB Administrator will hold the loan papers until sufficient cash has been raised to issue the loan and mail the check.

F. Securing a Participant Loan with a Mortgage

1. If the participant wants to secure the loan with a mortgage, the applicant should have his or her attorney prepare a mortgage or deed of trust against his

or her principal or secondary residence, and then submit that document along with the application and promissory note.

- a. The mortgagee in the mortgage should be UMB Bank, n.a., Trustee of (name of the Plan and Trust)
- b. Some states utilize deeds of trusts rather than a mortgage. The applicant should be sure to check with his or her attorney as to the proper form.
2. UMB will record the mortgage or deed of trust document in the appropriate public records and deposit it to the Trust.
 - a. The recording charges will be deducted from the participant's account upon receipt of the invoice from the Recorder's Office. If the recording charges are in excess of \$50, UMB will generally contact the Plan Administrator before paying the charge.
 - b. Any other expenses incurred by UMB in processing and reviewing the mortgage document and any hourly fees will be deducted from the participant's account.
3. When a loan is secured by a mortgage, UMB must provide the borrower with a "Notice of Right to Cancel."
 - a. UMB must provide the borrower three (3) business days within which to cancel the transaction.
 - b. After the expiration of the three-day period, UMB will mail the check. For purposes of this waiting period, a business day is considered to be Monday through Saturday, excluding holidays.
4. A loan secured by a mortgage will also be secured by the applicant's accrued vested account balance.

G. Loan Payments

1. Payroll Deduction Payments
 - a. UMB will send an amortization schedule to you so that you can arrange for loan payments to be taken by payroll deduction.
 - b. You should arrange to have loan payments sent to your UMB Administrator with documentation or electronic files so that we can properly credit the borrower's account.
 - c. The timing and method of making loan payments by payroll deduction are substantially the same as discussed previously for making 401(k) contributions.
2. Direct Payments by Participants
 - a. Participants should make payments on or before the scheduled payment dates and include the appropriate information to identify the loan with their payment.

H. Delinquent Loans

1. A loan will become delinquent if a scheduled payment is not made.
2. Your UMB Administrator will notify you if a loan becomes delinquent.
3. Notification Procedure
 - a. UMB will send the borrower a notice that he/she has missed a payment.

- b. If payment is not received, UMB will give the borrower a final written notice.
- c. If UMB does not maintain the participant addresses for your Plan, these notices will be mailed to you to forward to the borrower.

I. Defaulted Loan Procedures

- 1. If a delinquent loan payment is not made within the 30 days allowed in the final written notice, the loan will be reported either as a taxable distribution or a taxable event.
- 2. The borrower, depending on age, may be subject to the 10 percent tax for early withdrawal. (Refer to [Loans](#).)

J. Terminated Employees with Outstanding Loans

- 1. Your Plan's Loan Program should discuss the distribution options available to a terminated participant.
 - a. Some Plans automatically deduct the loan from the participant's account and report it as a taxable distribution after a participant terminates employment. This is done to avoid the administrative cost of maintaining a loan that was previously set up for payments through payroll deduction.
 - b. Other plans allow participants to begin or continue making direct payments on their loans, as long as they have an outstanding loan and an account balance in the plan.
- 2. If a lump sum benefit is paid to a terminated participant or if the account balance is transferred to another retirement account in a direct rollover, the outstanding loan is usually deducted from the participant's account and treated as a taxable distribution. The remaining value of the participant's account is distributed or transferred.

V. Benefit Payments

As Plan Administrator, you are responsible for interpreting Plan provisions, determining eligibility and vesting, and authorizing benefit payments from the Plan. You need to know what your Plan document says and make consistent and fair decisions based on the Plan document.

A. Distribution Packet

A Distribution Packet should be provided to the participant (or beneficiary if the participant is deceased) by you or by UMB. This packet includes notices and forms the participant will need to request a payment and provide distribution instructions to you. You will need to review the forms, complete the information reserved for the employer, sign the form to direct UMB to make the payment and forward this information to your UMB Administrator.

B. Review the [Distribution Election form](#)

You should follow these steps to determine that the form has been properly completed and that the benefit is allowed by the Plan:

1. Reason for Payment: Determine that the participant has satisfied one of the reasons described in the Plan document for receiving a payment from your Plan. (Examples: retirement, death, disability, termination of employment and plan termination. Some distributions, such as Required Minimum Distributions, [Qualified Domestic Relations Orders](#), In-Service Withdrawals and Hardship Withdrawals, require special documents and forms.)
2. Timing of Payment: Determine when the participant is eligible for payment.
3. Vesting: Determine the years of service for purposes of vesting. Vesting refers to the percentage of the employer contribution accounts that will be paid. There may be separate vesting schedules in the Plan for each type of employer contribution. Non-vested balances will be forfeited as defined in your Plan.
4. Form of Payment: Determine that the participant has requested a form of payment that is allowed by the Plan. (Examples: lump sum, installment payments, direct rollover or purchase of an annuity. (Refer to [Qualified Joint and Survivor Annuity](#).)
5. Qualified Joint and Survivor Annuity (QJSA): Unless your Plan is a Profit Sharing or Stock Bonus Plan that qualifies for an exception, benefits must be paid in the form of a QJSA, unless another form of payment is selected. If this requirement applies to your Plan, the participant will need to sign and attach a waiver of QJSA in order to select any other form of payment. If married, the spouse of the participant must consent to the waiver, and the signature of the spouse must be witnessed to be effective. A [waiver form](#) is included in the Distribution Packet.
6. Qualified Preretirement Survivor Annuity (QPSA): If a married participant dies before beginning to receive benefits from a Plan subject to QJSA annuity rules, the spouse's benefit must be in the form of a QPSA, unless an alternate form of payment is selected. The participant (with the consent of the spouse) may select an alternate form of payment prior to death. The spouse may select an alternate form of payment after the participant's death, however a waiver of the QPSA is required.
7. Exceptions to the Annuity Rules
 - a. Profit Sharing Plans and Stock Bonus Plans may be exempt from the QJSA and QPSA annuity rules if:
 - The Plan provides that the participant's full benefit will be paid to the spouse, or to another beneficiary if the spouse consents, or if there is no surviving spouse;
 - The participant does not elect to receive benefits in the form of a life annuity; and
 - The Plan has not received a Plan-to-Plan transfer from a Plan that was subject to annuity rules.
 - b. Cash Out Exception: A Plan may provide for immediate lump-sum distribution of benefits if the present value of the benefit does not exceed \$5,000.
 - c. Qualified Election: The participant may make a qualified election for an alternate form of benefits that is provided by the Plan. A qualified election may be made (with spousal consent) within 90 days before the date the

benefit payment would begin and may be revoked (without spousal consent) any time before payment begins.

8. **Consent to Distribution:** If the benefit to be paid from the Plan is greater than \$5,000, the participant must consent to receive a distribution. By signing the [Distribution Election](#) included in the Distribution Packet, the participant has given consent to distribute. Your Plan may allow a "cash out" distribution without consent if the amount of the benefit does not exceed \$5,000.
9. **Special Tax Notice:** The participant **must** be provided with a [Special Tax Notice Regarding Plan Payments](#) prior to electing a distribution. This notice explains the tax consequences of distributions from qualified retirement Plans and is included in the Distribution Packet.

C. **Direction for Payment of Benefits**

Complete and sign the distribution forms to direct UMB to make the payment and to provide the reason for distribution, vesting, Plan entry date, termination date and other information needed for tax reporting.

D. **Forward to UMB for Processing**

After reviewing the Distribution Election, completing the information to be provided by the employer and signing the form to authorize payment, you should forward this information to your UMB Administrator.

VI. Tax Withholding

A. **Rollover Eligible**

Distributions that are eligible for rollover to another qualified retirement Plan or Individual Retirement Account arrangement are subject to 20 percent mandatory federal income tax withholding.

B. **Installment Payments Over a Period of 10 Years or Longer**

Installment payments are subject to federal income tax withholding in the same manner as wages. UMB calculates the withholding amount using the percentage method of withholding. Participants may submit IRS Form W-4P to specify the number of withholding allowances and any additional amount they want withheld. They may also claim exemption from withholding on IRS Form W-4P. In the absence of an IRS Form W-4P, taxes will be withheld assuming the participant is married with three withholding allowances.

C. **Ten Percent Withholding**

Distributions that are not eligible for rollover and are not installment payments over at least 10 years are subject to 10 percent federal income tax withholding. The participant may elect out of this withholding.

D. **Corrective Distributions**

No withholding can be made on a distribution that is taxable in a prior year.

E. State Withholding

Some states require state income tax withholding when federal income tax is withheld. UMB will automatically withhold state income taxes if the payee's address is in a state that requires withholding. Other states allow voluntary state tax withholding. UMB will withhold state income tax for these states when directed in writing to do so.

VII. Direct Rollovers

A direct rollover is a tax-free distribution and rollover (in cash or securities) of an eligible rollover distribution paid directly by a retirement plan to another eligible retirement plan or Individual Retirement Account (IRA).

A. Eligible Rollover Distributions

1. Eligible rollover distributions are discussed in the [Special Tax Notice Regarding Plan Payments](#) included in the Distribution Packet. (Refer to [Benefit Payments](#).)
2. Eligible rollover distributions include all or any portion of an employee's qualified retirement Plan benefits **except**:
 - a. Required Minimum Distributions (RMDs)
 - b. Substantially equal periodic payments (at least annually) over 10 or more years
 - c. Corrective distributions: contributions in excess of maximum annual additions, excess deferrals (over the maximum dollar limit for 401(k) contributions), excess contributions (to pass the Actual Deferred Percentage test) and excess aggregate contributions (to pass the Average Contribution Percentage test)
 - d. Defaulted loans that become taxable events or are deemed distributions
 - e. Dividends paid on employer securities from an Employee Stock Ownership Plan (ESOP)
 - f. The taxable value or cost of life insurance coverage. (Refer to [PS-58 Costs](#).)
 - g. Prior to 2002, the portion of any distribution that represents an employee's after-tax contributions

B. Rollover Elections

1. When participants become eligible for a distribution from a qualified retirement plan, they may elect to have an eligible rollover distribution paid directly to another eligible plan or IRA.
2. A surviving spouse of a deceased participant may elect a direct rollover to an IRA. Beginning in 2002, a rollover by a surviving spouse is not limited to an IRA. The surviving spouse may elect a direct rollover to any eligible retirement plan.
3. A spouse or former spouse, who is an alternate payee under a QDRO, may elect a direct rollover to an IRA. (Refer to [QDROs](#).) Beginning in 2002, a

direct rollover by a spouse or former spouse who is an alternate payee is not limited to an IRA. A spouse or former spouse who is an alternate payee may elect a direct rollover to any eligible retirement plan.

4. Beginning in 2002, direct rollovers may be made between 403(b) Plans, governmental 457 Plans, Qualified Retirement Plans and IRAs.

C. Direct rollovers are reported on IRS Form 1099-R but the distribution code identifies the distribution as a tax-free direct rollover.

D. Direct Rollover Distributions

1. A direct rollover option is available for any eligible rollover distribution in your Plan.
2. Within a reasonable period of time before making a distribution, you are required to provide a written explanation of and an opportunity to elect a direct rollover to the participant who is eligible to receive a distribution. A Special Tax Notice and [Distribution Election form](#) are included in our Distribution Packet to meet this requirement. (Refer to [Benefits Payments](#).)
3. You may rely upon a participant's representation that the retirement Plan or IRA selected to receive the direct rollover is an eligible retirement Plan that will accept a direct rollover.
4. Before you direct UMB to make a benefit payment in the form of a direct rollover, you should review the [Distribution Election form](#) and be sure that the participant has properly completed the form and provided the information necessary to make the direct rollover.
 - a. Name of the Plan to receive the rollover
 - b. Name of the trustee of the eligible retirement plan or IRA
 - c. Address of the trustee
 - d. Plan Administrator or person to contact
 - e. Telephone number of Plan Administrator or person to contact

E. Rollover Contributions

1. Your Plan may include a provision to accept rollover contributions. If your Plan does not allow rollover contributions, they may not be accepted.
2. As Plan Administrator, it is your responsibility to authorize each rollover.
 - a. Refer to your Plan before approving the receipt of any rollover contribution. You may not approve a rollover contribution unless it is allowed by your Plan.
 - b. You should require a signed statement from the participant indicating that the contribution is eligible for rollover and is from an eligible retirement plan or conduit IRA.
 - c. In addition to direct rollovers, you may approve a rollover contribution from an employee who has received an eligible rollover distribution, as long as the rollover contribution is deposited to your Plan within 60 days of the date received by the employee.

- d. UMB will accept a rollover contribution in the form of a check or a wire, if the rollover is allowed by your Plan and you have approved it.
- e. You will need to provide UMB with documentation of the rollover contributions you approve, including the name and social security number of the participant making the rollover.
- f. Beginning in 2002, your Plan may allow rollover contributions from 403(b) plans, governmental 457 plans and traditional IRAs. Your Plan will need to reflect the types of rollover contributions you wish to allow. The documentation you obtain from the participant and provide to UMB should include the following:
 - the type of plan from which the rollover was received,
 - the amount of after-tax employee contributions, if any, included in the rollover from a qualified plan, and
 - the amount attributable to a traditional IRA and any after-tax contributions included in that amount.

VIII. Plan-to-Plan Transfers

Plan-to-Plan transfers involve a transfer of assets representing the accrued benefits of participants from a transferor Plan to transferee Plan. A Plan-to-Plan transfer is not a direct rollover.

A. Requirements for Plan-to-Plan Transfers

1. The participant requesting the transfer must be eligible to request a transfer from the transferor Plan and be a member of the eligible class of employees covered by the transferee Plan.
2. If the transferor Plan document does not specifically allow a transfer of assets representing the accrued benefits of a participant to another qualified Plan, a Plan-to-Plan transfer is not allowed.
3. If the transferee Plan document does not specifically allow a transfer of assets representing accrued benefits of a participant from another Plan, a Plan-to-Plan transfer is not allowed. The Plan document may limit the acceptance of Plan-to-Plan transfers to benefits from certain types of plans or benefits.
4. The transferee Plan becomes subject to any automatic survivor benefit requirements and the optional forms of benefits available to the participant under the transferor Plan. Many profit sharing, stock bonus and 401(k) plans do not accept Plan-to-Plan transfers from a Defined Benefit Plan, Money Purchase Pension Plan or any other Plan subject to the automatic survivor benefit requirements. However, a direct rollover may be accepted from one of these plans because direct rollovers do not subject a Plan to automatic survivor benefit requirements.
5. A Plan-to-Plan transfer may include non-deductible contributions and deductible employee contribution accounts. Prior to January 1, 2002, these amounts would not be eligible for a direct rollover.
6. A Plan-to-Plan transfer maintains the alternative tax treatments available to the participant under the transferor Plan with respect to benefits attributable to the transferor Plan. For participants born before 1936 with Plan participation prior to 1974 in the transferor Plan, a portion of a subsequent

lump sum distribution may be treated as long-term capital gains for tax purposes.

B. Documentation

1. The Trustee or Plan Administrator of the transferor Plan must provide the following:
 - a. Copy of an IRS determination letter or a written statement that the transferor Plan is a qualified Plan
 - b. Written statement that the transferor Plan is authorized to make direct transfers to another qualified Plan
 - c. A copy of the transferor Plan document or applicable sections covering the normal and optional forms of benefits provided under the Plan
2. The Plan Administrator of the transferee Plan receiving the Plan-to-Plan, if the transfer is approved, must provide a written acceptance to the Trustee or Plan Administrator of the transferor Plan.
3. The Plan Administrator or Trustee of the transferor Plan must provide
 - a. Amounts transferred by type of contribution
 - b. Net voluntary after-tax contributions (life-to-date contributions less nontaxable withdrawals)
 - c. Net 401(k) contributions (life-to-date contributions less withdrawals) available for hardship withdrawal
 - d. Accumulated PS-58 costs, if a life insurance policy is transferred
 - e. Amount attributable to a traditional IRA and any after-tax contributions included in that amount
 - f. If the participant was born before 1936 and was a participant in the Plan prior to 1974, UMB will need the participant's Plan entry date in the transferor Plan. The participant may elect to have a portion of a future lump sum distribution taxed as capital gains under the 1986 tax provisions and may also elect to use forward averaging.

When two or more plans are merged, or when there is a Plan spin-off splitting a Plan into two or more plans, the Plan Sponsor or Plan Administrator may be required to file an IRS Form 5310-A at least 30 days before the event. For more information, contact your retirement Plan specialist, consultant or attorney.

IX. Qualified Domestic Relations Orders (QDROs)

As Plan Administrator, you are responsible for approving QDROs relating to Plan benefits in the divorce of a participant.

A. QDRO Definition

1. QDROs include judgments, decrees, orders and approvals of property settlement agreements issued by a state court pursuant to the state's domestic relations law.
2. A QDRO assigns to the alternate payee (a spouse, former spouse, a child or other dependent of the participant) the right to receive all or a portion of the retirement Plan benefits payable to the participant.

B. Written QDRO Procedure and Plan Provisions

1. Your Plan must have a written QDRO procedure. (Refer to [Written QDRO Procedure](#).)
2. A Plan must be administered as if it contains QDRO provisions, even if the Plan has not yet been amended to add them to the Plan document.

C. Your QDRO Responsibilities

1. You must follow your Plan's written QDRO Procedure in determining whether a Domestic Relations Order (DRO) satisfies all requirements to be a QDRO.
2. Administrative Hold: Your written QDRO Procedure should include a provision for an administrative hold on the participant's account. An administrative hold prohibits a participant from receiving a new loan or withdrawal from the Plan until the QDRO process has been resolved.
3. When you receive a DRO, you must promptly perform the following:
 - a. Notify the participant and the alternate payee that you have received the DRO.
 - b. Mail a copy of the written QDRO Procedure to the participant and the alternate payee.
 - c. Notify the participant that an administrative hold will be placed on his or her account.
4. Send a copy of the DRO to your UMB Administrator along with written instructions to place an administrative hold on the participant's account, if appropriate.
 - a. We need to know that there is a pending DRO and whether we are to place an administrative hold on the participant's account.
 - b. We want to assist you in evaluating whether the DRO provides the necessary information and is in correct form to be qualified.
5. You must determine whether a DRO qualifies as a QDRO within a reasonable period of time after the DRO is received.
 - a. You must mail a notice to the participant and the alternate payee advising them that a DRO is or is not a QDRO as soon as you make the determination.
 - b. In some cases, a DRO provides for payment to the alternate payee during the period in which you are determining if the DRO qualifies as a QDRO. If this happens, you will need to arrange with UMB for the segregation of the amount in question from the participant's account until a determination can be made.
6. Send the approved QDRO to your UMB Administrator with appropriate instructions to segregate the alternate payee's benefit from the participant's account. If the alternate payee is to be paid, send a Distribution Packet to the alternate payee and approve the distribution when the forms are returned to you. After you review, complete and sign the Distribution Election form, and forward it to your UMB Administrator. After the alternate payee's benefit has been segregated, the administrative hold on the participant's account will be released.
7. Other Possible Outcomes

- a. If the participant is awarded his or her entire account balance by the court, send a copy of the court's ruling to your UMB Administrator with your written instructions to release the administrative hold on a participant's account.
- b. If the spouse or former spouse makes a notarized written statement releasing his/her claim to the participant's account, send a copy of the notarized statement to your UMB Administrator with your written instructions to release the administrative hold on the participant's account.
- c. If the attorney for the alternate payee sends a letter stating that a QDRO is not going to be obtained, send a copy of the letter with your written instructions to release the administrative hold on the participant's account.

Section 3 – Filings and Disclosures

You may wish to obtain a copy of IRS Publication 1048, *Filing Requirements for Employee Benefit Plans*, by calling the IRS at 800-829-3676. This publication may be helpful because it provides information on the required filings and disclosures discussed within this section of the manual. Note: IRS forms and instructions referenced in this section can be found at WWW.IRS.GOV. Under Forms and Publications Finder, type the form name you're looking for.

The following filings and disclosures are **the responsibility of the employer or the Plan Administrator** as required by the Employee Retirement Income Security Act of 1974 (ERISA):

I. Initial Filings and Disclosures

A. Application for IRS Determination Letter

A favorable IRS determination letter is a letter issued by the IRS ruling that the provisions of the Plan conform to the requirements of the tax law. You should obtain an IRS determination letter or an IRS opinion letter stating that your plan document complies with IRS requirements for a qualified plan. As a qualified Plan, your company's contributions to the Plan will be tax deductible, the income earned by the Trust will be non-taxable and accrued benefits for employees will be tax deferred.

2. Defined Contribution Plan Filings

- a. "Standardized" Prototype Plans: You may rely upon the IRS opinion letter issued for a "Standardized" Plan. The IRS will not issue a determination letter to an employer adopting a "Standardized" Plan.
 - b. "Nonstandardized" Prototype Plans: If you adopted the UMB Prototype Plan and Trust without modification, you may rely upon the IRS opinion letter issued to UMB. If you meet the following requirements, you are not required to file for a determination letter:
 - Your former plan must have complied with pre-GUST requirements and operationally complied with the [GUST](#) requirements. The GUST plan amendments are the ones required by the IRS during 2002.
 - You operationally repealed the family aggregation rules effective for the limitation years beginning after December 31, 1999. If your nonstandardized prototype documents fail to meet these requirements, filing an IRS form 5307 is recommended.
 - c. Individually Drafted Plans: You will need to file IRS Form 5301 to request a favorable IRS determination letter for your Plan. Your attorney should be consulted for assistance in submitting this application.
3. Defined Benefit Plan: You will need to file IRS Form 5300 to request a favorable IRS determination letter for your Plan. Your actuary or pension consultant and attorney should be consulted for assistance in making this application.

B. Notice to Interested Parties

1. Prior to submission of an application for an IRS determination letter, all interested parties must be given notice that such an action is being taken. (Refer to the sample [Notice to Interested Parties](#).)
2. When a "Standardized" Plan is adopted, a determination letter is not available from the IRS, all interested parties must be given notice. (Refer to the sample [Notice to Interested Parties](#).)
3. You should also give notice to interested parties when you amend your Plan.

C. Summary Plan Description (SPD)

An SPD is a description of your Plan's provisions, benefits, rights and obligations written in a simple language. Within 120 days after the date your Plan documents are signed, a copy of your SPD must be furnished to each participant and beneficiary entitled to benefits. New participants or beneficiaries entitled to benefits must receive a copy within 90 days after attaining that status.

1. UMB provides an SPD for companies that adopt a UMB Prototype Plan that you may copy and distribute to fulfill this requirement.
2. Consult your attorney or benefits consultant for assistance with an SPD for an individually drafted plan or other prototype plans.
3. Plans that cover only an owner (and his or her spouse), are exempt from this requirement. Please contact your attorney or your UMB Administrator for further clarification of this exemption.

Over time and as your Plan is amended, you will need to update your SPD.

II. Recurring Filings and Disclosures

A. Annual Report (IRS Form 5500)

1. Every employer who maintains an employee benefit plan subject to ERISA, must file an annual report with the IRS. The report, commonly referred to as the IRS Form 5500, must be filed with your IRS Service Center not later than the last day of the seventh month following each Plan Year, unless an extension is granted. (Refer to IRS Form 5500.)
2. Exception: (Refer to [One-Participant Plans](#))

B. Summary Annual Report (SAR)

A summary of the Annual Report must be distributed to Plan participants and to each person entitled to benefits from your Plan. Distribution of the SAR must be accomplished not later than the end of the ninth month after the close of each Plan year, unless an extension is obtained. (Refer to [Summary Annual Report](#).)

C. PBGC Form 1 and Premiums – Defined Benefit Pension Plans Only

1. Each Defined Benefit Plan subject to ERISA (with certain exceptions identified in ERISA Sec. 4021), must pay a premium each year to the Pension Benefit Guaranty Corporation (PBGC). The premium is a dollar amount

multiplied by the number of participants covered by the Plan. The dollar amount is determined by the funding status of the Plan.

2. PBGC Form 1 must be filed with your premium payment to PBGC. The form is generally due on the 15th day of the eighth month following the end of the Plan year. New plans have up to the later of the regular filing date, or 90 days after the effective date of the Plan. You should be aware that the PBGC Form 1 due date is not extended by virtue of an extension for filing the 5500 series.
3. For employers whose plans have more than 500 participants, PBGC Form 1-ES must also be filed by the last day of the second month following the end of the Plan year.
4. Your actuary or attorney should be consulted for any assistance in complying with these requirements.

D. Compliance Calendar for Plan years ending December 31

Required Action	Deadline
Distribute IRS Form 1099-R to participants who received distributions in prior year.	January 31
IRS Form 945 due. Taxes withheld from lump sum distributions for prior year.	January 31
File IRS 1099-R form.	February 28
Pay estimated flat-rate premium with PBGC Form 1-ES (for single-employer pension plans with 500+ participants).	February 28
Return of salary deferrals due to failure of ADP/ACP discrimination testing.	March 15
Corporate income tax returns and employer contributions due unless an extension is filed.	March 15
Initial minimum distribution due to participants who attained age 70½ in prior year.	April 1
Return participants' salary deferrals exceeding dollar limits made in the prior year.	April 15
Personal tax returns due unless extended.	April 15
File SEC Form 11-K annual report if participant contributions to defined contribution plans can be invested in company stock.	June 30
Distribute Summary of Material Modifications (SMM) to participants (if Plan was amended in prior year).	July 28

Required Action	Deadline
IRS Form 5500 for calendar year plans due for prior year or IRS Form 5558 extension to October 15.	July 31
Pay PBGC premium, including variable-rate portion, with PBGC Form 1 and Schedule A for all defined benefit plans.	September 15
File IRS Form 5500 if corporate tax extension is used instead of IRS Form 5558.	September 15
Final contribution for the prior Plan year to a defined benefit Plan and MPP, if corporate tax extension was obtained.	September 15
Distribute to participants and beneficiaries the Summary Annual Report.	September 30
Provide notice of Plan's underfunded status to participants, alternative payees and labor organizations (underfunded pension plans only).	September 30
File IRS Form 5500 if an extension was approved with IRS Form 5558.	October 15
Coincides with corporate income tax extension.	October 15
Notify participants of 401(k) Safe-Harbor election.	December 1
Annual required minimum distributions for participants who have reached age 70½ and already receiving minimum distributions.	December 31
Refund to participants excess maximum annual addition (415) contributions sent in prior year.	December 31
Due date to correct mistake of fact without penalty for prior year.	December 31

III. Special Filings and Disclosures

A. Summary Description of Material Modifications (SMM)

1. The SMM is used to modify the Summary Plan Description (refer to [SPD](#)) when "material modifications" have occurred to your Plan.
 - a. A SMM must be prepared and distributed to each participant and beneficiary entitled to benefits, within 210 days after the end of the Plan year during which the "material modifications" occurred.
 - b. New participants and beneficiaries entitled to benefits must be provided copies within 90 days of gaining that status.
2. List of Events that Would Require an SMM

The Department of Labor has identified the following list of areas within your Plan which, when changed, modified or amended, constitute "material modifications":

- a. Name, address of sponsor/employer
 - b. Name, address of Plan Administrator
 - c. Structure of Plan
 - d. Name of Plan
 - e. Type of Plan
 - f. Agent for service of process
 - g. Persons performing functions for the Plan
 - h. Sources and method of determining contributions
 - i. Method of asset accumulation
 - j. Procedure for presenting claims
 - k. Eligibility requirements
 - l. Vesting provisions
 - m. Features of portability or reciprocity
 - n. Length of service to determine participation, vesting, benefit accrual
 - o. Break in service rules
 - p. Requirements for pension benefits
 - q. Basis for computing retirement benefits
 - r. Circumstances causing loss of pension benefits
 - s. Joint and survivor annuity
 - t. Disposition of employee's contributions
 - u. Requirements for welfare benefits
 - v. Circumstances causing loss of welfare benefits
 - w. Fiduciaries' names and addresses
3. You may distribute an updated SPD instead of an SMM.
- B. Updated Summary Plan Description
1. Must be prepared and distributed every 10 years; or, if your Plan has been amended since the last SPD was published, every five years. Refer to [Summary Plan Description](#).
 2. Department of Labor regulations require the distribution of an updated SPD to all participants, all beneficiaries actually entitled to benefits under the Plan and to new participants within 90 days of the date they qualify for participation. Please note the emphasis on "updated." This requirement assumes an initial SPD was properly distributed.
- C. Application for IRS Determination Letter
1. You should request a new determination letter whenever a major change is made to the Plan.

2. If you use the UMB Prototype Plan document, when necessary UMB will file for a new determination letter for you.
3. Otherwise, consult with your attorney to determine whether you need to request a favorable determination letter and arrange for making that request.

D. Application for Determination upon Termination

1. If you terminate your Plan, you should obtain a favorable determination upon termination letter to protect the Trust from potential tax liability.
2. As Trustee, we will not normally distribute benefits based on Plan termination until receipt of a favorable determination letter from the IRS.
3. An application for determination is made using IRS Form 5310, "Application for Determination Upon Termination."

E. Notice of Merger, Consolidation or Transfer of Plan Assets or Liabilities

1. Upon merger, consolidation or transfer of Plan assets or liabilities a notice must be filed at least 30 days before the event, using IRS Form 5310-A, "Notice of Merger, Consolidation or Transfer of Plan Assets or Liabilities."
2. There are exceptions that may apply.
3. Consult with your attorney for more information regarding this requirement.

F. Report of Prohibited Transaction

IRS Form 5330 must be filed by the person who engaged in the prohibited transaction. The form is also used to make payment of penalty tax due. (Refer to [Prohibited Transaction](#).)

IV. Report of Failure to Meet Minimum Funding Standards

A. Minimum Funding Standards

(Subject to certain exceptions contained in Internal Revenue Code Sec. 412(h) and (i) and ERISA Sec. 301)

1. Defined Benefit Plans: Sufficient annual funding is required to meet "normal cost" for benefits earned by employees during the current year; to meet past service liabilities; to meet retroactive benefit increases resulting from Plan amendments; and to meet funding requirements when actual costs are different from past actuarial assumptions. Your actuary should be consulted should you have any question as to whether your Plan is meeting minimum funding standards.
2. Money Purchase Pension Plans: Annual funding must satisfy the Plan's specified contribution formula.
3. Target Benefit Plans: Annual funding must satisfy the benefit formula and an assumed interest rate specified by your Plan.
4. Plans with Matching Contributions: Annual funding must satisfy the Plan's specified contribution formula.

B. When to File IRS Form 5330

If you fail to meet any minimum funding standards, you should file IRS Form 5330 and pay penalty tax due.

V. Notice of Reportable Event (for defined benefit plans with PBGC coverage)

A. You need to notify the PBGC within 30 days whenever a "reportable event" occurs. "Reportable events" include, but are not limited to, the following:

1. The disqualification of the plan for tax purposes.
2. A Plan amendment that decreases benefits payable to any participant.
3. A decrease in the number of active participants to a number that is less than 80 percent of the number of such participants at the beginning of the plan year, or is less than 75 percent of the number of such participants at the beginning of the previous plan year.
4. An IRS determination that there has been a termination or partial termination of the plan for tax purposes.
5. A failure to meet minimum funding standards. (Refer to [Minimum Funding Standards](#)).
6. The inability of the plan to pay benefits due.
7. A distribution with a value of more than \$10,000 to a more than 10-percent owner, not by reason of death of the participant, and immediately thereafter, the plan has vested unfunded benefits.
8. An alternative method of compliance for satisfying ERISA reporting and disclosure requirements is specified by the Secretary of Labor.
9. A merger, consolidation or transfer of its assets by the plan.
10. A controlled group member ceases to be a member of a controlled group as a result of an event such as a sale of a subsidiary.
11. A contributing sponsor or member of a contributing sponsor's controlled group liquidates.
12. In a 12-month period, a contributing sponsor or controlled group member
 - a. Declares an extraordinary dividend, or
 - b. Redeems 10 percent or more of the total combined voting power of total value of shares of all classes of stock of the entire controlled group.
13. Three percent or more of a plan's benefit liabilities are transferred to a plan maintained by a sponsor who is outside the controlled group in any 12-month period.

VI. Penalties for Failure to Render Reports Promptly

A. IRS Form 5500

1. The IRS penalty is \$25.00 per day, for each day overdue, up to a maximum of \$15,000.

2. The (DOL) may assess a civil penalty of up to \$1,000 per day (\$1,100 after adjustment for inflation). The DOL may reject an IRS Form 5500, and assess a penalty for lack of material information, if the form that is filed is incomplete.
3. The DOL established a Delinquent Filer Voluntary Compliance (DFVC) program to encourage Plan Administrators to comply with reporting requirements by assessing reduced civil penalties for late filing. The DFVC program is not available to Plan Administrators who have been notified of a failure to file the annual report.

B. IRS Form 5500 Schedule SSA

A penalty of \$1.00 per day for each participant, for each day overdue, up to a maximum of \$5,000.

C. IRS Form 5500 Schedule B

A penalty of \$1,000 for failure to file a timely report.

D. Form PBGC-1

Penalty and interest charges are assessed for late premium payments. The penalty considers the number of days late and applies a two-tiered penalty percentage of 1 percent or 5 percent per month up to a maximum of 100 percent.

E. Willful Violation of ERISA Provisions

Any person who willfully violates any of the ERISA provisions for reporting and disclosure may be punished by a maximum fine of \$5,000 and/or imprisonment for up to one year. In the case of a corporation, the maximum fine is \$100,000.

F. Plan Administrator Fails to Comply with Request of Participant

A Plan Administrator failing to comply with a request of a participant or beneficiary for information within 30 days of the request can be personally liable to the participant or beneficiary for up to \$200 a day for each day the failure persists.

G. IRS Form 5310

A late filing to report a Plan merger, consolidation or transfer of Plan assets or liabilities can result in a penalty of \$25 a day, for each day overdue, up to a maximum of \$15,000. The form is late if it is not filed at least 30 days before the Plan merger, consolidation or transfer of Plan assets or liabilities.

The above list is not exhaustive, but it does serve to identify the importance you should place on the proper performance of your duties.

VII. Annual Report (IRS Form 5500)

*IRS Form 5500 must be mailed to the Department of Labor no later than the last day of the **seventh** month following your Plan year-end.*

A. Large Plans Need an Independent Audit

1. An independent audit by a qualified public accountant is normally required for plans with 100 or more participants on the first day of the Plan year.
2. An exception is available if, during the previous year, the number of participants was less than 100 and this year is less than 120. If your Plan formerly covered 100 or more participants, but for the current year the number of participants is reduced to less than 100 but not less than 80, the independent auditor's report is optional.

B. Small Plans

Plans with fewer than 100 participants on the first day of the Plan year are classified as small plans for IRS Form 5500 purposes.

C. One-Participant Plans

IRS Form 5500-EZ may be filed by a "One-Participant Plan." A "One-Participant Plan" covers only (1) an individual owner or an individual and his/her spouse who wholly own a trade or business, whether that business is incorporated or unincorporated, or (2) the partner(s) in a partnership or the partner(s) and the partner's spouse. In addition to (1) or (2) above, the following requirements must be met in order to file an IRS Form 5500-EZ:

1. If your business has employees other than you and your spouse, or if the partnership has employees other than partners and the partners' spouses, then your Plan must meet the coverage requirements of section 410(b) without being combined with any other plan to meet these requirements.
2. The Plan does not provide any retirement benefits other than the benefits for the individual partner(s), or the individual partner(s) and the individual's/partner's spouse.
3. The business is not a member of an affiliated service group, a controlled group of corporations or commonly controlled businesses.
4. The business does not lease any employees.

Note: If you have a one-participant pension benefit plan that has no more than \$100,000 of assets at the end of the year, or if you have two or more one-participant plans that have total assets which do not exceed \$100,000 at the end of the year, you are not required to file an IRS Form 5500-EZ or any other 5500-series report. However, if you have two or more one-participant plans and the total assets of all your plans is more than \$100,000, you are required to file an IRS Form 5500-EZ for each Plan.

D. Schedule P

1. Protection of the Trust Under Three-Year Statute of Limitations: To obtain the protection of Internal Revenue Code (IRC) Section 6501(a), the three-year statute of limitations for tax assessments against an exempt organization, Schedule P, signed by the Trustee, must be attached to your IRS Form 5500 report for each year.
 - a. If UMB prepares your IRS Form 5500, Schedule P will be included.
 - b. If UMB does not prepare your IRS Form 5500, UMB will mail a signed Schedule P to you each year.

2. If your Plan meets the One-Participant Plan exception and you choose not to file a 5500-EZ, your Plan will not receive the three-year Statute of Limitations protection.

E. IRS Form 5500 Preparation Services

1. UMB prepares signature-ready IRS Form 5500s for most defined contribution retirement plans where UMB maintains participant records and accounts. The completed IRS Form 5500 is mailed to you to sign and file with the Department of Labor.
2. All requested information must be provided by the Plan Administrator for UMB to prepare the IRS Form 5500.
3. If you have declined this service in the past but now wish it to be provided, please complete and return the [authorization form](#). We will also need copies of the last three 5500s filed for your Plan. Please contact your UMB Administrator for more details.
4. Schedule A (insurance information): This schedule must be attached to the IRS Form 5500-series report when any asset of the Plan is provided by an insurance company, insurance service or other similar organization.
 - a. When Trust assets include either an Immediate Participation Guaranteed Contract (IPG) or a Guaranteed Investment Contract (GIC), negotiated by UMB, we will complete and provide Schedule A to the Plan Administrator, regardless of whether or not we render other assistance with the annual report.
 - b. If your Plan holds other insurance assets (not negotiated by UMB) you will need to prepare a Schedule A for each contract since we do not have ready access to the required information. You should coordinate directly with each insurance provider to acquire the necessary Schedule A information.
 - c. A separate Schedule A is required for each insurer providing insurance contracts to your Plan.
5. Schedule B (actuarial information) is required for defined benefit pension plans. UMB does not prepare IRS Form 5500 or Schedule B for these plans. You should arrange for this service with your actuary.
6. If your Plan covers 100 or more participants, you may need to engage an independent qualified public accountant. The accountant's opinion must be attached to the IRS Form 5500 that is filed.

F. Extensions

Extensions for filing the IRS Form 5500 may be given automatically or by request.

1. Automatic extension: Single employer plans and plans of a controlled group which file a consolidated federal tax return are automatically granted an extension to the extended due date of their federal income tax, if all of the following conditions are met:
 - a. The Plan year and the employer tax year coincide.
 - b. The employer has been granted an extension of time to file your corporate tax return to a date later than the normal due date for filing the IRS Form 5500.

- c. If the plan and tax year are the calendar year, the tax return is due by March 15 each year, and the IRS Form 5500 is due by July 31 each year. If an extension for submission of the corporate tax return is granted until June 15, IRS Form 5500 report is still due July 31.
 - d. A copy of the request for extension must be attached to the IRS Form 5500.
2. Request for extension when the automatic extension does not apply:
 - a. IRS Form 5558 may be filed to apply for an extension of up to two and a half months for filing IRS Form 5500.
 - b. The application must be filed prior to the normal filing date of the IRS Form 5500.
 - c. The IRS will grant a reasonable extension only if the application clearly establishes an inability to file a timely return due to circumstances beyond the control of the employer.

VIII. Summary Annual Report (SAR)

- A. Department of Labor (DOL) regulations require you to furnish a copy of the SAR to each participant and each person who is receiving benefits or entitled to benefits from a qualified plan.
- B. You are responsible for the preparation and distribution of the SAR no later than two months following the due date of the Plan's IRS Form 5500 report, or if an extension is approved, two months following the last day of the extension period.
- C. When UMB prepares the IRS Form 5500 in its entirety, the SAR (in English) will be included with the 5500 package.
- D. You must make the SAR available in a foreign language if your Plan:
 1. Has fewer than 100 participants, and 25 percent or more of the participants speak only the same foreign language.
 2. Has 100 or more participants, and more than 10 percent of the participants speak only the same foreign language.
- E. A sample format of the [Summary Annual Report](#) required by the DOL is located in the forms section of this manual.
 1. If a section of the SAR is not relevant, you may omit that section.
 2. If you wish to communicate additional information beyond that shown in the sample, you should put it on a separate notice distributed with the SAR.
- F. The SAR contains a list of Plan information that you must make available to participants.
 1. DOL rules allow a reasonable charge for copies of some plan materials.
 - a. A reasonable charge is defined as the actual cost per page for the least expensive means of acceptable reproduction, not to exceed 25 cents per page.
 - b. No other charges, such as handling and postage are allowed.
 2. Some items must be provided at no charge.
 3. If you wish to charge participants for requested information, check with your attorney or UMB.

G. SAR is not required for plans that file IRS Form 5500-EZ.

IX. Investment Information and Disclosures to Participants

If your Plan allows participants to direct the investment of their account balances, you will want to provide them with information and education so that they can make informed decisions.

- A. 404(c) Protection: When participants are provided sufficient information to make informed investment decisions, as described in Section 404(c) of ERISA, plan fiduciaries (Plan Administrators and Trustees) are relieved from responsibility for the investment decisions made by participants.
- B. UMB Provides 404(c) Services: We deliver investment information and education through enrollment packets, participant statements, employee meetings, BenefitLine and UMB BenefitDirect. Contact your UMB Administrator for more information.
- C. Sample Section 404(c) disclosures: (Refer to [Section 404\(c\) Disclosures](#).)

Section 4 – Compliance

I. Fiduciary Bonding

- A. Section 412 of ERISA requires fiduciaries of employee benefit plans to be bonded. A fiduciary is broadly defined as any person who exercises any discretionary authority or control over the assets of a qualified plan. Fiduciaries include the plan's sponsor, the employer, the Plan Administrator, members of the administrative committee, the Trustee, any investment managers and any other person or group who exercises discretion in the acquisition, management, or disposition of any plan assets. It is unlawful for any plan official, including your employer or other fiduciary, to permit a person to receive, handle, manage or disburse plan funds if they are not bonded.
- B. The fiduciary bond is designed to protect your plan participants against loss by fraud or dishonesty on the part of a fiduciary or one of its employees. A fiduciary bond should not be confused with fiduciary liability insurance. A fiduciary bond provides that the plan may recover losses from fraud or dishonesty, whereas fiduciary liability insurance provides coverage to a plan fiduciary in the event of any claim arising from an alleged breach of fiduciary duty, including the duty to exercise prudence in the investment of trust funds. A fiduciary bond is required by law. Fiduciary liability insurance is not required by ERISA (however, many employers consider it prudent to have such insurance).
- C. The amount of the fiduciary bond must be at least \$1,000 or 10 percent of the assets of the plan during the prior plan year. The bond need not be in excess of \$500,000 unless required by the DOL on a case-by-case basis. If this is the first year of the plan, the amount of the bond should be based on the estimated amount of plan assets at the end of the first year. One bond may be purchased to cover all of an employer's benefit plans; however, the amount must be at least 10 percent of the combined assets of all the plans covered. The bond must be written by a qualified corporate surety company and can usually be obtained through a liability insurance carrier.
- D. At the time of our appointment as Trustee, we ask for written verification that proper fiduciary bonding has been purchased. You should review your fiduciary bonding at least annually. As your plan changes in size, you should make appropriate adjustments in coverage.
- E. Bonding is not required when no employees are covered under the plan. This means that a plan which covers only an owner who wholly owns the business, or owner and spouse, need not obtain a fiduciary bond.

II. Prohibited Transactions and Taxes

Prohibited transactions are defined by ERISA. Because of the sensitivity and complexity of the subject, those involved in transactions that may possibly be categorized as “prohibited” are encouraged to consult with their attorney.

- A. A prohibited transaction occurs when a plan fiduciary causes the plan to engage in a transaction he/she knows or should know constitutes a direct or indirect:

1. Sale, exchange or lease of property between the plan and a [party in interest](#).
 2. Loan or extension of credit between the plan and a party in interest.
 3. Furnishing of goods, services or facilities between the plan and a party in interest.
 4. Transfer of plan assets to a party in interest or the use of plan assets by or for the benefit of a party in interest.
 5. Acquisition of employer securities or real estate in violation of limits set by law.
- B. The term "party in interest" means:
1. Any fiduciary (including, but not limited to, any administrator, officer, trustee or custodian), counsel or employee of the plan
 2. A person providing services to the plan
 3. An employer any of whose employees are covered by the plan
 4. An employee organization any of whose members are covered by the plan
 5. An owner, direct or indirect, of 50 percent or more of
 - a. the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation, or
 - b. the capital interest or the profits interest of a partnership, or
 - c. the beneficial interest of a trust or unincorporated enterprise which is an employer or an employee organization described in items 3 or 4
 6. A spouse, ancestor, lineal descendant or spouse of a lineal descendant of any individual described in items 1, 2, 3 or 4
 7. A corporation, partnership, trust or estate of which at least 50 percent of
 - a. the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of such corporation, or
 - b. the capital interest or profits interest of such partnership, or
 - c. the beneficial interest of such trust or estate, and is owned directly or indirectly, by a person or organization described in items 1, 2, 3, 4 or 5.
 8. An employee, officer, director (or an individual having powers or responsibilities similar to those of officers or directors), or a 10 percent or more shareholder directly or indirectly, of a person or organization described in items 2, 3, 4, 5 or 7, or of the employees benefit plan
 9. A 10 percent or more (directly or indirectly in capital or profits) partner or joint venturer of a person described in items 2, 3, 4, 5 or 7
- C. A plan fiduciary is also prohibited from:
1. Dealing with the assets of the plan for his own account,
 2. Receiving any consideration for his own account from any party dealing with the plan in connection with a transaction involving plan assets, or
 3. Acting in any transaction (in any capacity) involving a plan on behalf of a party (or representing party) whose interests are adverse to the interests of the plan, its participants or beneficiaries.
- D. Under certain circumstances, the following activities are permitted despite the rules on prohibited transactions:

1. Loans by the plan to parties in interest who are plan participants or beneficiaries if such loans are expressly allowed by the plan on a nondiscriminatory basis at reasonable rates of interest
 2. Payments to parties in interest for reasonable compensation for office space and legal, accounting and other services necessary to operate the plan
 3. A party in interest may make a loan to an employee stock ownership plan
 4. If specifically authorized by the plan, some or all of the plan assets may be invested in savings accounts, etc., of banks and other financial institutions that act as the plan's trustee
 5. A life insurance company can use its own separate account contracts to fund a pension plan for its employees
 6. Investment in a common or collective trust fund or pooled investment fund maintained by a party in interest which is a bank or trust company supervised by a state or federal agency
 7. Pursuant to regulations, the conversion of employer securities (for example, from bonds to stocks) is permitted.
- E. The prohibited transactions rules do not prevent a plan fiduciary from:
1. Receiving benefits from the plan as a participant or beneficiary so long as the benefits are consistent with the terms of the plan as applied to all other participants and beneficiaries
 2. Receiving reasonable compensation for services to the plan unless the fiduciary receives full-time pay from the employer or employee organization
 3. Receiving reimbursement for expenses incurred
 4. Serving as officer, employee, agent, etc., of a party in interest.
- F. Further exemptions from the prohibited transaction rules may be established for individual fiduciaries and transactions and classes of fiduciaries and transactions by the Secretaries of Labor and Treasury.
- G. Penalties that may be imposed on a party in interest for engaging in a prohibited transaction:
1. A party in interest who participates in a prohibited transaction is personally liable to the plan for any losses his act caused and for any profits he made from the transaction,
 2. The party in interest also may be subject to a \$5,000 fine (\$100,000 for corporations) and one-year imprisonment,
 3. A penalty tax equal to 15 percent of the amount involved in the transaction is imposed on the party in interest for each year the transaction remains undiscovered or uncorrected. An additional 100 percent tax is imposed if the prohibited transaction is not corrected within the prescribed period (generally 90 days) after a notice of deficiency for the 15 percent tax is given by the IRS.

III. Participant Loans

A. Prohibited Transaction Exemption

A loan from a plan to a participant is exempt from the prohibited transaction provision if all of the following conditions are met:

1. Loans are available to all participants on a reasonably equivalent basis.
2. Highly compensated employees, officers or shareholders are not able to borrow more (as a percentage of their vested account balance) than other employees.
3. Loans are made in accordance with the specific provisions of the plan.
4. The loan bears a reasonable rate of interest.
5. The loan is adequately secured.

B. Requirements

1. Promissory Note

A promissory note is a promise to repay to a lender (in this case, the Trust) the amount originally borrowed plus agreed upon interest during a specified period of time.

2. Loan Program

Department of Labor (DOL) regulations make the Plan Administrator responsible for establishing fair, written procedures before any loans are made. These written procedures must be distributed to each plan participant and beneficiary. (Refer to Sample Loan Program for [Daily Plans](#) and [Periodic Plans](#).)

a. The loan program must specify:

- The person or persons authorized to administer the loan program.
- The procedure for applying for a loan.
- The criteria by which loans will be approved or denied.
- The limitations, if any, on the type and amount of loans offered.
- The procedure for determining the interest rate.
- The type of collateral that may be used to secure the loan.
- The events constituting default and the steps which will be taken to preserve plan assets in the event of default.

b. UMB Bank has designed two model ([Daily Plans](#) and [Periodic Plans](#)) tailored to the UMB Bank prototype plan. Plan Sponsors with individually drafted plans may find that one of the model Loan Programs will fit their circumstances with little modification and may want to provide their legal counsel with a copy. If an individual loan program is developed, please provide us a copy of the initial loan program and each time it is amended or revised.

c. DOL regulations require that loans be made available on an equal basis to all active participants.

3. Dollar Limitations for Loans

- a. **Minimum:** You may set a minimum loan limit, up to \$1,000, based on the cost of administering the loan. The minimum loan amount should be established in advance of a loan request and should be contained in the loan program.
- b. **Maximum:** The total amount borrowed by a participant from the plan at any time may not exceed the lesser of:
 - \$50,000, reduced by the excess of the participant's highest principal balance during the 12-month period immediately preceding the new loan date minus the participant's total outstanding principal balance on the date the new loan is made, or
 - One-half of the participant's vested interest in all available accounts.

Example:

A participant's vested interest in all available amounts in the plan is \$75,000. He requests a participant loan on March 15, 2002. During the 12-month period from March 15, 2001 to March 15, 2002, his highest outstanding participant loan principal balance was \$35,000. His current outstanding loan balance has been reduced to \$25,000. What is the maximum amount the participant can borrow?

First, take \$50,000 and reduce it by the difference found by subtracting the current outstanding loan balance (\$25,000) from the highest outstanding loan balance (\$35,000). The calculation determines that \$40,000 rather than the original \$50,000 is the maximum amount that can be borrowed under this alternative.

Next, take one-half (50%) of the vested account balance, or \$37,500.

Since the formula states that the maximum that can be borrowed is the lesser of the two determinations, the participant can only have outstanding loans totaling \$37,500. Since the participant currently has outstanding loans of \$25,000, the participant can only borrow an additional \$12,500 at this time.

- c. **Consolidated Plan Loan Limits:** For the purpose of determining the maximum loan balance, all qualified retirement plans maintained by the employer controlled group or affiliated service group are treated as one plan.
 - d. ERISA prohibits borrowing against Deductible Employee Contributions (DEC) and earnings thereon.
 - e. A plan may be more restrictive than the regulations. For example, some plans do not permit a participant to borrow against his voluntary nondeductible contribution account. To ensure that loan provisions are handled correctly, you should be sure your Plan document and Loan Program are consistent.
4. **Maximum Repayment Periods for Loans**

If the loan proceeds are to be used to acquire a participant's principal dwelling, the loan must be paid in full within a commercially reasonable

time. UMB’s policy is to limit such loans to a term of 20 years. All other loans are subject to a five-year repayment period.

5. Loan Payment Frequency

Loan payments of principal and interest must be made at least quarterly, but may be made more frequently.

6. Loan Renewals

A participant loan can be renewed if the plan document allows for renewal, but the new maturity date must not extend beyond the maximum repayment period measured from the date of the original loan.

7. Loan Consolidations

Some plans permit loan consolidations, but there are disadvantages.

- a. The five year limitation is based upon the original date of the oldest loan.
- b. A loan consolidation may reduce the maximum amount that can be borrowed.

The following example illustrates how the \$50,000 limitation can reduce the maximum amount that could otherwise be borrowed.

A participant has a vested interest in the plan of \$120,000, none of which is attributable to a DEC account. The participant currently has an outstanding loan balance of \$15,000 and is considering either borrowing additional amounts or consolidating his current loan with a new loan. His highest outstanding balance in the last twelve months was \$25,000. What are his options? Answer: If he does not consolidate, he can borrow up to an additional \$25,000. If he does consolidate, he can only borrow up to an additional \$10,000. The supporting calculations are shown here:

If he does not consolidate, the total outstanding loan balance may equal the lesser of:

$$\$50,000 - (\$25,000 - \$15,000) = \mathbf{\$40,000}$$

or

$$\frac{1}{2} (\$120,000) = \mathbf{\$60,000}$$

Lesser =	\$40,000
Less existing balance =	<u>15,000</u>
Maximum additional borrowing	\$25,000

If he does consolidate, it is as if he repays the current loan and borrows again:

$$\$50,000 - (\$25,000 - 0) = \mathbf{\$25,000}$$

or

$$\frac{1}{2} (\$120,000) = \mathbf{\$60,000}$$

Lesser =	\$25,000
Less existing balance =	<u>15,000</u>
Maximum additional borrowing	\$10,000

- c. You should review the specific provisions of the plan and the Loan Program relating to loan consolidations.

8. Loan Renegotiations
 - a. If a loan is in default, plan provisions may allow renegotiation of the loan. Consult your Plan and Loan Program to ensure compliance.
 - b. The new maturity date must not extend beyond the maximum repayment period measured from the date of the original loan.
 - c. Renegotiated loans are subject to maximum loan amounts.
9. Additional Loans After Default

DOL regulations require plan fiduciaries to administer loans according to generally accepted commercial lending practices. A commercial lending institution would not loan someone more money if that person has demonstrated an unwillingness or inability to pay current outstanding obligations. Consequently, it would not be prudent to make a loan to a participant who has outstanding notes in default.
10. Deductibility of Interest Payments
 - a. Interest paid on a participant loan by a key employee is NOT tax-deductible.
 - b. Interest paid by a non-key employee, may be tax-deductible if secured by a mortgage on the participant's principal or secondary residence.
 - c. Interest paid on a participant loan secured with elective 401(k) deferrals is NOT tax-deductible if the loan is made or renegotiated after December 31, 1986.
11. Suspended Loan Payments
 - a. Proposed IRS Regulations allow a Plan Administrator to suspend loan payments during a leave of absence of up to one year if the participant's pay from the employer is insufficient to service the loan, but only if the loan is repaid by the original due date of the loan. Although this program is available, you can choose not to suspend loan payments, regardless of the circumstances.
 - b. To utilize this provision, you will need to notify UMB in writing that loan payments are being suspended. Please indicate in the letter the participant's name, Social Security number, loan number and exactly how long the payments will be suspended.
 - c. Upon expiration of the suspension period, the participant should resume making payments. It may be necessary to reamortize the participant's loan. Otherwise, a large final payment will be due when the loan matures.
 - d. In no event should the length of the loan extend beyond the original maturity date of the loan.
 - e. Your plan may suspend the repayment of a plan loan during the period of military service. Unlike other loan payment suspensions, military leave suspensions can extend beyond one year. In addition, loan repayment periods may be extended beyond five years. In order to extend the suspension and repayment periods, the following requirements must be met:
 - Loan repayments must resume upon completion of the period of military service,

- After the completion of military service, loan payments must be made no less frequently than required under the original terms of the original loan,
- After the completion of military service, the amount of each loan payment must be no less than required under the terms of the original loan, and
- The loan must be repaid in full by the end of the period equal to the original term of the loan plus the period of military service.

IV. Qualified Joint and Survivor Annuity Rules

A. Qualified Joint and Survivor Annuity (QJSA)

1. General: The Retirement Equity Act of 1984 (REA) requires that a participant, whether married or single, must receive his/her benefit distribution in the form of a QJSA, unless the participant elects (spousal consent is required if married) an optional form of benefit, such as a lump-sum benefit or installment payment authorized by the plan. (Internal Revenue Service Regulations define a QJSA for a single person to be a life annuity.) This requirement applies to all forms of benefit distributions, i.e., withdrawals upon retirement or termination, hardship withdrawals, withdrawals while employed, rollovers, plan-to-plan transfers and participant loans.
2. Basis and Form: A QJSA is an annuity which provides a level monthly payment for the participant's life, and upon the participant's death, if the participant's spouse survives, a level monthly payment for the life of the spouse. The survivor spouse payment must not be less than 50 percent and not more than 100 percent of the amount of the payment during the joint life of the participant and spouse. Payments will end upon the death of the survivor (either the participant or spouse) and no other beneficiary will receive any payment. The actual level of monthly payments made under the QJSA will depend on the annuity purchase rates used by the insurance company chosen by the participant, the participant's age and the age of the participant's spouse at the time the payments begin, the percentage of the survivor benefit and the value of the participant's vested account balance. For a defined benefit plan, the monthly payment level is determined by the plan.
3. Exceptions:
 - a. Profit sharing plans and stock bonus plan participants are exempted provided the plan meets the [annuity rule exception](#).
 - b. EGTRRA allows a profit sharing plan or stock bonus plan to eliminate annuities as a form of benefits.
 - c. Benefits in which the present value does not exceed \$5,000 may be [cashed out](#).
 - d. Qualified Election: Benefits may be distributed in a form other than a QJSA (such as a lump sum or installments from the plan), if the participant makes a Qualified Election within 90 days before the date the benefit payment would commence. The Qualified Election must be in writing and, if married, the participant's spouse must sign a written

consent. The spouse's consent must be witnessed by a notary public or the Plan Administrator. For unmarried participants, or if a married participant establishes to the satisfaction of the Plan Administrator that written consent cannot be obtained because his or her spouse cannot be located, the waiver itself (without the consent) will be deemed a Qualified Election. Any consent is valid only with respect to the spouse who signs it or the spouse who cannot be located. A revocation or a waiver may be made by the participant without the consent of their spouse at any time before commencement of benefits. The number of waivers or revocations is not limited. (Refer to Form [UMB S010541](#).)

B. Qualified Preretirement Survivor Annuity (QPSA)

1. If a married participant dies before beginning to receive benefits, REA requires the spouse's survivor benefit to be distributed in the form of a QPSA. However, the participant, while still living, may elect with spousal consent an alternate form of benefit distribution. The surviving spouse, after the death of the participant, may also elect an alternative form of benefit distribution.
2. **Basis and Form:** The QPSA is an annuity which provides a level monthly payment for the life of the surviving spouse, and ends upon his/her death. Further, the QPSA must represent at least 50 percent of a participant's defined contribution plan account balance, or the actuarial equivalent of the surviving spouse payment under a OJSA from a defined benefit plan. After meeting this requirement, any remaining benefit would be distributed in accordance with the plan and the latest existing designation of beneficiary. The dollar amount of the QPSA monthly payments will depend upon the annuity purchase rates used by the insurance company, the surviving spouse's age at the time payments begin and the value of the deceased participant's account balance. For a benefit plan, the monthly payment level is determined by the plan.
3. **Exceptions:**
 - a. Profit sharing plans and stock bonus plan participants are exempted provided the plan meets the [annuity rule exception](#).
 - b. EGTRRA allows a profit sharing plan or stock bonus plan to eliminate annuities as a form of benefits.
 - c. Benefits in which the present value does not exceed \$5,000 may be [cashed out](#).
 - d. **Qualified Election:** A Qualified Election will exempt the distribution from the QPSA requirement, and can be made any time after the first day of the plan year during which the participant reaches age 35. For a participant younger than age 35 and separating from service but not receiving a benefit distribution, the election period begins on the separation date. Form [UMB S010541](#) provides an explanation of the participant's waiver and any necessary spousal consent, and also may be used to document the Qualified Election.
 - e. If a participant dies without having made a Qualified Election, the surviving spouse (or for a single person, the beneficiary) will receive a QPSA, unless he/she requests, and the Plan Administrator approves, the distribution of the death benefit in another form. Such a request must be

supported by an appropriate waiver of right to the survivor annuity.
(Refer to [UMB Form RP-F-68.](#))

- C. Notice Requirements
 - 1. QJSA: The terms and rights of QJSA coverage must be explained in writing within a reasonable period of time before the annuity starting date.
 - 2. QPSA: The terms and rights of QPSA coverage must be explained: (1) within the period beginning on the first day of the plan year in which the participant attains age 32 and ending on the last day of plan year during which the participant attains age 34; (2) to a participant who separates from service before age 32, at the time of separation or within one year after separation.
- D. Plan Administrator's Responsibility
 - 1. It is your responsibility to ensure that the QJSA and QPSA requirements have been met. When you direct UMB, as Trustee, to pay a benefit in a form other than a QJSA or QPSA, we will rely upon your files to contain necessary documentation to support the exception.

V. QDRO Checklist

To qualify as a QDRO, the court order must contain the following specific information. (In certain cases, additional information will be required.)

- A. Name of the Plan that Will Pay the Benefits
- B. Who Will Receive the Benefits

The name, address, and Social Security number of the participant and the alternate payee. (In the case of a defined benefit plan, the date of birth of the participant and the alternate payee also should be indicated.)
- C. The Amount, Percentage or Formula Used to Determine the Amount to Be Paid to the Alternate Payee

In the case of a defined benefit plan, the court order also should clearly indicate whether a portion of future benefit adjustments (that is, cost-of-living adjustments, early retirement subsidies) are to be paid to the alternate payee. The QDRO should clearly state when the accrued benefit of the participant that is being divided is to be determined (on the date of actual retirement, on the date of the divorce, or on some other date).
- D. The Date on Which the Payment of Benefits to the Alternate Payee is to Begin and the Form of the Benefit
 - 1. If Payments to the Participant Have Not Begun.
 - a. The date on which benefit payments to the alternate payee are to begin.

This may take the form of a discretionary provision in which the alternate payee decides by informing the plan administrator when to begin paying benefits, subject to the provisions set forth below.

Note: If the participant no longer works for the employer that sponsors the plan and has had a separation from service, the benefits payable to the alternate payee may not begin before the participant would be able to receive the benefits under the plan if the participant were to elect to receive benefits.

If the participant is still working for the employer, the benefits payable to the alternate payee may not begin before the “earliest retirement age,” as defined in Code Section 414(p)(4).

- b. The form of benefits payable to the alternate payee.

The alternate payee may elect to receive any form of benefit or optional benefit provided by the plan (except in the form of a joint and survivor annuity for the alternate payee and his or her subsequent spouse). This may be done either by setting forth in the court order itself which optional form of benefit the alternate payee elects to receive or by making such an election discretionary so that the alternate payee may elect to receive any form of benefit that is available to a participant.

A court order will not be qualified as a QDRO if it requires the payment of benefits in a form of benefit or optional benefit that is not available under the terms of the plan. (For example, if a plan provides only for a lifetime annuity or qualified joint and survivor annuity, a lump-sum benefit cannot be elected by the alternate payee because this would require the plan to pay a benefit that is not otherwise available under the plan.)

2. If Payments to the Participant Have Already Begun.

- a. The date on which benefit payments to the alternate payee are to begin. Benefit payments may not begin earlier than the month following the month in which the plan received the court order (in which case these amounts may be separately accounted for under the 18-month rule set forth in the [Written QDRO Procedure](#)). The court order must indicate the month in which payments are to begin to be paid to the alternate payee, or must give discretion to the alternate payee, which can be used only to elect to receive payments prospectively.

- b. The form of benefits payable to the alternate payee.

- E. When the Benefit Payments to the Alternate Payee Will Stop

If payments to the participant have not yet started, it is possible for the court order to provide that benefit payments may be made to the alternate payee in any form that is allowable under the plan.

If payments to the participant have already started, the form of benefit elected by the alternate payee may be different from the form of benefit the participant elected.

- F. What Happens When the Alternate Payee Dies Before Any Payments Have Been Made to the Alternate Payee or

- G. What Happens When the Participant Dies After the Court Order Has Been Approved as a QDRO or

- H. The QDRO should not

1. Require the Plan to provide any type or form of benefits, or any option, not otherwise provided under the plan;
2. Require the Plan to provide increased benefits (determined on the basis of actuarial value; or
3. Require the Plan to pay benefits to an alternate payee that are required to be paid to another alternate payee under another order previously determined to be a QDRO.

VI. Life Insurance

A. Taxability of Life Insurance Benefits

1. Because participants who are covered by life insurance held in the plan receive a *present* benefit - current life insurance protection - the value of that benefit must be included in their gross income. The amount to be included in a participant's gross income is called PS-58 costs.
2. UMB will report PS-58 costs on IRS Form 1099-R for each participant covered by a life insurance policy.
3. Should the participant die, the beneficiary's taxable benefits are reduced by the PS-58 costs that were included in the deceased participant's gross income during his working years. Similarly, when an insurance policy is distributed to a living employee who had reported PS-58 costs as income, the total PS-58 costs that were included in his/her gross income can be recovered tax-free from the benefits received under the plan.
4. In certain instances, nondeductible employee contributions can be applied to the purchase of life insurance through a qualified plan. When this occurs, no PS-58 costs are involved. There would be no Form 1099-R reporting to the IRS or the participant, nor would there be any tax-free recovery of PS-58 costs at the time of distribution.

B. Incidental Benefit Rule

1. The primary purpose of a qualified retirement plan is to provide retirement benefits to participants. Any life insurance coverage provided under the plan must be incidental to the provision of retirement benefits.
2. For a defined contribution plan, the premiums for life insurance on a participant are limited to a percentage of the company contributions plus forfeitures to the plan for that participant.
 - a. No more than 50 percent of company contributions plus forfeitures may be used to purchase whole life insurance.
 - b. No more than 25 percent of company contributions plus forfeitures may be used to purchase term and universal life insurance.
 - c. No more than 25 percent of company contributions plus forfeitures may be used to purchase a combination of whole life insurance and term or universal life insurance.
 - d. Company contributions plus forfeitures for determining these limits include employer discretionary contributions, matching contributions and salary deferral contributions.
3. For a defined benefit plan, life insurance purchased with company contributions will not reduce retirement benefits. As a general rule, the amount of life insurance should not exceed 100 times the participant's projected monthly pension benefit.

VII. Required Minimum Distributions

Qualified retirement plans provide a means of deferring the payment of taxes, within limits. One of the limitations is a requirement that participants begin taking distributions and paying taxes after reaching age 70½.

- A. Minimum distribution rules apply to participants who reach age 70½.
 - 1. Your Plan may allow a participant to defer taking minimum distributions while they continue to work for your company.
 - a. Five-percent owners of your company cannot defer.
 - b. Participants, who are not five-percent owners, may sign a [Distribution Election form](#) to delay taking distributions until after they retire from the company.
 - 2. TEFRA §242(b)(2) election:
 - a. If a participant made a valid TEFRA §242(b)(2) election prior to December 31 1984, distributions in accordance with the election will satisfy minimum distribution requirements.
 - b. If a TEFRA §242(b)(2) election is ever revoked or modified, the participant must comply with current minimum distribution rules and corrective distributions must be made for prior years.
- B. Minimum distributions must begin no later than the required beginning date:
 - 1. April 1 of the year following the year in which the participant becomes age 70½, or
 - 2. April 1 of the year following retirement from your company, if the participant made a minimum distribution deferral election.
 - 3. To avoid receiving two distributions in the same year, the first minimum distribution may be paid in the year the participant becomes age 70½ or, if later, retires.
- C. Subsequent Distributions
 - 1. The second minimum distribution must be made by December 31 of the same year as the required beginning date.
 - 2. Subsequent annual distributions must be made no later than December 31.
- D. Minimum Distribution Amount
 - 1. The minimum distribution amount is calculated by dividing the participant's account balance by a minimum distribution factor.
 - 2. The account balance for calculating the first required minimum distribution is determined as of the Last Valuation Date prior to the year in which the participant reached age 70½ or, if later, actually retired from the company.
 - 3. The account balance for calculating subsequent minimum distributions is determined as of the last valuation date of the year prior to the distribution.
 - 4. Account balances must be adjusted for contributions, forfeiture and income accruing to the participant and required minimum distributions paid for a prior year.

- E. Minimum Distribution Table (MDIB): The minimum distribution factor is found in the minimum distribution table for the participant’s age attained in the year for which the distribution is made.

MDIB Table					
Required Distributions under Code §401(a)(9)					
<u>Age of the employee</u>	<u>Applicable divisor/ Maximum period certain</u>	<u>Age of the employee</u>	<u>Applicable divisor/ Maximum period certain</u>	<u>Age of the employee</u>	<u>Applicable divisor/ Maximum period certain</u>
70	26.2	85	13.8	100	5.7
71	25.3	86	13.1	101	5.3
72	24.4	87	12.4	102	5.0
73	23.5	88	11.8	103	4.7
74	22.7	89	11.1	104	4.4
75	21.8	90	10.5	105	4.1
76	20.9	91	9.9	106	3.8
77	20.1	92	9.4	107	3.6
78	19.2	93	8.8	108	3.3
79	18.4	94	8.3	109	3.1
80	17.6	95	7.8	110	2.8
81	16.8	96	7.3	111	2.6
82	16.0	97	6.9	112	2.4
83	15.3	98	6.5	113	2.2
84	14.5	99	6.1	114	2.0
				115 and older	1.8

- F. Joint Life Expectancy Table: If the participant’s spouse is the sole beneficiary and is more than 10 years younger than the participant, the joint life expectancy table may be used to determine the minimum distribution factor.

VIII. Hardship Withdrawals from 401(k) Plans

Hardship withdrawals are limited to elective contributions to the plan and pre-1989 earnings on those contributions.

A. Reasons

1. Unreimbursed medical expenses of the employee, the employee's spouse or any of the employee's dependents
2. Purchase of a principal residence for the employee
3. Payment of tuition for the next semester or quarter of post-secondary education for an employee, or the employee's spouse, children or dependents
4. Payments needed to prevent eviction of an employee from the employee's principal residence or foreclosure on the mortgage on the employee's principal residence

B. The employee must represent that the need for the hardship distribution cannot be relieved through:

1. Reimbursement or compensation by insurance or otherwise
2. Reasonable liquidation of the employee's assets to the extent that such liquidation would not cause an immediate and heavy need
3. Cessation of elective contributions or employee contributions under the plan
4. Any other distributions or nontaxable loans from the plans maintained by the employer or any other employer
5. Borrowing from commercial sources on reasonable commercial terms

IX. Minimum Vesting and Eligibility

A. Vesting

1. Vesting refers to the nonforfeitable interest of employees in the employer funded benefits provided under the plan.

A plan must give credit toward vesting for all [years of service](#) completed after the employee attains age 18.

2. Breaks in Service

- a. Nonvested Participant

- Pre-break service of a nonvested participant must be taken into account unless the number of consecutive one-year breaks-in-service equal or exceed the greater of five or the number of pre-break years of service.
- A one-year break-in-service is a 12 consecutive month period during which an employee completes 500 or fewer hours of service.
- A nonvested participant is a participant who does not have *any* nonforfeitable rights under the plan to an accrued benefit derived from employer contributions.

- b. Defined Contribution Plans

- The employee must incur five consecutive one-year breaks in service before post-break years of service can be ignored with respect to the pre-break accrued benefit and the nonvested amount can be forfeited and reallocated.
- c. Maternity or Paternity Leave
 - Participants on maternity or paternity leave, whether compensated or not, are required to receive credit for 501 hours of service so as to not incur a break-in-service.
- 3. Minimum Vesting Schedules
 - a. Five-year cliff vesting – No vesting until five years of service and then 100 percent vested.
 - b. Seven-year graduated vesting – 20 percent vesting after three years, increasing 20 percent each year until 100 percent vested at seven years.
 - c. Top-heavy plans are required to provide more rapid vesting.
 - A plan may now require only two years of service before participation if the participant is immediately 100 percent vested.
 - Three-year cliff vesting.
 - Six-year graduated vesting.
 - d. For plan years beginning after December 31, 2001, company matching contributions in all plans are subject to the top-heavy minimum vesting standards.

B. Eligibility

1. A maximum of one year of service can be required for participation in a 401(k) plan regardless of the employer vesting schedule.
2. Plans may require two years of service for other types of employer contributions if the participant is immediately 100 percent vested.

X. Permitted Disparity (IRC §401(1))

Under permitted disparity, a portion of the social security taxes paid by the employer may be taken into consideration in the calculation of contributions or benefits provided through a qualified plan. Prior to the Tax Reform Act of 1986, this was called integration with Social Security.

A. Social Security

1. Every employer is already paying for employee retirement benefits through Social Security. Employers pay Old Age, Survivors and Disability Insurance (OASDI) payroll tax on employee compensation up to the Taxable Wage Base (TWB).
2. There is no OASDI tax on compensation above the taxable wage base and no social security benefits based on those wages.
3. Additional contributions or benefits may be provided in a qualified retirement plan because there are no OASDI benefits on wages that exceed the TWB. The additional contributions or benefits are allowed under permitted disparity rules.

B. General Definitions and Rules

1. **Taxable Wage Base:** The TWB is the maximum amount of an individual's earnings in any calendar year that may be considered wages for Social Security purposes and subject to OASDI taxes.
2. **Integration level:** The integration level is the amount of compensation, specified in the plan, at or below which, the rate of contributions (or benefits) provided under the plan is less than the rate provided to compensation above such level. In defined contribution excess plans, the integration level of the plan cannot exceed the TWB in effect as of the beginning of the plan year.
3. **Base Compensation:** That portion of each participant's eligible compensation that does not exceed the integration level specified in the plan.
4. **Base Contribution Percentage (BCP):** The percentage of employer contributions and forfeitures allocated to participants on the basis of base compensation.
5. **Excess Compensation:** That portion of each participant's compensation (if any) that exceeds the integration level specified in the plan.
6. **Excess Contribution Percentage (ECP):** The percentage of employer contributions and forfeitures allocated to participants on the basis of excess compensation.
7. **Disparity:** The amount by which the ECP exceeds the BCP.
8. **Permitted Disparity Rules for a Defined Contribution Excess Plan:** The maximum permitted disparity between the ECP and the BCP cannot be more than the lesser of:
 - a. The BCP, or
 - b. The maximum percentage, determined by the integration level specified by the plan, in the table below.

Integration Level Specified by the Plan*	Maximum % of Permitted Disparity
Equal to the TWB as of the beginning of the plan year \$84,900 for plan years beginning in 2002	5.7%
Less than or equal to 20% of the TWB ≤ \$16,980 for plan years beginning in 2000	5.7%
Greater than 20% of the TWB, but not more than 80% of the TWB > \$16,980 but ≤ \$67,920 for plan years beginning in 2000	4.3%
Greater than 80% of the TWB, but less than 100% of the TWB > \$67,920 but < \$84,900 for plan years beginning in 2000	5.4%

* Because the Social Security Taxable Wage Base historically changes annually, dollar amounts may change annually.

The ECP cannot be greater than two times the BCP, **and** the ECP cannot exceed the BCP by more than 5.7 percent, 5.4 percent or 4.3 percent, depending on the integration level used by the plan.

C. When Employers Sponsor more than One Plan

If an employer maintains more than one plan covering the same group of employees, the permitted disparity rules apply to all plans on a combined basis. It is easier to do this if only one plan is integrated. With the current UMB Prototype plans, only one can be integrated.

XI. 404(c) Compliance Regarding Participant Directed Investment

Under the Employee Retirement Income Security Act (ERISA), the fiduciaries of a qualified retirement plan are generally responsible for the investment results of the plan. The fiduciaries include the trustee(s), plan sponsor, plan administrator and investment manager(s). ERISA §404(c) relieves the fiduciaries from investment responsibility for certain transactions directed by a participant or by a beneficiary of the plan. DOL regulations establish the criteria for determining whether a plan is an individual account plan which permits participants to exercise independent control over the assets in their accounts, thus relieving plan fiduciaries from responsibility for those investment decisions.

A. Purpose of §404(c)

1. Plan fiduciaries are relieved from responsibility for the investment results where individual participants and beneficiaries make the investment decisions.
2. Regulations apply only to individual account plans such as profit sharing, 401(k), money purchase pension, stock bonus and target benefit plans.
3. If a plan does not permit participants and beneficiaries to direct their investments, the regulations are not applicable.
4. The regulations do not require that participants and/or beneficiaries be allowed to make their own investment decisions.
5. Compliance with §404(c) is not required for a plan to maintain its qualified status.
6. Defined benefit plans are not eligible for §404(c) relief.

B. Requirements of §404(c) Regulations

The fiduciaries must comply with the §404(c) regulations if the fiduciaries are to have the relief from the fiduciary liability for the investment results where participants have made the investment decisions. There are two broad requirements in the regulations.

1. The participant must exercise independent control over the investment of the participant's account.
2. The participant must have a broad range of investment options.

C. Exercise of Independent Control

1. The exercise of independent control requires the participant to affirmatively elect or choose the investments for the participant's account. Absent directions from the participant and beneficiary, the fiduciaries remain responsible for the proper investment of the account balance. The fiduciaries retain the discretion to manage a non-directing participant's account balance. You will be asked to make a default election for nondirecting participant accounts. The common practice of placing non-directing participant's account balances in a money market fund will generally no longer be acceptable.
2. Independent control is jeopardized if the participant is subjected to improper influence by a plan fiduciary or plan sponsor with respect to an investment. While plan fiduciaries must provide sufficient information to make an informed decision, the information should be general in nature. Specific investment advice should not be given to a participant.
3. A fiduciary must be identified to whom the participant will give investment instructions. For the participant to have effective control, the plan must require the fiduciary to follow the instructions of the participant with only a few limited exceptions. The fiduciary cannot accept instructions if the fiduciary knows the participant is legally incompetent. The fiduciary may also refuse to implement instructions which would result in a prohibited transaction.
4. For a participant or a beneficiary to exercise independent control, the participant or beneficiary must have sufficient information to make informed investment decisions. If adequate information is not provided, the fiduciaries remain liable even if the participant makes the investment decisions. The fiduciaries have an affirmative duty to inform participants of the investment options and provide detailed information.
5. The regulations require that the following items be automatically furnished to participants:
 - a. A notice of limited liability – an explanation that the plan is a §404(c) plan and that the plan fiduciaries may be relieved of responsibility for any losses that result from the participant's investment decisions.
 - b. A description of all investment alternatives under the plan including a general description of the investment objectives of each alternative, the risk and return characteristics of each alternative, and the level of diversification of assets in each alternative.
 - c. If the plan permits individually directed accounts with no restrictions on investments, a statement must be provided that the plan allows participants to invest in any asset administratively feasible for the plan to hold.
 - d. The identification of investment managers.
 - e. Investment instructions and restrictions – including to whom, when and how instructions may be made. It should also include information regarding any restrictions on transfer, voting of any alternative and

- percentage limitations on any non-core (discussed on the following page) investment alternatives.
- f. A description of transaction fees, charges or expenses which may be charged to participants accounts.
 - g. The name, address and telephone number of the plan fiduciary responsible for providing additional information that is available upon request, and a general description of the information which can be obtained upon request.
 - h. A copy of the most recent prospectus, upon the participant's initial investment in an investment alternative which is a registered mutual fund.
 - i. Proxy voting information, if voting rights are passed through to participants.
6. The following additional information must be furnished upon request.
 - a. Copies of any prospectus, financial statement, report or any other material received by the plan which relate to each investment alternative.
 - b. A narrative description of the annual operating expenses of each designated investment alternative including investment management fees, administrative fees and transfer costs which reduce a participant's rate of return.
 - c. The sum of the operating expenses expressed as a percentage of the average net assets in that particular investment alternative.
 - d. A list of the assets that comprise the portfolio of each designated alternative.
 - e. The value of each investment alternative as well as the past and current investment performance for each investment alternative net of expenses.
 - f. The value of the participant's interest in the designated investment alternative.
 7. While the preamble to the regulations indicates that the disclosure requirements are not intended to require plan fiduciaries to create materials relating to the investment alternative where the materials are not provided to the plan by the sponsor of the investment vehicle, it would appear that the plan fiduciaries will need to monitor and coordinate the provision of the information from various sources.
 8. Finally, the participant must have frequent opportunity to give investment instructions. The participant must have the right to give investment instructions with a frequency which is appropriate for the investment, taking into consideration the market volatility reasonably expected for that investment. Any frequency limitations must be uniform and consistently applied to all participants. At a minimum, a plan must provide participants and beneficiaries the ability to switch investments once every three months. A plan may have more frequent switch provisions.

D. Broad Range of Investment Options

1. There are three criteria for determining whether a participant has a broad range of investment options.

- a. The participant or beneficiary must have the ability to affect materially the potential return on his/her account and the degree of risk that the participant or beneficiary can tolerate.
 - b. At least three diversified categories of investments, known as "core investments," must be available.
 - c. The investment options must provide an opportunity to diversify investments so as to minimize the risk of large losses, taking into account the nature of the plan and the size of the account.
2. The three core funds must be materially different from one another in terms of risk and return. For example, while a plan may offer more than one equity fund as an investment vehicle, a plan that offers only three equity funds has not met the requirement that the three core funds be diversified and allow the participant to materially affect the potential return or degree of risk associated with his account.
 3. In the aggregate, the choices available to the participant or beneficiary must enable the participant or beneficiary to achieve a portfolio which may fall within the full range of risk and return characteristics normally appropriate for the participant.
 4. A specific security such as employer stock cannot be a core fund. It can however, if it is publicly traded, be an option along with a minimum of three core funds. Employer stock funds have additional disclosure requirements.
 5. The plan may set a minimum dollar amount or percentage of account to be invested in a given option as long as the amounts are not overly restrictive. The plan may not limit the maximum a participant may invest in the core investments. However, the plan may limit a participant's investment in non-core alternatives without affecting the availability of a broad range of investment options.
- E. The Fiduciary may still be Responsible
1. The fiduciaries still retain some investment responsibility. The fiduciaries have responsibility for prudently selecting the investment alternatives and monitoring their performance. The fiduciaries are responsible for providing the proper information to the plan participants with which they can make their investment decisions. The fiduciaries are also responsible for prudently implementing the instructions of the participants.
- F. UMB's §404(c) Package
1. UMB has developed two packages to aid plan sponsors in complying with the §404(c) requirements.
 - a. Individually Directed Account (IDA) Manuals: Your plan may permit participants to direct the investment of their accounts through IDAs. An IDA may be invested in a broad universe of mutual funds, stocks and bonds. UMB provides an IDA Manual for participants who elect this option. The IDA Manual explains how to establish an IDA, how to give investment instructions and explains the costs related to the account. It also contains a 404(c) notice and a 404(c) contact for more information.
 - b. Enrollment Packets: Your plan may permit participants to direct the investment of their accounts through a menu of available investment

funds. UMB has developed an enrollment packet that provides participants with information about your plan, the importance of planning for retirement, a description of the investment funds and the forms to make investment elections and changes. It also contains a 404(c) notice and a 404(c) contact for more information.

XII. Controlled Groups

- A. Code Sections 414(b), 414(c) and 1563 treat controlled groups like single employers when testing for nondiscrimination. This is done to make it impossible to avoid the coverage and anti-discrimination rules merely by operating a business through separate corporations (or other business entities).
- B. The separate plans of organizations in a controlled group do not need to be precisely the same, nor do all members of the group need to maintain a plan, so long as any plan that is maintained covers a fair cross-section of high and low paid employees and does not discriminate.
- C. Controlled group members are jointly and severally liable for any required contributions under Code §412 or for any excise tax on accumulated funding deficiencies under Code §4971.
- D. Two forms of Controlled Groups
 - 1. A Parent/Subsidiary relationship exists when a parent organization has a controlling interest in at least one organization in the group.
 - a. A "controlling interest" means at least 80 percent of the total voting power of all classes of stock or 80 percent of total value of all classes of stock of a corporation, or 80 percent of the profits or capital interest of a partnership, or 100 percent of a sole proprietorship.
Example: The ABC Partnership owns 80 percent of the stock of S Corporation. ABC Partnership is the common parent of a parent/subsidiary group of trades or businesses under common control of the ABC Partnership and S Corporation.
 - 2. A Brother/Sister relationship occurs when:
 - a. Two or more organizations owned at least 80 percent by the same five or fewer individuals, estates or trusts, if the identical ownership of those five or fewer individuals, estates or trusts exceeds 50 percent of the value of the voting stock of each corporation, taking into account the ownership that is identical with respect to each organization.

Example #1:

Individual	Corp X	Corp Y
A	70%	85%
B	30%	
C	—	<u>15%</u>
	100%	100%

To determine whether common ownership between X and Y satisfies the 80 percent test, disregard the ownership of B and C because neither person has an ownership in both corporations. X and Y are not brother-sister corporations because A does not own at least 80 percent in each corporation.

Example #2:

Individual	Corp X	Corp Y	Identical Owner
A	70%	85%	70%
B	30%	5%	5%
C	—	<u>10%</u>	—
	100%	100%	75%

To apply the 80 percent test, take into account A and B because each has ownership in both corporations. A and B own 100 percent of X and 90 percent of Y satisfying the 80 percent test.

A's identical ownership in X and Y is 70 percent because he owns at least 70 percent of each corporation. B's identical ownership is 5 percent because he owns at least 5 percent of each corporation. The total identical ownership interest for A and B is 75 percent. X and Y constitute a brother-sister group of corporations because A and B satisfy the 80 percent common ownership test and the "more than 50 percent" identical ownership test.

XIII. Affiliated Service Groups

- A. Internal Revenue Code Section 414(m) extends nondiscrimination tests generally applied to single employers to an affiliated service group of employers. This is done to make it impossible to avoid the coverage and anti-discrimination rules merely by operating a business through separate corporations (or other business entities).
- B. The Separate Plans of the Employers in an affiliated service group do not need to be precisely the same. Nor do all members of the group need to maintain a plan, so long as the plan or plans meet the minimum coverage requirements (treating all members of the affiliated service group as if they were one employer) and do not discriminate in highly compensated employees.
- C. Three Basic Forms of Affiliated Service Groups:

1. A-Org Test: An A-Org is a service organization that is a partner or shareholder in a First Service Organization (FSO) and regularly performs services for the FSO or is regularly associated with the FSO in performing services for third persons.
 - a. An organization will be considered a service organization if capital is not a material income-producing factor for the organization. Organizations in the following fields will be deemed service organizations: health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting and insurance.
 - b. **Example:** P is a law partnership consisting of 3 corporate partners A, B and C. P employs common law employees, including lawyers, paralegals and clerical staff. Corporations A, B and C each has only one employer, its sole shareholder. A, B and C regularly associate with P to perform services for clients. P is a FSO because it is an organization performing services. A, B and C are each an A-Org with respect to the FSO because they regularly associate with the FSO in performing services for third parties. A, B, C and P are an affiliated service group.
2. B-Org Test: An organization will be considered a B-Org if three requirements are satisfied:
 - a. A significant portion of the business of the organization is the performance of services for the FSO, for one or more A-Orgs determined with respect to the FSO, or for both. The performance of services will be considered a significant portion of the business of an organization if the total receipts percentage is 10 percent or more. If the percentage is less than 5 percent, the performance of services will not be considered a significant portion. If neither of these tests apply, a determination will be based on all relevant facts and circumstances.
 - b. The services historically are performed by employees in the services field of the FSO or the A-Orgs. Services will be considered of a type historically performed if it was not unusual for the services to be performed by employees of organizations in that service field.
 - c. Ten percent or more of the interest in the organization is owned, directly or indirectly, in the aggregate by persons who are HCEs of the FSO or the A-Orgs.
3. Management Organization: An organization whose principal business is the performance of management functions for another organization (or 'related' organizations) on a regular and continuing basis.
 - a. The management organization and the 'related' organizations for which the management functions are performed are an affiliated service group.

XIV. Compliance Issues for Controlled Groups and Affiliated Service Groups

- A. Internal Revenue Code treats the members of a controlled or affiliated service group as a single employer for ADP/ACP testing, minimum coverage testing, considered compensation limits, minimum vesting standards, maximum annual additions and top-heavy rules. If the [Data Request List](#) indicates that the employer sponsoring the plan is a member of a controlled group, commonly

controlled business, or affiliated service group, the coverage test must include the employees of those other organizations.

- B. Generally, an employee of one company is considered an employee of all employers in a controlled group or affiliated service group of companies.
- C. Constructive Ownership: Direct and indirect (constructive) ownership must be taken into consideration when determining whether companies or organizations are members of a controlled group. Under constructive ownership rules for controlled groups, an interest held by a person in an organization will, under certain circumstances, be attributed to another person. There are three basic forms of attribution:
 - 1. Option: A person who has an option to acquire an outstanding interest in an organization will be considered to own the interest. The option attribution rule takes precedence over all other attribution rules.
 - 2. Entity: A person will be treated as the owner of an interest in an organization held by a partnership, estate or corporation.
 - a. An interest in an organization owned, directly or indirectly, by a partnership will be considered owned by any partner having an interest of 5 percent or more in either the profits or capital interest of the partnership. A partner's attributed ownership will be in proportion to the partner's interest in the profits or capital of the partnership, whichever is larger.
 - b. An interest in an organization owned, directly or indirectly, by a corporation will be considered owned by a shareholder owning 5 percent or more in value of the stock owned by the stockholder relative to the total value of all stock in the corporation.
 - c. An interest in an organization owned, directly or indirectly, by an estate or trust will be considered owned by a beneficiary of the estate or trust if the beneficiary has an actuarial interest of 5 percent or more in the estate or trust. A beneficiary's attributed ownership in the organization will be in proportion to the beneficiary's actuarial interest in the estate or trust.
 - 3. Family
 - a. An interest held by a spouse will generally be attributed to the individual. The spousal attribution will not occur if four conditions are satisfied:
 - The individual does not, at any time during the year, directly own any interest in the organization.
 - The individual is not a member of the board of directors, a fiduciary or an employee of the organization, and does not participate in the management of the organization at any time during the year.
 - Not more than 50 percent of the organization's gross income is derived from unearned income.
 - The spouse's interest in the organization is not subject to conditions that substantially restrict or limit the spouse's right to dispose of the interest and that run in favor of the individual or the individual's children who have not attained age 21.
 - b. An individual will be considered to own an interest in an organization owned, directly or indirectly, by his/her child who has not reached age 21.

- c. Similarly, if an individual has not reached age 21, that individual will be considered to own an interest in an organization owned, directly or indirectly, by his/her parents.
 - d. If an individual has effective control of an organization, then that individual will be considered to own any interest in the organization owned, directly or indirectly, by his parents, grandparents, grandchildren and children who have reached age 21.
4. An interest constructively owned by a person will be treated as actually owned by the person for the purpose of attributing ownership to another. However, an interest constructively owned by an individual as a result of the operation of the family attribution rules cannot be reattributed to another family member.

XV. Highly Compensated Employee (HCE)

An employee may be classified as an HCE because of ownership or compensation.

- A. Ownership: Any employee who owns (directly or indirectly) at any time during the current or prior plan year, more than 5 percent of the company is an HCE.
 1. Indirect Ownership: In addition to direct ownership, an employee may have an indirect ownership interest in the company through a family member or another entity.
 - a. An employee is considered the indirect (constructive) owner of shares owned by his or her spouse, children, grandchildren and parents.
 - b. An employee who owns 50 percent or more of a corporation, or has an ownership interest in a partnership, or is a beneficiary of an estate or trust that owns shares of the company, has an indirect (attributed) ownership of shares owned by these entities.
 2. If the company is not a corporation, the ownership test is applied to the person's capital or profit interests in the employer.
- B. Compensation: Any employee who received compensation for the preceding year exceeding \$90,000 for 2002 (as adjusted each year for inflation by the IRS) and, if the employer elects, was in the Top-Paid Group during the preceding plan year, will be considered an HCE.
 1. The dollar amount used for the compensation test (as adjusted for inflation) may be found on the table of [IRS Limits on Benefits and Compensation](#).
 2. The Top-Paid Group of employees consists of the top 20 percent of the employer's active employees (**not** plan participants) as ranked by compensation paid during the previous plan year.
 3. The Top-Paid Group election may be made annually, without the consent of the IRS, but your plan document must reflect the Top-Paid Group elections.
 4. In determining the number of employees in the Top-Paid Group, the plan (subject to certain employer elections) **must** exclude employees who:
 - a. Have not completed six months of service
 - b. Normally work less than 17.5 hours per week
 - c. Normally work not more than six months during a year

- d. Have not attained age 21
- e. Are nonresident aliens and who do not receive an earned income from the employer which constitutes U.S. source income
- f. Are covered by a collective bargaining agreement, but only if 90 percent or more of the employer's employees are covered by the collective bargaining agreement and the plan covers only the nonunion employees.

XVI. Non-Highly Compensated Employee (NHCE)

A non-highly compensated employee is an employee who is not an [HCE](#).

XVII. Coverage Testing

Your plan is not required to cover all employees in your company. Common eligibility requirements are age 21 and one year of service. Entire groups or classes of employees may be excluded. For example, employees at a plant location, union employees and those who are not employed on the last day of the Plan year may be excluded. But to receive favorable tax treatment, your plan must cover a sufficient portion of its (NHCE) compared to the coverage of [HCEs](#) to meet the Internal Revenue Service (IRS) requirements. This is called coverage testing.

- A. Coverage testing is performed at least annually and should be the first test performed on your plan.
- B. Your plan automatically passes coverage if:
 - 1. You have only HCEs.
 - 2. Your plan benefits only NHCEs.
- C. Defined Contribution Coverage Tests: a defined contribution retirement plan must satisfy one of two coverage tests in order to qualify for favorable tax treatment.
 - 1. Ratio Percentage Test:
 - a. A plan satisfies the ratio percentage test for a plan year only if the percentage of NHCEs benefiting under the plan is at least 70 percent of the percentage of HCEs benefiting under the plan.
 - 2. Average Benefit Test:

This a more complicated test that will only be done if the plan fails the ratio percentage test. There are two parts to the average benefit test.

 - a. Nondiscriminatory classification test: This test is satisfied only if the plan benefits a class of employees established by the employer that is both reasonable and nondiscriminatory.
 - b. Average benefit percentage test: The average benefit percentage (i.e., the average contribution allocation accrual rate) for NHCEs must equal at least 70 percent of the average benefit percentage for HCEs of the employer, considering all sources of contributions and forfeitures.
- D. Leased Employees: Employees of another company, who provide services to your company on a substantially full-time basis, may be considered employees of your company for purposes of the coverage testing. If your company exercises primary direction and control over the work performed by the employee of another

company, you may need to treat that individual as your employee who is not benefiting under your plan.

- E. Excludible Employees: All employees are included in the coverage test EXCEPT the following:
1. Employees who have NOT met the minimum service or age requirements, if any, prescribed by your plan.
 2. If your plan (including aggregated plans) has two different sets of minimum age and service requirements, an employee who satisfies one of the age and service requirement is not an excludable employee.
 3. Union employees may be excluded if there is evidence that retirement benefits were the subject of good faith bargaining.
 4. Airline pilots under a certain type of collective bargaining agreement.
 5. Nonresident aliens with no U.S. source income.
 6. An employer may make an annual election which excludes all terminated participants who meet all of the following requirements:
 - a. Did not receive an allocation of contributions or forfeitures for the plan year.
 - b. Employee was eligible to participate in the plan.
 - c. Failed to accrue a benefit or receive an allocation under the plan solely because of the failure to satisfy the minimum hours of service or last-day requirement.
 - d. Terminated employment with less than 500 hours of service.
- F. Benefiting Employees: Employees are benefiting under the plan for a plan year if they receive a share of contributions or forfeitures. All other employees are NOT benefiting under the plan unless they qualify under one of the following exceptions:
1. 401(k) Contributions: An employee is benefiting if eligible to make an elective deferral, whether or not the employee actually makes a deferral (this includes employees who cannot make contributions because they took a hardship distribution).
 2. Company Matching Contributions: An employee is benefiting if the employee could have received a matching contribution if the employee had made an elective deferral or an employee voluntary, after-tax contribution.
 3. Maximum Annual Addition Limit: An employee is benefiting if the employee fails to accrue a benefit solely because of maximum annual addition limitations.
- G. Mandatory Disaggregated Plans: Code §410(b) requires the following types of contributions to be tested separately:
1. 401(k) elective deferrals
 2. After-tax employee contributions, Company matching and Qualified Matching Contributions (QMACs)
 3. ESOP contributions
 4. Employer and Qualified Nonelective Contributions (QNECs).
 5. Plans disaggregated that benefit both collectively bargained and non-collectively bargained employees.

- H. Permissively Aggregated Plans: Two of more plans sponsored by the same employer may be aggregated and tested as a single plan for minimum coverage, provided the aggregated plans also can satisfy ADP/ACP testing as a single plan.
1. Plans that have different plan years may not be aggregated.
 2. Plans that use different ADP/ACP testing methods may not be aggregated.
 3. Plans that have different allocation requirements and benefit formulas will not qualify for the aggregation safe harbor. These plans may only be aggregated for coverage testing under the rate group testing method average benefits test.
- I. Controlled Groups/Affiliated Service Groups
- Companies that are members of a controlled or affiliated service group are treated as a single employer for coverage testing, ADP/ACP testing, compensation limits, maximum annual additions and top-heavy testing.
- J. Separate Lines of Business
1. If an employer satisfies the Separate Lines of Business rules, each plan's coverage testing would be limited to the line of business that is covered by the plan.
 2. A qualified separate line of business must have at least 50 employees and be operated as a separate line of business for a bona fide business reason.
 3. IRS must be notified and the IRS will look at whether the business unit has:
 - a. A separate organizational unit
 - b. Separate financial accountability
 - c. Separate workforce
 - d. Separate management

XVIII. Compensation Ratio Testing

Your plan may use any definition of compensation for calculating contributions or benefits that satisfies Section 414(s) of the Internal Revenue Code and does not in design discriminate in favor of the HCEs.

- A. §415 Compensation Definitions
1. Current Income: The employee's wages, salaries, fees for professional services and other amounts received for personal services, to the extent that such amounts are included in gross income; or for a self-employed individual, earned income.
 2. W-2 Wages: the amount reportable in Box 1 of Form W-2
 3. Federal Withholding Wages: All amounts defined as wages for purposes of federal income tax withholding purposes
- B. Safe Harbor Modifications to §415 Compensation
1. Exclusion of elective deferrals
 2. Exclusion of reimbursement or other expense allowances, fringe benefits, moving expenses, deferred compensation and welfare benefits.
 3. Exclusions that apply only to HCEs
- C. Alternative Definition of Compensation

If your plan uses an alternative definition of compensation (it may exclude overtime, bonuses or commissions) a Compensation Ratio Test must be performed each year.

D. Compensation Ratio Test

1. A percentage of included compensation is calculated for each participant. The percentage is calculated by dividing the participant's compensation as defined by the plan by the participant's full compensation (including excluded amounts) up to the maximum compensation dollar limit. (Refer to [Dollar Limits](#).)
2. The average compensation percentage is calculated for the HCE group and for the NHCE group.
3. If the average compensation percentage for the NHCE group is equal to or greater than the average compensation percentage for the HCE group, the plan's definition is nondiscriminatory.

XIX. ADP Test

Plans that allow 401(k) contributions must pass the ADP or 401(k) test. 401(k) contributions are sometimes called elective deferrals. Qualified Non-Elective Contributions (QNEC) and Qualified Matching Contributions (QMAC) may be treated as elective contributions and included in the ADP Test. This test is not required for a plan that qualifies as a Safe Harbor plan.

- A. Who is Included: Generally, all employees who were eligible to make a 401(k) contribution are included in this test.
- B. The Employees are Divided into Two Groups: [HCEs](#) and [NHCEs](#).
- C. An Actual Deferral Ratio (ADR) is calculated for each participant. Each eligible employee's elective deferrals are divided by his/her compensation, as defined by the plan. All percentages are calculated to the nearest one-hundredth of one percent.
- D. The Actual Deferral Percentage (ADP) is an average of the ADRs calculated for each group. (The ADP is the sum of the ADRs for the employees in the group divided by the number of employees in the group.) All percentages are calculated to the nearest one-hundredth of one percent.
- E. Prior Year Method: The current ADP for the HCE group is compared to the ADP calculated for the NHCE group for the prior year. Your plan document must specify the method to be used.
- F. Current Year Method: The current ADP for the HCE group is compared to the ADP calculated for the NHCE group for the same year. Your plan document must specify the method to be used. The IRS limits a plan's ability to change from the prior year method to the current year method.
- G. Passing the ADP Test: The ADP of the NHCE group is determined by the current year method or prior year method specified by your plan. The ADP Test may be passed with either of the following:
 1. 125 percent Test: The ADP of the HCE group is not more than 1.25 times the ADP for the NHCE group, or

2. 2Plus/2Times Test: The ADP or the HCE group is not more than two percentage points greater and not more than two times the ADP of the NHCE group.
- H. Multiple Use Test: For plan years beginning prior to 2002, a multiple use test applies to plans that use the 2Plus/2Times test to pass both the ADP and the ACP test.
- I. Failing the ADP Test: If your plan does not initially pass the ADP test, a solution must be found. Failure to take corrective action before the end of the following plan year will disqualify the plan for the plan year the test was failed and for all subsequent plan years while the excess contributions remain in the plan.
- J. Solutions: Finding a solution to pass the ADP Test will generally fall into one of the following categories:
 1. Re-test with an alternative method. Example: Otherwise excludable employees (who have not completed a year of service or attained age 21) may be tested separately.
 2. Re-characterize or shift contributions from the ACP Test to the ADP Test or from the ADP Test to the ACP test.
 3. Increase the ADP for the NHCE group with QNEC or QMAC contributions within 12 months of the end of the plan year.
 4. Corrective distributions of excess contributions to HCEs.

XX. ACP Test

Plans that allow voluntary after-tax contributions and company matching contributions must satisfy the ACP or 401(m) test. QNEC and QMAC contributions that are not included in the ADP test are included in this test unless they have been used to satisfy required top-heavy minimum contributions. This test is not required for company matching contributions that qualify as Safe Harbor plan matching contributions.

- A. Who is Included: Generally, all employees who were eligible to make a voluntary non-deductible contribution and all employees who were eligible to receive a company matching contribution or QMAC are included in this test. Employees who would have received a company matching contribution or QMAC, if they had made a 401(k) elective deferral or a voluntary after-tax employee contribution are included.
- B. The Employees are Divided into Two Groups: [HCEs](#) and [NHCEs](#).
- C. An Actual Contribution Ratio (ACR) is calculated for each participant. Each eligible employee's voluntary after-tax and matching contribution are divided by his/her compensation, as defined by the plan. All percentages are calculated to the nearest one-hundredth of one percent.
- D. The Actual Contribution Percentage (ACP) is an average of the ACRs calculated for each group. (The ACP is the sum of the ACRs for the employees in the group divided by the number of employees in the group.) All percentages are calculated to the nearest one-hundredth of one percent.

- E. **Prior Year Method:** The current ACP for the HCE group is compared to the ACP calculated for the NHCE group for the prior year. Your plan document must specify the method to be used.
- F. **Current Year Method:** The current ACP for the HCE group is compared to the ACP calculated for the NHCE group for the same year. Your plan document must specify the method to be used. The IRS limits your plan's ability to change from the prior year method to the current year method.
- G. **Passing the ACP Test:** The ACP of the NHCE group is determined by the current year method or prior year method specified by your plan. The ACP Test may be passed with either of the following:
 - 1. **125 percent Test:** The ACP of the HCE group is not more than 1.25 times the ACP for the NHCE group, or
 - 2. **2Plus/2Times Test:** The ACP of the HCE group is not more than two percentage points greater and not more than two times the ACP of the NHCE group.
- H. **Multiple Use Test:** For plan years beginning prior to 2002, a multiple use test applies to plans that use the 2Plus/2Times test to pass both the ADP and the ACP test.
- I. **Failing the ACP Test:** If your plan does not initially pass the ACP test, a solution must be found. Failure to take corrective action before the end of the following plan year will disqualify the plan for the plan year the test was failed and for all subsequent plan years while the excess contributions remain in the plan.
- J. **Solutions:** Finding a solution to pass the ACP Test will generally fall into one of the following categories:
 - 1. **Re-test with an alternative method.** Example: Otherwise excludable employees (who have not completed a year of service or attained age 21) may be tested separately.
 - 2. **Re-characterize or shift contributions from the ACP Test to the ADP Test or from the ADP Test to the ACP test.**
 - 3. **Increase the ACP for the NHCE group with QNEC or QMAC contributions within 12 months of the end of the plan year.**
 - 4. **Corrective distributions of excess aggregate contributions to HCEs.**

XXI. Safe Harbor Plan Requirements

- A. A Safe Harbor 401(k) Plan does not need to satisfy ADP/ACP testing if the plan satisfies the notice and employer contribution requirements. There are two alternatives that satisfy the contribution requirement; a matching contribution or a qualified nonelective contribution.
- B. Under the Safe Harbor matching contribution alternative, the employer must provide a 100 percent matching contribution on salary deferrals up to 3 percent of compensation and at least 50 percent on the next 2 percent of compensation.
If the rate of matching contribution differs from the matching contribution formula described, the plan can still satisfy the matching contribution requirement if:

1. the rate of an employer's matching contribution does not increase as an employee's rate of salary deferral contribution increases; and
 2. the aggregate amount of matching contributions at such rate of salary deferral contribution is at least equal to the aggregate amount of matching contributions the employer would make if the matching contributions satisfied the percentage requirements.
- C. Under the Safe Harbor qualified nonelective contribution alternative, the employer makes a nonelective contribution to a defined contribution plan of at least 3 percent of compensation for each employee eligible to participate in the salary deferral plan, without regard to whether the employee makes elective contributions.
- D. The matching contributions and nonelective contributions the plan uses to satisfy either Safe Harbor alternative must be 100 percent vested and must be subject to the 401(k) plan distribution restrictions.
- A Safe Harbor 401(k) with this matching contribution automatically satisfies the ACP test if the plan satisfies the notice and contribution requirements and also satisfies a special limitation on matching contributions.
1. A matching contribution is not available on elective deferrals or on after-tax employee contributions above 6 percent of compensation.
 2. The matching contribution rate does not increase as the elective deferrals or after-tax contributions increase.
 3. The matching contribution at any rate of elective deferral or of after-tax employee contribution is not greater for any highly compensated employee than for any nonhighly compensated employee.
 4. An employer must continue to test after-tax employee contributions under the ACP test.
- E. The plan satisfies the notice requirement if each employee eligible to participate in the plan, between 30 and 90 days before the beginning of the plan year, receives a written notice of the employee's rights and obligations under the plan.

XXII. Maximum Annual Additions

- A. Section 415 of the Internal Revenue Code limits the contributions and benefits that may be provided for an individual through the qualified retirement plans sponsored by an employer. All defined contribution plans of an employer are treated as one plan for determination of annual additions.
- B. For plan years that begin prior to 2002, the maximum annual addition to any employee's account in an employer's defined contribution plans is the lesser of \$30,000 (\$35,000 for 2001) or 25 percent of the employee's compensation up to the compensation limit (\$170,000 for 2001). (Refer to the [dollar limits table](#) for the maximum compensation that may be used for plan purposes each year.)
- C. For plan years that begin in 2002, the maximum annual addition to any employee's account in an employer's defined contribution plans is the lesser of \$40,000 (indexed to the cost of living) or 100 percent of the employee's compensation. The compensation dollar limit was increased to \$200,000 for 2002.
- D. Amounts that Count Toward the Maximum Annual Addition include:

1. Employer contributions
 2. Employer matching contributions,
 3. Forfeitures reallocated to a participant's account
 4. 401(k) elective contributions, including excess contributions
 5. Voluntary non-deductible contributions
- E. Amounts that do not Count Toward the Maximum Annual Addition include:
1. Rollover contributions
 2. Participant loan payments
 3. Transfers from other plans

XXIII. Top-Heavy Testing

- A. Top-Heavy Plan: A defined contribution plan is top-heavy if more than 60 percent of the balances that must be included in the test are for the benefit of [key employees](#).
- B. Requirements for Top-Heavy Plans
1. More rapid vesting
 - a. Three years: 100 percent, or
 - b. Six-year-graded Vesting: 20 percent after two years of service and an additional 20 percent for each additional year of service
 2. Minimum contributions for non-key employees
 - a. Three percent of each non-key employee's compensation, or
 - b. The largest percentage contribution, if less than 3 percent, made on behalf of a key employee for the plan year (including 401(k) salary deferrals).
 3. Standardized Plans that do not offer a salary deferral option are designed to meet top-heavy requirements regardless of the actual status of the plan.
- C. Determination Date: The [top-heavy status](#) of a plan is determined as of the last day of the preceding plan year. However, a standardized plan will not automatically satisfy the minimum contribution requirement for a 401(k) plan.
- D. Key Employee: A Key Employee is an employee (or former employee) who, at any time during the preceding five plan years was:
1. An officer with annual compensation greater than dollar level below:
 - a. Prior to 2002: 50 percent of the annual benefit limitation for defined benefit plans. For 2001, 50 percent of the annual benefit for defined benefit plans is \$70,000. (50 percent of \$140,000 = \$70,000)
 - b. For plan years beginning in 2002, the compensation level is increased to \$130,000 (subject to cost of living adjustments).
 - c. An officer is an administrative executive who is in regular and continued service and has real control. Authority and duties, not the title, determine whether an individual is an officer.
 - d. Maximum number of officers to be considered Key Employees.
 - If there are 30 or fewer employees, no more than 3 shall be considered Key Employees as officers.

- If there are more than 30 but fewer than 500 employees, no more than 10 percent of the number of employees shall be considered Key Employees as officers. (Fractional numbers are increased to the next whole number.)
 - If there are more than 500 employees, no more than 50 may be considered Key Employees as officers.
 - If more than the maximum number of officers qualify, the officers with the highest one-year compensation during the past five years are counted as Key Employees.
2. One of the 10 largest owners of the employer (greater than 0.5 percent) during the previous five years and having compensation greater than the annual addition limit in effect for the plan year. (This rule is eliminated for plan years beginning in 2002 or later.)
 - a. For 2001, the maximum annual addition is \$30,000. (Refer to [Dollar Limits Table](#) for the maximum annual addition for other years.)
 - b. If two or more employees have the same percentage of ownership, the employee with the greater compensation is treated as owning a larger interest.
 - c. Constructive ownership rules of IRC Section 318 apply.
 3. A 5 percent or more owner. Constructive ownership rules of IRC Section 318 apply.
 4. A 1 percent or more owner whose compensation exceeds \$150,000. Constructive ownership rules of IRC Section 318 apply.
 5. For plan years beginning in 2002, the five-year testing period for determining key employees is replaced by a one-year testing period.
- E. Present Value of Accrued Benefits
1. For defined contribution plans, the balances that must be included in the test are:
 - a. Employer-funded accounts plus 401(k) salary deferral accounts and employee non-deductible contribution accounts on the [determination date](#).
 - b. Rollovers and plan to plan transfers received from plans maintained by the same or related employer.
 - c. Amounts distributed to employees in the previous five years.
 2. The following balances may be excluded from the test:
 - a. Account balances and distributions in the past five years to former employees who have not rendered any service to the employer at any time during the five-year period.
 - b. Rollover and plan to plan transfer accounts received from qualified plans of unrelated employers.
 - c. Corrective distributions during the past five years
 3. For plan years beginning in 2002, the five-year look back rule is replaced by a one-year look back rule.
- F. Safe Harbor 401(k) Plans that offer matching contributions are exempt from Top-Heavy Rules for plan years beginning in 2002 or later.

G. Impact of Top-Heavy Rules on 401(k) Plans:

If any key employee makes a 401(k) elective deferral to a top-heavy plan, the employer will be obligated to make a minimum contribution to all non-key employees.

XXIV. Corrective Procedures

A. Background

1. Qualified retirement plans offer significant tax benefits to both employers and employees. To enjoy the tax benefits of a qualified retirement plan, a plan sponsor must satisfy the requirements contained in Section 401 of the Internal Revenue Code. There are two basic types of requirements, those relating to the form of the plan and those relating to the operation of the plan. Failure to satisfy either the form or operational requirements can result in plan disqualification, which can result in the loss of the tax benefits.
2. Compliance with the form requirements can be satisfied through the IRS's determination letter program. The plan sponsor submits the plan to the IRS for an advance determination letter as to whether the plan is qualified. The IRS issues a favorable letter if the plan meets specific guidelines. Although a plan is not required to apply for a determination letter, it can be a wise investment. In order to take advantage of the correction programs, where applicable (see [Section 3](#)) a determination letter is necessary. Plans that adopt a Standardized version of a prototype document are generally exempt from filing for an individual determination letter.
3. Compliance with the day-to-day operational requirements is more difficult than the form requirements, given the complexity of the rules under which today's retirement plans must operate. In addition, the Code does not distinguish between isolated violations of operational rules, deliberate vs. inadvertent errors, or major as opposed to minor issues.
4. The Internal Revenue Service has developed programs which are designed to:
 - a. Encourage plan sponsors and plan administrators to properly operate qualified retirement plans
 - b. Provide a correction method when operational violations do occur
 - c. Avoid disqualification of the plan
5. On February 12, 2001, the IRS released Revenue Procedure 2001-17. This procedure modified its existing qualified plan correction procedures under the Employee Plans Compliance Resolution System (EPCRS). The modifications consist both of reorganization of existing programs and the addition of new features.

The reorganization combines certain prior programs into a single Voluntary Correction Program (VCP). Distinctions exist between operational, document and demographic failures. Different correction methods, conditions and fees apply to each.

The components of EPCRS are the Self-Correction Program (SCP), the Voluntary Correction Program (VCP) and the Audit Closing Agreement Program (Audit CAP).

6. This discussion is intended to inform you about these programs. By providing you with this information, UMB Bank, n.a. is not advising or suggesting that you should utilize these programs. We are simply informing you of the opportunity to use the programs should your plan experience an operational violation. You should consult with your legal counsel to determine if any of the corrective programs may be appropriate for your plan.

B. Self-Correction Policy (SCP)

1. A plan sponsor can correct significant operational failures under SCP without a fee or sanction as long as the correction is substantially completed by the end of the second year after the plan year of the failure.
2. SCP is also available to correct operational failures that are considered insignificant without a fee or sanction regardless of when they occurred. Because SCP can be used to correct such errors no matter how long they have existed, it is important to determine what failures can be deemed to be insignificant. For this purpose, EPCRS mandates the use of a facts and circumstances test with special attention to seven factors. These are:
 - a. Whether other failures occurred during the period being examined;
 - b. The percentage of plan assets and contributions involved in the failure;
 - c. The number of years the failure has occurred;
 - d. The number of participants affected relative to the total number of participants in the plan;
 - e. The number of participants affected as a result of the failure relative to the number of participants who could have been affected by the failure;
 - f. Whether the correction was made within a reasonable time after discovering the failure; and
 - g. The reason for the failure. Although EPCRS sets forth these factors, it does not provide any guidance on how to apply them.
3. In order to take advantage of SCP, where applicable, the plan must have a favorable determination letter and cannot be under an Internal Revenue Service Employee Plans examination. In addition, the plan sponsor must have established practices and procedures in place designed to promote overall compliance.
4. Probably the most important change in APRSC is the IRS's confirmation that SCP is not subject to the discretion of IRS agents. As a result, as long as plan sponsors follow the guidelines set out in Revenue Procedure 2001-17, they will be able to rely on the relief provided by SCP.

C. Voluntary Corrections with Service Approval (VCP)

1. VCP remains a voluntary program allowing plan sponsors to bring their plans into compliance for a limited fee that can range from \$500 to \$10,000, depending on the amount of plan assets and the number of plan participants. Specific operational failures can be corrected under the standardized VCP program (VCS) for a fee of \$350. VCR is available only if your plan has a favorable determination letter and is not currently under an examination. Generally the IRS will not examine a plan that has submitted a VCR request.

2. EPCRS has modified VCP to allow approximations in the calculations supporting plan sponsors' proposed correction methods. EPCRS also clarified and simplified the permissible correction methods under VCS.

D. Audit Closing Agreement Program (Audit CAP)

1. Audit CAP allows the IRS to negotiate a monetary sanction with the plan sponsor as an alternative to disqualification. Through EPCRS, the IRS has clarified that the sanction imposed under Audit CAP must bear a reasonable relationship to the nature, extent and severity of the failure. IRS agents must offer Audit CAP if a defect is found during a plan examination.

E. General Correction Rules

1. In addition to the modifications to the existing programs, EPCRS contains a number of general correction rules. These rules are geared to increasing flexibility in the correction process while protecting plan participants and beneficiaries. The correction should be reasonable and appropriate for the qualification failure. To achieve this goal, EPCRS provides that there may be more than one appropriate method of correcting qualification failures. The correction method used should, to the extent possible, resemble one already provided for in the Code, in regulations, or in other IRS guidance. Any standardized correction method under VCS will be considered a reasonable and appropriate method of correction.
2. The correction method should also keep assets in the plan to the greatest extent possible. In the event that corrective distributions must be made, the plan sponsor need not make such distributions in the amount of \$20 or less if costs would exceed the amount of such distribution. EPCRS excuses the failure to locate lost participants after reasonable attempts have been made to locate them. For this purpose, use of the IRS or Social Security program for locating lost individuals is deemed to be a reasonable attempt.

XXV. IRS Limits on Benefits and Compensation

YEAR	401(K) DEFERRAL	401(k) CATCH-UP LIMIT	DB ANNUAL ADDITION	DC ANNUAL ADDITION	HCE COMP	TOP PAID GROUP (\$50,000 INDEXED)	OFFICER (KEY EMPLOYEE)	COMP	TAXABLE WAGE BASE	EXCESS DISTRIBUTION
2002	11,000	1,000	160,000	40,000	90,000	N/A	N/A	200,000	84,900	N/A
2001	10,500	N/A	140,000	35,000	85,000*	N/A	N/A	170,000	80,400	N/A
2000	10,500	N/A	135,000	30,000	85,000*	N/A	N/A	170,000	76,200	N/A
1999	10,000	N/A	130,000	30,000	80,000*	N/A	N/A	160,000	72,600	N/A
1998	10,000	N/A	130,000	30,000	80,000*	N/A	N/A	160,000	68,400	N/A
1997	9,500	N/A	125,000	30,000	80,000*	N/A	N/A	160,000	65,400	160,000
1996	9,500	N/A	120,000	30,000	100,000	66,000	60,000	150,000	62,700	155,000
1995	9,240	N/A	120,000	30,000	100,000	66,000	60,000	150,000	61,200	150,000
1994	9,240	N/A	118,800	30,000	99,000	66,000	59,400	150,000	60,600	148,500
1993	8,994	N/A	115,641	30,000	96,368	64,245	57,821	235,840	57,600	144,551
1992	8,728	N/A	112,221	30,000	93,518	62,345	56,110	228,860	55,500	140,380
1991	8,475	N/A	108,963	30,000	90,803	60,535	54,485	222,220	53,400	136,304
1990	7,979	N/A	102,582	30,000	85,485	56,990	51,291	209,200	51,300	128,288
1989	7,627	N/A	98,064	30,000	81,720	54,480	49,032	200,000	48,000	122,580
1988	7,313	N/A	94,023	30,000	78,353	52,235	47,012	200,000	45,000	117,529

The deferral and compensation dollar limitations are effective January 1 of each calendar year and apply to plan years beginning with or within that calendar year. The salary deferral is applied on a calendar year basis. The DB and DC Annual Addition limitations are effective January 1 of each calendar year and apply to plan years ending with or within that calendar year.

*This limitation is on compensation for the prior plan year. HCEs may be limited to top paid 20 percent of employees by plan election.

Section 5 – Forms

IRS forms and instructions referenced in this section can be found at WWW.IRS.GOV. Under Forms and Publications Finder, type the form name you're looking for.

Index of Forms and Sample Documents

Form Name	Form Number (if applicable)
Application For A Participant Loan For Periodic Plans	RP-F-7
Authorization of 5500 Preparation Service sample letter	RP-L-8.1
Designation of Agent for an IDA	IDA-3
Designation of Beneficiaries to Receive Death Benefits	RP-F-75
Distribution Election	UMB S010542
Election to Revoke Your Individually Directed Account	IDA-8
IDA Election	IDA-1
Illustration of Format for Summary Annual Report	WPF80
Instructions for Completing the Distribution Election Form	UMB 016853
Investment Directive	IDA-2
Notice to Interested Parties (Where Application for Determination is Required for Reliance)	272-53
Notice to Interested Parties (Where No Application for Determination is Required for Reliance)	272-52
Ongoing Investment Instruction Directive	IDA-9
Participant Loan Program (Daily Accounting)	WPF46.DAI
Participant Loan Program (Periodic Accounting)	WPF46.PER
Request For In-Service Withdrawal	RP-F-69
Revocation of Agent Designation for an IDA	IDA-7
Salary Deferral Agreement Relating To 401(k) Profit Sharing Plan	PSF8

Form Name	Form Number (if applicable)
Sample Qualified Domestic Relations Order (QDRO) Procedure	WPF81
Special Tax Notice Regarding Plan Payments	UMB S010543
Waiver of Qualified Joint and Survivor Annuity	UMB S010541
Waiver of Qualified Preretirement Survivor Annuity	RP-F-73.1
Waiver of Right to Survivor Annuity by Surviving Spouse	RP-F-68

APPLICATION FOR A PARTICIPANT LOAN FOR PERIODIC PLANS

To: The Plan Administrator of the _____

Account Number _____

From: _____
(Applicant's Name - Print Legibly) Social Security Number _____

The undersigned, a Participant, Terminated Participant, or Beneficiary, in the above-referenced Plan and Trust, hereby applies to the Plan Administrator for approval of a loan from the above-identified Trust with the following terms and conditions:

1. Employees status (check one):
 - A. Active participant
 - B. Terminated participant who is a "Party-in-Interest" as defined in Section 3(14) of ERISA
 - C. Terminated participant who IS NOT a "party-in-interest".
 - D. Beneficiary who is a "Party-in-Interest" as defined in Section 3(14) of ERISA
 - E. Owner-employee (An owner-employee is a sole proprietor or a more than 10% partner in a partnership)*
 - F. Shareholder-employee in a Subchapter S Corporation (a shareholder-employee is a more than 5% shareholder in a Subchapter S Corporation)*

***IF BOX "E" OR "F" ABOVE IS CHECKED, THE APPLICANT IS PROHIBITED BY LAW FROM BORROWING FROM THE PLAN. DO NOT COMPLETE THE REMAINDER OF THIS APPLICATION.**

2. Amount requested: \$ _____

3. Loan Repayment Frequency (check one):
Principal and interest payments are made at fixed intervals over the term of the loan. Payment of principal and interest must be made at least quarterly.
 Monthly Quarterly

4. Term of loan: _____
Not to exceed five (5) years unless proceeds are used for purpose of financing the purchase or construction of the principal residence of the participant, in which case the length of the note should not exceed twenty (20) years.

5. This is a renewal of current loan dated _____

with a face amount of \$ _____
NOTE: the length of the renewed loan may not exceed: (a) twenty (20) years from the issue date of the **original** note, if the proceeds of the **original** loan were used to purchase or construct the principal residence of the participant, or (b) five (5) years from the issue date of the **original** note in all other cases.

6. Consolidation - check below if applicable:
 Consolidate this loan with all outstanding loans of the undersigned participant. DO NOT check this box unless the existing loan is currently in a "Loan Account" or the Account is an Individually Directed Account - General, or the Plan limits each borrower to only one outstanding loan at a time.

NOTE: The length of the consolidated note may not exceed: (a) twenty (20) years from the issue date of the oldest outstanding note made after August 12, 1982, if the proceeds of all currently outstanding loans and this loan was used to purchase or construct the principal residence of the participant, or (b) five (5) years from the issue date of the oldest outstanding note made after August 12, 1982, in all other cases.

7. The annual rate of interest will be in accordance with the Plan Document and the Loan Policy in effect at the date of the note.

8. Mortgage:
 If this box is checked, this Note is also secured by a mortgage or deed of trust dated _____ which is a lien on the real property therein described which is attached.
The real property is: the applicant's primary residence.
 the applicant's secondary residence.

9. Consent of Spouse (check one):
Applicant is:
 Not married
 Married: Spouse cannot be located
Name of Spouse: _____
 Married: Consent of spouse required below.

10. By executing this application, the applicant understands that if the applicant is indebted to the Trust at the time a distribution becomes payable, the amount of such indebtedness to the extent of the security interest held by the Trust shall either be deducted from the account prior to any distribution, or be distributed in kind to the applicant as part of the distribution.

11. Investment Direction (complete this section only if the applicant has an Individually Directed Account):
(a) Sell the following securities to cover the disbursement of the loan proceeds (Complete only if the participant maintains an Individually Directed Account-General).

(b) If the account is invested in more than one Investment Fund, your loan will be taken from the Investment Funds on a prorata basis.

12. Signature of Applicant:

(Date)

(Signature)

CONSENT TO PARTICIPANT LOAN

I hereby consent to the participant loan requested by my spouse. I understand that the loan is governed by the terms of the Plan which may require a reduction of the accrued benefit of my spouse in the event of default of the loan or a distribution of benefits.

(Date)

(Signature)

THIS CONSENT MUST BE WITNESSED TO BE EFFECTIVE

State of _____

County of _____

On this _____ day of _____ in the year _____ before me, _____

_____, a Notary Public in and for said state or the Plan Administrator of the above-mentioned Plan, personally appeared _____

_____, known to me to be the applicant's spouse and the person who executed this Consent to Participant Loan and (s)he acknowledged to me that (s)he executed the same for the purpose therein stated.

(Notary Public or Plan Administrator)

(SEAL)

My Commission Expires:

13. On the date of this application, the applicant's total accrued vested benefit is \$_____ (to be completed by the Plan Administrator). This loan is being secured by 50% of the applicant's accrued vested benefit.

Please submit a **signed** promissory note form along with this application. The correct form of promissory note to submit is indicated in Section 3 above. Do not complete the promissory note other than for the signature, unless your Plan must comply with truth-in-lending. The Trustee will complete the note at the time the loan is processed and return a completed copy to the Applicant for their records.

APPROVAL OF LOAN APPLICATION

The undersigned Plan Administrator approves the foregoing loan application and instructs the Trustee to make the above-requested loan upon receipt of a properly executed promissory note. The undersigned Plan Administrator hereby certifies that the total unpaid balance of this and all other loans from Qualified Retirement Plans to the Applicant does not exceed the lesser of fifty thousand dollars (\$50,000) or fifty percent (50%) of the vested portion of the Applicant's account.

(Date)

(Plan Administrator)

Authorization of 5500 Preparation Service sample letter

Employee Benefit Division
UMB Bank, n.a.
P.O. Box 417014
Kansas City, MO 64141-7014

RE: Authorization of 5500 Preparation Service
Account Name: _____

You are hereby authorized and requested to annually complete the applicable 5500 report form insofar as Plan records and information from your files permit. It is understood that upon your providing us the partially completed form, its further completion, signature and mailing to the Department of Labor is the responsibility of the Plan Administrator. It is further understood that the report must be filed with the Department of Labor not later than the last day of the seventh month following the close of each Plan year.

It is understood that the charge for this service will be in accordance with our current fee schedule or agreement. In the absence of a specific reference to 5500 reporting, the charge for this service will be based on the following schedule:

Form 5500 for large plans	\$500.00/report
Form 5500 for small plans	\$250.00/report
Form 5500-EZ	\$ 50.00/report

This charge will be added to our fees for Trust services.

This authorization is effective upon your receipt and shall continue in effect until you are notified in writing to the contrary.

Employer

Account Number(s)

Date: _____ By: _____

DESIGNATION OF BENEFICIARIES TO RECEIVE DEATH BENEFITS

To Plan Administrator: _____ PLAN

Employee Name: _____ Employee Social Security No.: _____

As a participant in the above Plan, I have the right to designate the beneficiary or beneficiaries to whom any benefits payable on account of my death are to be paid under the terms of the Plan. I may, at any time and from time to time prior to receipt of my full interest, revoke, alter or amend any such designation previously made. I hereby revoke completely every prior designation previously made by me.

Designation of Primary Beneficiaries

IF YOU ARE CURRENTLY MARRIED AND DESIGNATE A PRIMARY BENEFICIARY OTHER THAN YOUR SPOUSE, YOUR SPOUSE MUST CONSENT TO THE DESIGNATION ON THE REVERSE SIDE OF THIS DOCUMENT.

Subject to the provisions of the Plan, including any distribution to be made as a Qualified Joint and Survivor Annuity or Qualified Preretirement Survivor Annuity, I hereby designate the following named person or persons as the primary beneficiary or beneficiaries to whom any benefits payable on account of my death shall be paid under the terms of the Plan and in any form provided by the Plan. Except as otherwise required by the provisions of the Plan, such benefits shall be paid to such beneficiary only if living at the time of my death, or if more than one is named, only to such of them as are living at such time, in the same respective proportions as the percentage set forth after the name of each so living bears to the total amount of all death benefits payable; otherwise in equal shares.

Name: _____	Social Security Number: _____
Address: _____	Relationship: _____
_____	Proportion: _____ %
Name: _____	Social Security Number: _____
Address: _____	Relationship: _____
_____	Proportion: _____ %

THE FOLLOWING DESIGNATION IS INTENDED FOR THOSE PARTICIPANTS WHO MAY HAVE A TRUST AS A PART OF THEIR ESTATE PLAN. YOU SHOULD CONSULT YOUR ATTORNEY REGARDING THE ADVISABILITY OF THIS DESIGNATION.

Name of Trustee: _____ as Trustee
 under instrument dated _____, 20____.

Address: _____ Proportion: _____ %

Designation of Secondary Beneficiaries:

If none of the person or persons above designated as primary beneficiary or beneficiaries shall be living at the time payment of such benefits is to be made then subject to the provisions of the Plan, including any distribution to be made as a Qualified Joint and Survivor Annuity or a Qualified Preretirement Survivor Annuity, I hereby designate the following named person or persons as secondary beneficiary or beneficiaries to whom any such benefits shall be paid under the terms of the Plan and in any form provided by the Plan. Except as otherwise required by the provisions of the Plan, such benefits shall be paid to such beneficiary, only if living at the time of my death, or if more than one is named, only to such of them as are living at such time, in the same respective proportions as the percentage set forth after the name of each so living bears to the total amount of all death benefits payable; otherwise in equal shares.

Name: _____	Social Security Number: _____
Address: _____	Relationship: _____
_____	Proportion: _____ %
Name: _____	Social Security Number: _____
Address: _____	Relationship: _____
_____	Proportion: _____ %

CONTINUED

THE FOLLOWING DESIGNATION IS INTENDED FOR THOSE PARTICIPANTS WHO MAY HAVE A TRUST AS A PART OF THEIR ESTATE PLAN. YOU SHOULD CONSULT YOUR ATTORNEY REGARDING THE ADVISABILITY OF THIS DESIGNATION.

Name of Trustee: _____ as Trustee
under instrument dated _____, 20____.

Address: _____ Proportion: _____%

This designation of beneficiaries is made this _____ day of _____, 20____.

Signature of Participant

CONSENT TO DESIGNATION OF BENEFICIARY

If my spouse has designated a primary beneficiary other than or in addition to me, I consent to that beneficiary designation and understand that under that designation, no or limited benefits will be paid to me from the Plan upon the death of my spouse. This consent is my free and voluntary act. By granting this consent, I am voluntarily relinquishing my right to limit my consent to a specific form of benefit.

Date

Participant's Spouse

State of _____

County of _____

On this _____ day of _____, 20____, before me _____,
a Notary Public in and for said state, or the Plan Administrator of the above mentioned Plan, personally appeared (Participant's Spouse) _____, known to me to be the person who executed the within Consent to Designation of Beneficiary and acknowledged to me that (s)he executed the same for the purpose therein stated.

Notary Public or Plan Administrator

(SEAL)

My Commission Expires:

(For Notary Completion)

ILLUSTRATION OF FORMAT FOR SUMMARY ANNUAL REPORT

SUMMARY ANNUAL REPORT FOR (NAME OF PLAN)

This is a summary of the annual report for (name of Plan and Employer's Federal Tax Identification Number) for (period covered by this report). The annual report has been filed with the Internal Revenue Service, as required under the Employee Retirement Income Security Act of 1974 (ERISA).

BASIC FINANCIAL STATEMENT

Benefits under the Plan are provided by (indicate funding arrangements). Plan expenses were (\$). These expenses included (\$) in administrative expenses and (\$) in benefits paid to participants and beneficiaries, and (\$) in other expenses. A total of () persons were participants in or beneficiaries of the Plan at the end of the Plan year, although not all of these persons had yet earned the right to receive benefits.

(If the Plan is funded other than solely by allocated insurance contracts:)

The value of Plan assets, after subtracting liabilities of the Plan, was (\$) as of (the end of the Plan year), compared to (\$) as of (the beginning of the Plan year). During the Plan year the Plan experienced an (increase) (decrease) in its net assets of (\$). This (increase) (decrease) included unrealized appreciation or depreciation in the value of Plan assets; that is, the difference between the value of the Plan's assets at the end of the year and the value of the assets at the beginning of the year or the cost of those assets acquired during the year. The Plan had total income of (\$), including employer contributions of (\$), employee contributions of (\$), (gains) (losses) of (\$) from the sale of assets, and earnings from investments of (\$).

(If any funds are used to purchase allocated insurance contracts:)

The Plan has (a) contract(s) with (name of insurance carrier(s)) which allocate(s) funds toward (state whether individual policies, group deferred annuities or other). The total premiums paid for the Plan year ending (date) were (\$).

MINIMUM FUNDING STANDARDS

(If the Plan is a defined benefit Plan:)

An actuary's statement shows that (enough money was contributed to the Plan to keep it funded in accordance with the minimum funding standards of ERISA) (not enough money was contributed to the Plan to keep it funded in accordance with the minimum funding standards of ERISA). The amount of the deficit was (\$).

(If the Plan is a defined contribution Plan covered by funding requirements (profit sharing, stock bonus or employee stock ownership plans are not covered)):

(Enough money was contributed to the Plan to keep it funded in accordance with the minimum funding standards of ERISA) (Not enough money was contributed to the Plan to keep it funded in accordance with the minimum funding standards of ERISA). The amount of the deficit was \$.)

YOUR RIGHTS TO ADDITIONAL INFORMATION

You have the right to receive a copy of the Full Annual Report, or any part thereof, on request. The items listed below are included in that report. (NOTE: list only those items which are actually included in the latest Annual Report).

1. An accountant's report;
2. Assets held for investment;
3. Fiduciary information, including transactions between the Plan and parties in interest (that is, persons who have certain relationships with the Plan);
4. Loans or other obligations in default;
5. Leases in default;
6. Transactions in excess of 5 percent of Plan assets if Form 5500 was filed, or 20 percent of Plan assets if Form 5500-C or 5500-R were filed;
7. Insurance information including sales commissions paid by insurance carriers; and
8. Actuarial information regarding the fund of the Plan.

To obtain a copy of the full annual report, or any part thereof, write or call the office of (name), who is (state title: e.g., the Plan Administrator), (business address and telephone number). The charge to cover copying costs will be (\$) for the full annual report, or (\$) per page for any part thereof.

You also have the right to receive from the Plan Administrator, on request and at no charge, a statement of the assets and liabilities of the Plan and accompanying notes, or a statement of income and expenses of the Plan and accompanying notes, or both. If you request a copy of the full annual report from the Plan Administrator, these two statements and accompanying notes will be included as part of that report. The charge to cover copying costs given above does not include a charge for the copying of these portions of the report because these portions are furnished without charge.

You also have the legally protected right to examine the annual report at the main office of the Plan (address), (at any other location where the report is available for examination), and at the U.S. Department of Labor in Washington, D.C., or to obtain a copy from the U.S. Department of Labor upon payment of copying costs. Requests to the Department should be addressed to: Public Disclosure Room, N4677, Pension and Welfare Benefit Programs, Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20216.

NOTICE TO INTERESTED PARTIES
(Where Application for Determination is Required for Reliance)

1. Notice To All Employees.
 An application is to be made to the Internal Revenue Service for an advance determination on the qualification of the following employee pension benefit Plan:
2. Name of the Plan: _____
3. Plan Identification Number: _____ *(Insert the three-digit no. assigned to the Plan by the Employer.)*
4. Name of Employer: _____
 Address of Employer: _____
5. Employer Identification Number: _____
6. Name of Plan Administrator: _____
 Address of Plan Administrator: _____
7. The application will be filed on _____ with the Key District Director, Internal Revenue Service at _____ *(The employer should insert the address of the District Director where the employer's tax return is filed.)* for an advance determination as to whether the Plan meets the qualification requirements of section 401, 403(a), or 405(a) of the Internal Revenue Code, with respect to the Plan's _____, *(Insert the following applicable phrase: initial qualification, amendment, termination, merger, consolidation or transfer of Plan assets or liabilities.)*
8. The employees eligible to participate under the Plan are: (Insert the option selected in Item 9A of the Adoption Agreement): _____, once they have fulfilled the minimum age and years of service requirements under the Plan.
9. The Internal Revenue Service _____ *(Insert the following applicable phrase: has, has not)* previously issued a determination letter with respect to the qualification of this Plan.

Rights of Interested Parties

10. You have the right to submit to the Key District Director at the above address, either individually or jointly with other interested parties, your comments as to whether this Plan meets the qualification requirements of the Internal Revenue Code.
 You may instead, individually or jointly with other interested parties, request the Department of Labor to submit on your behalf, comments to the Key District Director regarding qualification of the Plan. If the Department declines to comment on all or some of the matters you raise, you may, individually, or jointly if your request was made to the Department jointly, submit your comments on these matters directly to the Key District Director.

Requests for Comments by the Department of Labor

11. The Department of Labor may not comment on behalf of interested parties unless requested to do so by the lesser of 10 employees or 10 percent of the employees who qualify as interested parties. The number of persons needed for the Department to comment with respect to this Plan is _____. *(Insert the appropriate number by applying the formula in the previous sentence.)* If you request the Department to comment, your comment must be in writing and must specify the matters upon which comments are requested, and must also include: (1) the information contained in items 2 through 4 of this Notice; and (2) the number of persons needed for the Department to comment.

A request to the Department to comment should be addressed as follows: Administrator of Pension and Welfare Benefit Programs, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20216. ATTN: 3001 Comment Request.

Comments to the Internal Revenue Service

12. Comments submitted by you to the Key District Director must be in writing and received by him by _____. (Enter the date that is 45 days from the date you mail your application, excluding the mailing date.) However, if there are matters that you request the Department of Labor to comment upon on your behalf, and the Department declines, you may submit comments on these matters to the Key District Director to be received by him within 15 days from the time the Department notifies you that it will not comment on a particular matter, or by _____ (enter the date that is 45 days from the date you mail your application, excluding the mailing date), whichever is later. A request to the Department to comment on your behalf must be received by it by _____ (enter the date that is 15 days from the date you mail your application, excluding the mailing date) if you wish to preserve your right to comment on a matter upon which the Department declines to comment, or by _____ (enter the date that is 25 days from the date you mail your application, excluding the mailing date) if you wish to waive that right.

Additional Information

13. Detailed instructions regarding the requirements for notification of interested parties may be found in sections 16, 17 and 18 of Revenue Procedure 92-6. Additional information concerning this application (including, where applicable, an updated copy of the Plan and related Trust; the application for determination; any additional documents dealing with the application that have been submitted to the IRS; and copies of section 16 of Revenue Procedure 92-6) is available at UMB Bank, n.a., 1010 Grand Avenue, Kansas City, MO, The Plan Trustee, during the hours of 8:30 a.m. to 5 p.m. for inspection and copying. (There is a nominal charge for copying and/or mailing.)

How to Use this Notice

All "interested parties" must be notified that an advance determination on the qualification of the Plan is being sought. An "interested party" as defined by applicable Internal Revenue Service regulations includes each present employee, without regard to whether he or she is a Plan participant. Notice of the submission of the application must include certain specified information and must be published or delivered within specified time limits. For your convenience, a suggested form of notice is herewith provided. This form is substantially similar to the form published by the Internal Revenue Service. There are three methods by which you can furnish the required notice:

1. May be hand-delivered to your employees. If you choose this method, the notice must be delivered not less than seven (7) days nor more than twenty-one (21) days before the date you mail the application.
2. May be mailed to your employees. If you choose this method, the notice must be mailed not less than ten (10) day nor more than twenty-four (24) days before the date you mail the application.
3. May be posted on your bulletin board. If you choose this method, the notice must be posted not less than seven (7) days nor more than twenty-one (21) days before the date you mail the application.

NOTICE TO INTERESTED PARTIES
(Where No Application for Determination is Required for Reliance)

1. Notice To All Employees.

2.

(name of employer)

has _____ the employee pension benefit Plan described below on _____.

(adopted/amended)

3.

(name of Plan)

4.

(Plan identification number)

5.

(employer identification number)

6.

(opinion letter number)

7.

(name of Plan administrator)

(address of Plan administrator)

8.

(address of key district director having jurisdiction of Plan)

9. It is not contemplated that the Plan will be submitted to the Internal Revenue Service for an advance determination as to whether or not it meets the qualification requirements of section 401, 403(a) or 405(a) of the Internal Revenue Code with respect to its _____ *(initial qualification, amendment)*

10. The employees eligible to participate under the Plan are: _____

(insert the option selection in Item 9A of the Adoption Agreement)

11. The Internal Revenue Service _____ previously issued a determination letter with respect to the qualification of this Plan. *(has, has not)*

Rights of Interested Parties

12. You have the right to submit to the Key District Director at the above address, either individually or jointly with other interested parties, your comments as to whether this Plan meets the qualification requirements of the Internal Revenue Code.

You may instead, individually or jointly with other interested parties, request the Department of Labor to submit on your behalf, comments to the Key District Director regarding qualification of the Plan. If the Department declines to comment on all or some of the matters you raise, you may, individually, or jointly if your request was made to the Department jointly, submit your comments on these matters directly to the Key District Director.

Requests for Comments by the Department of Labor

13. The Department of Labor may not comment on behalf of interested parties unless requested to do so by the lesser of 10 employees or 10 percent of the employees who qualify as interested parties. The number of persons needed for the Department to comment with respect to this Plan is _____. *(Insert the appropriate number by applying the formula in the previous sentence.)* If you request the Department to comment, your comment must be in writing and must specify the matters upon which comments are requested, and must also include: (1) the information contained in items 2 through 4 of this Notice; and (2) the number of persons needed for the Department to comment.

A request to the Department to comment should be addressed as follows: Administrator of Pension and Welfare Benefit Programs, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20216.
ATTN: 3001 Comment Request.

Comments to the Internal Revenue Service

14. Comments submitted by you to the Key District Director must be in writing and received by him by _____. (Enter the date that is 30 days from the date you adopted or amended this Plan.) However, if there are matters that you request the Department of Labor to comment upon on your behalf, and the Department declines, you may submit comments on these matters to the Key District Director to be received by him within 15 days from the time the Department notifies you that it will not comment on a particular matter, or by _____ (enter the date that is 30 days from the date you adopted or amended this Plan), whichever is later. A request to the Department to comment on your behalf must be received by it by _____ (enter the date that is 30 days from the date you adopted or amended this Plan) if you wish to preserve your right to comment on a matter upon which the Department declines to comment, or by _____ (enter the date that is 30 days from the date you adopted or amended this Plan) if you wish to waive that right.

Additional Information

15. Detailed instructions regarding the requirements for notification of interested parties may be found in sections 16, 17 and 18 of Revenue Procedure 92-6. Additional information concerning this _____ (adoption, amendment) (including, where applicable, a description of the provisions providing for nonforfeitable benefits; a description of the circumstances which may result in ineligibility or loss of benefits; a description of the source of finance of the Plan; and copies of section 16 of Revenue Procedure 92-6) is available at _____ during the hours of _____ for inspection and copying. (There is a nominal charge for copying and/or mailing.)

How to Use this Notice

1. All "interested parties" must be notified in writing when a Plan, for which no determination letter will be issued, is adopted or amended. An "interested party" is defined by applicable Internal Revenue Service regulations includes each present employee, without regard to whether he or she is a Plan participant. Notice of the adoption or amendment must include certain specified information and must be published or delivered within specified time limits. For your convenience, a suggested form of notice is herewith provided. This form is substantially similar to the form published by the Internal Revenue Service.
2. The required notice can be provided by hand delivery, mailing or posting on your bulletin board, in all cases, not more than thirty (30) days after the date of adoption or amendment.

Account No.

Participant Loan Program (Daily Accounting)

This Loan Program contains the policies and procedures for obtaining and repaying participant loans from the (Plan) established by (Employer/Plan Sponsor). The Plan Administrator has sole discretion to approve loans to participants according to uniform principles and consistent application of the conditions that follow.

administers the Loan Program on behalf of the Plan Administrator. You should contact this person if you have questions concerning a participant loan.

MINIMUM LOAN AMOUNT

- Check to print** The minimum loan amount available from the Plan is \$.
- Check to print** There is no minimum loan amount.

LOAN APPLICATION PROCESS

- Check to print this heading (if not checked, delete only the heading)**

FOR PARTICIPANTS INVESTED IN ANY OF THE INVESTMENT FUNDS:

To obtain a loan, participants can either call the BenefitLine[®] automated voice response system, or use the UMB BenefitDirectSM online account access. After a loan is requested, assets held in your account equal to the loan amount and loan-processing fee will be sold to fund the loan and a check will be generated but not mailed. A loan application, promissory note and cover letter will be mailed to your address of record.

- Check to print this section**

FOR PARTICIPANTS WHO ARE IN AN INDIVIDUALLY DIRECTED ACCOUNT:

If you are in an Individually Directed Account and you are interested in taking out a participant loan that will be secured by your vested accrued benefit, you need to contact the Plan Administrator and request an "Application for a Participant Loan." This form will provide the Plan Administrator with the information needed in order to approve or disapprove your loan application.

FOR ALL PLAN PARTICIPANTS:

You will need to complete and sign the loan application and promissory note, then forward these documents to the Plan Administrator for approval. If you are married, your spouse will also need to consent to the loan. A Notary Public or the Plan Administrator must witness the consenting spouse's signature. You should contact your UMB Administrator for assistance or information about the forms or the Loan Program.

You should return all forms to the Plan Administrator as quickly as possible. The Plan Administrator will contact you regarding approval or disapproval of the loan request. You should keep a copy of the promissory note and the truth-in-lending disclosure. The original note and application will be forwarded to UMB Bank, n.a., as Trustee of the Plan.

UMB Bank must receive the approved loan application and promissory note within 21 days from the date of the cover letter. When UMB Bank has received the completed loan application and promissory note, the loan check will be mailed to you. If the completed loan application and promissory note have not been received by UMB Bank within 21 days of the date of the cover letter, the loan check will be reinvested based upon your current investment election percentages

and current market prices. If, at this point, you still wish to obtain a loan, you will need to call BenefitLine® or access UMB BenefitDirect to begin the process again.

In addition to the loan amount you request, a fee of \$ _____ will be taken from your account at the time the loan is issued. This loan-processing fee will not be returned to your account in the event the loan application and promissory note are not returned within the prescribed time. The loan processing fee of \$ _____ will not be returned to your account in the event you decide to cancel your loan request.

If the Plan Administrator does not approve the loan, the Plan Administrator will instruct UMB Bank to invest the loan proceeds based upon your current investment election percentages and current market prices.

All loans will be repaid through payroll deduction. Should you terminate service with your employer, the loan is due and payable thirty (30) days following your date of termination. If the loan is not paid within thirty days of your date of termination, it will be deemed distributed. If you are on an unpaid leave of absence, you will be responsible for making payments promptly and regularly to UMB Bank, n.a., Employee Benefit Division.

Check to print this heading

FOR PARTICIPANTS WHO WISH TO SECURE THEIR LOAN BY A MORTGAGE OR DEED OF TRUST

At your election, a mortgage or deed of trust on your primary or secondary residence can also secure the note. Before selecting this option you should contact a tax advisor.

If the mortgage is against your primary residence, an additional form must be completed at the time you sign the note form. This form, entitled "Notice of Right to Cancel" (form number UMB B02037) provides you with information pertaining to your right to cancel this transaction at any time during a three-day period commencing on the date your check is issued. Once you have signed the note form, and the Plan Administrator has explained the terms of the note to you, he/she will send the note, the application (if it has not already been sent) and a copy of the "Notice of Right to Cancel" form to UMB Bank, n.a., Trustee. Upon receipt of all items, and if cash is currently available to cover the proceeds of the loan, UMB will issue a check payable to you. If cash is not available, the loan papers will be held until such time as adequate cash has been accumulated. The UMB Administrator on your account will contact the Plan Administrator if there will be a delay in processing your loan. Contact your Plan Administrator if you want to know when the cash will be ready. As soon as the check is issued, it will be mailed to either you or the Plan Administrator along with a copy of the completed note for your records.

BASIS FOR APPROVAL OF LOAN REQUESTS

The Plan Administrator shall apply the following conditions to all loans:

1. Loans shall not be made available to Highly Compensated Employees (as defined in Section 414(q) of the Internal Revenue Code) in an amount greater than the amount made available to other employees.
2. No loan to any participant can be made that, when added to the outstanding balance of all other loans to the participant would exceed the lesser of (a) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made, minus the outstanding balance of loans from the Plan on the date the loan is made, or (b) one-half the present value of the vested accrued benefit of the participant, or beneficiary. For the purpose of this limitation, all loans to you from all plans of the Employer

and other control group members under Section 414 of the Internal Revenue Code must be aggregated.

3. Your loan will be secured by one-half of your vested accrued benefit in the Plan. The Plan Administrator reserves the right to require additional security if deemed necessary.
4. Regulations restrict permissible loan maturities to no more than five years from the date of the loan. An exception to this requirement exists for loans that are used to acquire a dwelling unit, which within a reasonable time will be used as the principal residence of the participant. These loans can extend up to twenty years from the date of the loan.
5. The Department of Labor (DOL) and Internal Revenue Services (IRS) expect plan fiduciaries to administer participant loan programs in accordance with generally accepted commercial lending practices. A commercial lending institution would not loan someone more money if that person has demonstrated an unwillingness or inability to pay current outstanding obligations. Consequently, it is not generally appropriate to approve a loan request from a participant who has delinquent loans.

RATE OF INTEREST ON PARTICIPANT LOANS

The plan document requires that the Plan Administrator and UMB Bank establish a reasonable rate of interest that will be assessed against the money being borrowed. For loans with terms of up to five years, the prime interest rate charged by the commercial department of UMB Bank will be used. For loans with terms in excess of five years, UMB Bank will use an interest rate equal to the prime interest rate plus one percent.

DEFAULTS

Since the loan payments are processed through payroll deduction, no defaults should occur for active participants on payroll. If you terminate and have a loan, the loan balance must be paid in full or the loan will be distributed and treated as a taxable distribution. If you are on a long-term leave, the payments must be mailed directly to the UMB Administrator.

In the event that you do not make scheduled loan payments, UMB Bank will contact you. If the delinquency is not corrected within 30 days from the date of the final written notice or by the end of the calendar quarter following the calendar quarter in which the delinquent payment was due, whichever occurs first, UMB will report the outstanding principal balance plus accrued interest as taxable income to you.

If permitted by the Plan, UMB will treat the loan as a withdrawal. If the defaulted loan cannot be withdrawn from the Plan, you will continue to have an obligation to repay it, even though the loan has become taxable to you. In addition, you will not be eligible for another loan from the Plan until the defaulted loan has been brought current, paid off or distributed to you. Because the defaulted loan remains a plan asset, interest will continue to accrue and must be paid before you become eligible for another loan.

ACCOUNTING FOR A LOAN

Any loan requested by you will become an asset of your account. At the time a loan is requested, UMB Bank will sell assets from your account for the amount of the loan. As you make the scheduled loan payments, the payments are received by the UMB Bank and reinvested based upon your current allocation percentages.

Check to print

MAXIMUM NUMBER OF LOANS

You are limited to a maximum of _____ loans outstanding at any one time. Consequently, if you have _____ loans outstanding, you will be unable to request an additional loan until one of your existing loans has been paid in full.

PLAN DISTRIBUTION WHILE A LOAN IS OUTSTANDING

Should you become entitled to a benefit distribution while you are indebted to the Plan, the outstanding loan value will be deducted from your cash benefit prior to any distribution.

Check to print

SUSPENSION OF LOAN PAYMENTS

A participant on a leave of absence may be eligible for a suspension of loan payments. Loan payments may be suspended for up to one year during an unpaid leave of absence. If loan payments are suspended, the loan must still be repaid within the original term of the loan. If you think you might be eligible for this suspension, please contact the Plan Administrator for more details.

Plan Administrator

Account No.

Participant Loan Program (Periodic Accounting)

This Loan Program contains the policies and procedures for obtaining and repaying participant loans from the (Plan) established by (Employer/Plan Sponsor). The Plan Administrator has sole discretion to approve loans to participants according to uniform principles and consistent application of the conditions that follow.

administers the Loan Program on behalf of the Plan Administrator. You should contact this person if you have questions concerning a participant loan.

MINIMUM LOAN AMOUNT

- Check to print** The minimum loan amount available from the Plan is \$.
- Check to print** There is no minimum loan amount.

LOAN APPLICATION PROCESS

To obtain a loan, you should obtain a loan application from the Plan Administrator. You will need to complete and sign the loan application, then forward the application to the Plan Administrator for approval. If you are married, your spouse will also need to consent to the loan. A Notary Public or the Plan Administrator must witness the consenting spouse's signature. You should contact your UMB Administrator for assistance or information about the forms or the Loan Program.

Upon receipt of your loan application, UMB Bank will mail a promissory note, truth-in-lending disclosures and a cover letter to your address of record. Sign the promissory note and return it to UMB Bank. Upon receipt of the signed promissory note, UMB Bank will sell assets held in your account equal to the loan amount and loan-processing fee (if applicable) and a check will be mailed to you.

You should return all forms as quickly as possible. The Plan Administrator will contact you regarding approval or disapproval of the loan request. You should keep a copy of the promissory note and the truth-in-lending disclosure. The original note and application will be retained by UMB Bank, n.a., as Trustee of the Plan.

In addition to the loan amount you request, a fee of \$ will be taken from your account at the time the loan is issued. The loan processing fee of \$ will not be returned to your account in the event you decide to cancel your loan request.

All loans will be repaid through payroll deduction. Should you terminate service with your employer, the loan is due and payable thirty (30) days following your date of termination. If the loan is not paid within thirty days of your date of termination, it will be deemed distributed. If you are on an unpaid leave of absence, you will be responsible for making payments promptly and regularly to UMB Bank, n.a., Employee Benefit Division.

Check to print this heading

FOR PARTICIPANTS WHO WISH TO SECURE THEIR LOAN BY A MORTGAGE OR DEED OF TRUST

At your election, a mortgage or deed of trust on your primary or secondary residence can also secure the note. Before selecting this option you should contact a tax advisor.

If the mortgage is against your primary residence, an additional form must be completed at the time you sign the note form. This form, entitled "Notice of Right to Cancel" (form number UMB B02037) provides you with information pertaining to your right to cancel this transaction at any time during a three-day period commencing on the date your check is issued. Once you have signed the note form, and the Plan Administrator has explained the terms of the note to you, he/she will send the note, the application (if it has not already been sent) and a copy of the "Notice of Right to Cancel" form to UMB Bank, n.a., Trustee. Upon receipt of all items, and if cash is currently available to cover the proceeds of the loan, UMB will issue a check payable to you. If cash is not available, the loan papers will be held until such time as adequate cash has been accumulated. The UMB Administrator on your account will contact the Plan Administrator if there will be a delay in processing your loan. Contact your Plan Administrator if you want to know when the cash will be ready. As soon as the check is issued, it will be mailed to either you or the Plan Administrator along with a copy of the completed note for your records.

BASIS FOR APPROVAL OF LOAN REQUESTS

The Plan Administrator shall apply the following conditions to all loans:

1. Loans shall not be made available to Highly Compensated Employees (as defined in Section 414(q) of the Internal Revenue Code) in an amount greater than the amount made available to other employees.
2. No loan to any participant can be made that, when added to the outstanding balance of all other loans to the participant would exceed the lesser of (a) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made, minus the outstanding balance of loans from the Plan on the date the loan is made, or (b) one-half the present value of the vested accrued benefit of the participant, or beneficiary. For the purpose of this limitation, all loans to you from all plans of the Employer and other control group members under Section 414 of the Internal Revenue Code must be aggregated.
3. Your loan will be secured by one-half of your vested accrued benefit in the Plan. The Plan Administrator reserves the right to require additional security if deemed necessary.
4. Regulations restrict permissible loan maturities to no more than five years from the date of the loan. An exception to this requirement exists for loans that are used to acquire a dwelling unit, which within a reasonable time will be used as the principal residence of the participant. These loans can extend up to twenty years from the date of the loan.
5. The Department of Labor (DOL) and Internal Revenue Services (IRS) expect plan fiduciaries to administer participant loan programs in accordance with generally accepted commercial lending practices. A commercial lending institution would not loan someone more money if that person has demonstrated an unwillingness or inability to pay current outstanding obligations. Consequently, it is not generally appropriate to approve a loan request from a participant who has delinquent loans.

RATE OF INTEREST ON PARTICIPANT LOANS

The plan document requires that the Plan Administrator and UMB Bank establish a reasonable rate of interest that will be assessed against the money being borrowed. For loans with terms of up to five years, the prime interest rate charged by the commercial department of UMB Bank will be

used. For loans with terms in excess of five years, UMB Bank will use an interest rate equal to the prime interest rate plus one percent.

DEFAULTS

Since the loan payments are processed through payroll deduction, no defaults should occur for active participants on payroll. If you terminate and have a loan, the loan balance must be paid in full or the loan will be distributed and treated as a taxable distribution. If you are on a long-term leave, the payments must be mailed directly to the UMB Administrator.

In the event that you do not make scheduled loan payments, UMB Bank will contact you. If the delinquency is not corrected within 30 days from the date of the final written notice or by the end of the calendar quarter following the calendar quarter in which the delinquent payment was due, whichever occurs first, UMB will report the outstanding principal balance plus accrued interest as taxable income to you.

If permitted by the Plan, UMB will treat the loan as a withdrawal. If the defaulted loan cannot be withdrawn from the Plan, you will continue to have an obligation to repay it, even though the loan has become taxable to you. In addition, you will not be eligible for another loan from the Plan until the defaulted loan has been brought current, paid off or distributed to you. Because the defaulted loan remains a plan asset, interest will continue to accrue and must be paid before you become eligible for another loan.

ACCOUNTING FOR A LOAN

Any loan requested by you will become an asset of your account. UMB Bank will sell assets from your account for the amount of the loan. As you make the scheduled loan payments, the payments are received by the UMB Bank and credited back to your account.

Check to print

MAXIMUM NUMBER OF LOANS

You are limited to a maximum of _____ loans outstanding at any one time. Consequently, if you have _____ loans outstanding, you will be unable to request an additional loan until one of your existing loans has been paid in full.

PLAN DISTRIBUTION WHILE A LOAN IS OUTSTANDING

Should you become entitled to a benefit distribution while you are indebted to the Plan, the outstanding loan value will be deducted from your cash benefit prior to any distribution.

Check to print

SUSPENSION OF LOAN PAYMENTS

A participant on a leave of absence may be eligible for a suspension of loan payments. Loan payments may be suspended for up to one year during an unpaid leave of absence. If loan payments are suspended, the loan must still be repaid within the original term of the loan. If you think you might be eligible for this suspension, please contact the Plan Administrator for more details.

Plan Administrator

REQUEST FOR IN-SERVICE WITHDRAWAL
(To Be Completed By Participant)

PLEASE READ ATTACHED SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS PRIOR TO COMPLETING THIS FORM

Plan Name: _____
 Your Name: _____ SSN _____
 Address: _____ Birth Date _____
 City/State/Zip: _____ Home Phone (____) _____
 Work Phone (____) _____

COMPLETE THIS SECTION IF YOU ARE REQUESTING A HARDSHIP WITHDRAWAL
(Enter specific dollar amount.)

Hardship withdrawal of \$_____ due to the following:

- To purchase my primary place of residence.
- To pay the upcoming, post-secondary educational expenses for me or my dependents.
- To pay medical and/or hospital expenses for me or my dependents.
- To prevent the eviction from, or foreclosure of the mortgage on, my principal residence.

By signing this request I certify that:

- (1) I have no other reasonably available resources from which these funds may be obtained,
- (2) none of the money I am requesting to withdraw is subject to a Qualified Domestic Relations Order,
- (3) the withdrawal is not in excess of the amount needed to satisfy the need,
- (4) I have taken all possible nontaxable distributions from all of my employer's plans, including nontaxable loans,
- (5) I will not be allowed to make any contributions or salary deferrals (if applicable) to any employer plan for at least 12 months after receiving the hardship distribution, and
- (6) if this is a 401(k) Plan, my elective deferrals to all of the employer's plans in the calendar year immediately following receipt of the hardship withdrawal will be restricted to the maximum amount (\$7,000 as indexed) less my elective contributions in the calendar year of the hardship distribution.
- (7) I understand that hardship withdrawals are subject to mandatory federal income tax withholding at the rate of 10%. I further understand that I have the option to elect to have no withholding or to have income tax withheld at a different rate by making a written election. (Attached IRS Form W-4P if you wish to elect no withholding or withholding at a rate other than the mandatory 10%.)

PLEASE COMPLETE REVERSE SIDE

COMPLETE THIS SECTION IF YOU ARE REQUESTING AN IN-SERVICE WITHDRAWAL OTHER THAN A HARDSHIP

Withdrawal of voluntary after-tax contributions. Other withdrawal as permitted by plan document.

I elect to withdraw \$ _____, or the maximum amount available if less than the requested amount.

PAYMENT OPTION

Direct payment to participant. I understand that mandatory federal income tax withholding will apply at the rate of 20%.

I hereby authorize a Direct Rollover of \$ _____ (or _____%) of this distribution which qualifies as an eligible rollover distribution. I will receive direct payment for any portion of the distribution that I do not authorize for Direct Rollover. I understand that the amount directly rolled over will not be subject to any federal/state income tax withholding, nor will it be taxable to me at this time. (Portion rolled over must equal at least \$500.) Attach transfer instructions.

CALIFORNIA RESIDENTS ONLY - Form DE 4P may be obtained from your Plan Administrator.

- Withhold CA State Income Tax (withholding will be based upon federal tax withheld).
- Withhold CA State Income Tax according to participant's DE 4P election (attach completed Form DE 4P).
- Do Not Withhold CA State Income Tax (attach completed Form DE 4P).

AUTHORIZATION

I consent to the distribution of my accrued benefit as requested above. I understand that my request for withdrawal is subject to the balance of funds available in my account and to plan provisions. I understand that my withdrawal will be deducted from each available investment fund according to the percentage of my account invested in that fund. If I have elected that all or part of my withdrawal be made in the form of a direct rollover, I represent that the eligible retirement plan to which I have directed the rollover is an individual retirement account or a qualified retirement plan which accepts direct rollovers. I have read the SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS and I understand that a withdrawal that is not directly rolled over will be subject to mandatory 20% federal income tax withholding.

Date

Participant's Signature

THIS SECTION TO BE COMPLETED BY THE PLAN ADMINISTRATOR

Mail check to:

Participant Plan Administrator Trustee/Custodian of Direct Rollover (non-hardship withdrawals only)

Charge the following accounts for the withdrawal (If more than one account, indicate the order in which they are to be charged.)

Salary Deferral Contribution Account

Voluntary After-tax Contribution Account

Other: _____

The Plan Administrator certifies that:

1. The Plan Administrator is in possession of a written election by the participant waiving the qualified joint and survivor annuity or qualified preretirement survivor annuity, if such waivers are required by the plan, and that any spousal consent necessary has been properly obtained.
2. The type of withdrawal and method of payment directed are expressly authorized and available to this participant under the plan.
3. The participant has been given a copy of the Special Tax Notice Regarding Plan Payments.

Date

Plan Administrator Approval

Salary Deferral Agreement Relating to 401(k) Profit Sharing Plan

CHECK ONE:

- This is an initial election.
 This is a change to a previous election.

AGREEMENT made and entered into this _____ day of _____, _____, by _____ and _____ between the undersigned Employer and Employee.

1. Effective as of the first payroll period beginning after the date of this AGREEMENT and continuing for all future payroll periods until revoked or modified in accordance with the circumstances set forth in paragraph 3. below. Compensation (whether in the form of salary, wages, or otherwise) for each payroll period paid to the Employee by the Employer shall be deferred as follows:

CHECK ONE:

- _____% of the Compensation each payroll period
 \$_____ each payroll period

2. The amount by which the Employee's Compensation is deferred by reason of this AGREEMENT shall be contributed by the Employer to the Employer's 401(k) Profit Sharing Plan for credit to the Employee's "Employer Contribution Account—Elective Deferrals."

3. This AGREEMENT may be revoked or modified under the following circumstances:

a. Once during each Plan Year, and more frequently if so allowed pursuant to a separate written policy adopted by the Employer, an Employee may amend or revoke the AGREEMENT by notifying the Employer in writing of such amendment or revocation. Such amendment or revocation shall be effective as of the first day of the first payroll period following receipt by the Employer of such amendment or revocation.

b. The Employer may amend or revoke its AGREEMENT with any Employee at any time, if the Employer determines that such revocation or amendment is necessary to ensure that the Employee's annual additions for any Plan Year will not exceed the limitations of Section 415 of the Internal Revenue Code or to ensure that the discrimination tests of Internal Revenue Code Sections 401(k) or 401(m) are met for such Plan Year.

c. An AGREEMENT will be revoked automatically upon an Employee's withdrawal of amounts from his Employer Contribution Account—Elective Deferrals or from his Direct Transfer Account—Elective Deferrals in the event of hardship prior to termination of employment. In the event of such revocation, the Employee may not enter into subsequent AGREEMENT with the Employer prior to the date which is 12 months after the receipt by the Employee of the hardship withdrawal.

d. An AGREEMENT will be revoked automatically upon the Employee's termination of employment or upon the loss of the Employee's eligibility to participate in the Plan.

e. An AGREEMENT, once made, may otherwise be revoked or amended only as provided for in the Plan Document.

Name of Employer

Signature of Employee

By: _____

Name of Employee (Please Print)

Title: _____

Social Security Number

Sample Qualified Domestic Relations Order Procedure (QDRO)

1. The Plan Administrator of the _____ [name of plan] (the Plan) in accordance with Internal Revenue Code Section 414(p) has adopted the following procedure to determine whether a judgment, decree, or court order (hereafter collectively referred to as “court order”) qualifies as a QDRO and to administer distributions to participants and alternate payees under such QDRO.
2. Upon being joined as a party in a lawsuit or receiving other legal process, the Plan will immediately respond to such service of process.
3. The Plan will comply with the court order only if it meets the requirements of a QDRO as set forth in Code Section 414(p) and any applicable regulations and court decisions.
4. Parties seeking QDROs may not rely on the Plan Administrator for advice on which type of QDRO is most appropriate for them. The Plan Administrator will provide only factual information concerning a participant's benefits and the terms of the Plan. If any of the parties is unsure as to the legal requirements for a QDRO or the benefits to which he or she is entitled, that party should consult his or her legal advisor.
5. Upon receiving a court order that is issued pursuant to a state domestic relations law or community property law that pertains to benefits under the Plan that provides for child support, alimony payments, or marital property rights for the benefit of a spouse, former spouse, child, or other dependent of a participant or former participant, the Plan Administrator will promptly do the following:
 - a. Notify the participant (or former participant) and any alternate payee of the receipt of the court order.
 - b. Send a copy of this written QDRO Procedure to:
 - The participant (or former participant) at the mailing address specified in the court order or, if there is none, to the last known address available to the Plan Administrator.
 - The alternate payee at the mailing address specified in the court order or, if there is none, to the last known address available to the Plan Administrator.
 - Each representative (if any) for the receipt of copies of notices (designated by the alternate payee).
6. The Plan Administrator will review the court order and may request that legal counsel or consultants review the court order to determine if it complies with Code Section 414(p), or if there are other ramifications or considerations with respect to that court order.
 - a. Such review shall be performed in accordance with the QDRO Checklist, which is attached.
 - b. The Plan may preapprove court orders; that is, the Plan shall determine if the court order meets the requirements of Code Section 414(p) before it has been signed by the parties or by the applicable court.
7. The determination of whether the court order is a QDRO shall be made within a reasonable period of time after the receipt of the court order, and notice to all interested parties shall be given.

8. The Plan Administrator shall determine the status of the court order and flag the participant's account. The date on which the first payment would be required to be made under the court order after the order is received by the Plan shall be the first day of the 18-month period discussed below.
9. If the court order meets all the requirements of a QDRO, the Plan shall:
 - a. Notify the participant and the alternate payee named in the QDRO, and
 - b. Comply with the terms of the QDRO.
10. If it is determined that the court order is not a QDRO, the Plan Administrator will advise the participant, the alternate payee, and their respective counsel in writing that the court order does not qualify as a QDRO and state the reasons why the QDRO requirements are not met. If the court order is not subsequently amended to meet the requirements for a QDRO, the Plan shall pay benefits to the participant (or former participant) in accordance with the terms of the Plan.
11. If benefits under the Plan would have been distributed to the alternate payee while the issue of whether the court order is a QDRO is being determined by the Plan Administrator, by a court, or otherwise, the Plan shall separately account for these amounts. The segregated amounts will continue to be held by the Plan. Amounts need not be segregated with respect to payments that are to be made to the alternate payee after the date on which the Domestic Relations Order is determined to be a QDRO.
12. If within the 18-month period the court order is determined to be a QDRO, the Plan Administrator shall direct the payment of the segregated amounts to the specified alternate payee.
13. If during the 18-month period the court order is determined not to be a QDRO, the segregated amounts will continue to be held by the Plan until the parties provide evidence satisfactory to the Plan that no QDRO shall be sought during the 18-month period.
14. At the end of the 18-month period if it is determined that the court order is not a QDRO (or the issue of whether the court order is a QDRO is not resolved), the Plan Administrator shall release the segregated amounts held under the Plan and direct the Plan to distribute those amounts to the account of person or persons who would have been entitled to the amounts had there been no court order, in accordance with the provisions of the Plan.
15. If the determination that the court order is a QDRO is made more than 18 months after the amounts had previously been segregated, benefit payments to the alternate payee will be applied on a prospective basis only.
16. The participant or alternate payee may appeal an adverse determination upon written application to the Plan Administrator. The participant or alternate payee may review any documents pertinent to the appeal and may submit issues and comments in writing to the Plan Administrator. No appeal shall be considered unless it is received by the Plan Administrator within 45 days after receipt by the participant or alternate payee of written notice of the determination. The Plan Administrator shall decide the appeal within 60 days after it is received. On appeal, the Plan Administrator's decision shall be in writing and shall include specific reasons for the decision, expressed in a manner calculated to be understood by the participant and the alternate payee.

17. With respect to any benefit under the Plan that is subject to the Participant's direction as to investment strategy or decisions, and that is the subject of a QDRO, the alternate payee shall be allowed to exercise control over the portion of the benefit payable to the alternate payee under the terms of the order as if the alternate payee were the participant.
18. This written QDRO Procedure shall be interpreted in such a way that it complies with the provisions of Code Section 414(p), the regulations, and applicable court decisions.

Date

Signature

WAIVER OF QUALIFIED PRERETIREMENT SURVIVOR ANNUITY EXPLANATION

To the Participant:

This explanation and the waiver on the reverse hereof concerning the Qualified Preretirement Survivor Annuity are required to be given to you by your Plan Administrator. The Retirement Equity Act of 1984 (REA) amended the Employee Retirement Income Security Act of 1974 (ERISA) to provide that upon your death, if you have not previously received or commenced to receive your Plan benefit, the Plan must, if you leave a surviving spouse, distribute 50% of the benefit to your surviving spouse in the form of a survivor annuity, unless you have previously elected to waive the survivor annuity or your spouse elects to receive an alternative form of distribution. The remaining 50% of your benefit will be distributed in accordance with the terms of the Plan and your designation of beneficiary filed with the Plan Administrator.

A Qualified Preretirement Survivor Annuity is one which provides a level monthly payment for the life of the surviving spouse (the annuitant). The payment ends upon the death of the annuitant and no other payments are made to any beneficiary. In connection with the ESOP and Profit Sharing Plans the trustee of the Plans will purchase with your vested account balance an annuity contract from an insurance company which will make the payments to the annuitant. In connection with the Retirement Plan, the annuity payments will be made by the Retirement Plan itself.

The dollar amount of monthly payments under the annuity contract will depend upon the annuity purchase rates used by the insurance company providing the annuity, the annuitant's age at the time the payments begin, and the value of your Plan account balance at the time of your death.

For the purposes of illustration, under certain market conditions, \$10,000 will purchase an annuity which will provide an annuitant of age 60 with monthly annuity payment of approximately \$78.60, with no period of payment certain. This illustration assumes an annuity factor based on the Uniform Pension 1984 mortality tables and a 6% interest rate.

If, in the event of your death before you receive your Plan benefits, you wish to have your spouse receive your vested account balance in the form of a Qualified Preretirement Survivor Annuity, you need take no action. The Plan Administrator will at your death direct the Trustee to purchase a Qualified Preretirement Survivor Annuity for your spouse.

In order for your surviving spouse to receive benefits in a form other than a Qualified Preretirement Survivor Annuity, such as a lump sum or installments from the Plan, or for a beneficiary other than your spouse to receive benefits, you must make a Qualified Election. This can be done anytime after the first day of the Plan year in which you reach age 35. If you separate from service prior to age 35, the election period begins on the date of separation. A Qualified Election is a waiver of the Qualified Preretirement Survivor Annuity. This waiver can be made on the reverse hereof. The waiver must be in writing and must be consented to by your spouse. Your spouse's consent must be witnessed by a Notary Public or the Plan Administrator.

Notwithstanding the consent requirement, if you establish to the satisfaction of the Plan Administrator that written consent cannot be obtained because you have no spouse or your spouse cannot be located, the waiver itself will be deemed a Qualified Election. Any consent is valid only with respect to the spouse who signs it or is identified as the spouse who cannot be located. A revocation of a waiver may be made by you without the consent of your spouse at any time before commencement of benefits. The number of waivers or revocations is not limited.

WAIVER OF QUALIFIED PRERETIREMENT SURVIVOR ANNUITY

Name of Participant _____

Name of Plan _____

I hereby elect not to receive any benefit due under this Plan in the form of a Qualified Joint and Survivor Annuity. I have reviewed the explanation of the Qualified Joint and Survivor Annuity and understand the financial effect of this waiver. If I am married and have designated a beneficiary other than my spouse to receive death benefits under this Plan, that designation can be found on a separate beneficiary designation which is incorporated herein. I am:

- Not Married.
- Married. Consent of spouse indicated below.
Name of Spouse: _____
- Married, but spouse cannot be located due to _____
Name of Spouse: _____
Last Known Address: _____

Date Participant

CONSENT TO WAIVER OF QUALIFIED PRERETIREMENT SURVIVOR ANNUITY

I hereby consent to the election of my spouse not to receive any benefit due under this Plan in the form a Qualified Preretirement Survivor Annuity. I have reviewed the explanation of a Qualified Preretirement Survivor Annuity and understand the financial effect of this waiver. If my spouse has designated a beneficiary other than me to receive death benefits under this Plan and I have consented to that designation, my consent may be found on that separate beneficiary designation, which is incorporated herein.

Date Participant's Spouse

THIS CONSENT MUST BE WITNESSED TO BE EFFECTIVE.

State of _____

County of _____

On this _ day of ____ in the year _ before me, _____ (Name of Notary or Plan Administrator), a Notary Public in and for said state or the Plan Administrator of the above mentioned Plan, personally appeared _____ (Name of Participant's Spouse), known to me to be the person who executed the within Consent of Waiver of Qualified Preretirement Survivor Annuity and acknowledged to me that (s)he executed the same for the purpose therein stated.

Notary Public or Plan Administrator

(SEAL)

My Commission Expires:

Notary Public must be used if participant or spouse is Plan Administrator.

**WAIVER OF RIGHT TO SURVIVOR ANNUITY
BY SURVIVING SPOUSE**

WHEREAS, the undersigned is the surviving spouse of _____,
who died _____, and who was a participant under the _____; and

WHEREAS, the undersigned has been informed of _____ right to receive
benefits from said Plan in the form of an annuity payable to _____,
which right exists by reason of the Retirement Equity Act of 1984; and

WHEREAS, the undersigned desires to waive any right _____ may have to
such an annuity and to elect a different form of benefit payment from said Plan.

THEREFORE, the undersigned hereby waives any right _____ may have
to receive benefits from the _____ in the form of an
annuity, and elects to receive said benefits in the form of a lump sum payment.

IN WITNESS WHEREOF, the undersigned has executed this Waiver this _____ day
of _____, 20_____.

Witness:

Section 6 – Glossary

Term	Definition
401(k) Plan	A 401(k) plan is a retirement savings plan, set up by a company for the benefit of its employees, that allows them to make pre-tax contributions and choose their own investments. Money invested in the plan grows on a tax-deferred basis, so employees only pay taxes when they take withdrawals - usually at retirement. Also see Company Match .
Accrued Benefit	A benefit that an employee has earned (or accrued) through participation in the plan. In a defined contribution plan (for example, a profit sharing plan), the accrued benefit of a participant is the balance in his/her individual account at a given time. In a defined benefit plan, the accrued benefit is determined by reference to the benefit that will be provided to a participant when he/she reaches normal retirement age as specified by the plan. The accrued benefit should not be confused, however, with the benefit (or portion thereof) that a participant has a right (nonforfeitable) to receive if he/she leaves prior to retirement. This benefit is determined by reference to the plan's vesting schedule and the years of service credited to a participant.
ACP Test	
Adoption Agreement	Many retirement plan consultants and service providers have prototype plan documents that may be used by their clients. The Adoption Agreement is used to define the specific benefits and provisions that apply to the plan.
ADP Test	
Affiliated Service Group	
Alternate Payee	A spouse, former spouse, child or other dependent of a participant who is recognized by a domestic relations order as having a right to receive all or a portion of the benefits payable under the qualified retirement plan with respect to the participant.
Annual Addition	
Annual Report (Form 5500)	An IRS annual report for each plan year which must be filed by the Plan Administrator for most plans.

Term

Definition

Annuity	A contract issued by an insurance company that offers professionally managed investments. Often patterned after mutual funds, it generally guarantees lifetime income to the individual on whose life the contract is based. Both types of annuities - variable and fixed - are tax deferred retirement savings vehicles.
Asset	Any property owned by a business, institution or individual that has monetary value. Your personal assets include your home, car, jewelry and your savings and investments.
Balance Forward Accounting	Refers to the method of recordkeeping where your account is adjusted quarterly or annually to reflect investment earnings or losses. It allows you to perform investment transfers on a quarterly or annual basis, respectively. Also known as Periodic Valuation/Accounting .
Base Compensation	That portion of each participant's eligible compensation that does not exceed the integration level specified in the plan.
Base Contribution Percentage (BCP)	The percentage of employer contributions and forfeitures allocated to participants on the basis of base compensation.
Beneficiary	A person designated by a participant, or by the terms of an employee benefit plan, who is or may become entitled to a benefit thereunder.
Closely-Held Corporation	A nonpublic corporation that is owned by a small number of shareholders.
Company Match	The amount the employer may choose to contribute to your 401(k) savings account to match the deferral contribution made by the employees.
Constructive Ownership	Constructive ownership rules apply in determining an HCE under the 5 percent owner rule. Ownership is attributed to a spouse (other than a spouse who is legally separated from the individual under a decree of divorce or separate maintenance), children, grandchildren and parents.
Controlled Group	
Daily Valuation	Refers to the method of recordkeeping where your account is adjusted daily to reflect investment earnings or losses. It allows you to perform investment transfers on a daily basis.
Data Request List (DRL)	The DRL is mailed to you annually to obtain information about all of your employees for compliance testing and year-end contribution allocations.
Defined Benefit Plan	A pension plan in which an employer promises to pay certain defined or fixed benefits, usually in monthly payments, to its employees upon retirement. The benefits generally are based on the earnings and number of years of employment of the employee near the end of his/her employment. Unlike a defined contribution plan, the defined benefit plan does not specify the amounts the employer will contribute to the plan; instead, it defines the benefits that will be paid at retirement.

Term

Definition

Defined Contribution Plan	A plan that is defined by the Internal Revenue Code and ERISA as a plan that provides for an individual account for each participant and for benefits based solely on (1) the amount contributed to the participant's account plus (2) any income, expenses, gains and losses, and forfeitures of accounts of other participants that may be allocated to the participant's account.
Department of Labor (DOL)	The nontax provisions of ERISA are administered by the DOL. The DOL issues opinion letters and other pronouncements, and requires certain information forms to be filed.
Determination Letter	An IRS determination letter is an IRS ruling as to whether the provisions of the plan conform to the requirements of the tax law.
Direct Rollover	A distribution from a qualified retirement plan which is directly rolled over to either an IRA or another retirement plan.
Discrimination	A situation in which a plan, through its provisions or through its operations, favors officers, shareholders or highly compensated employees to the detriment of other employees.
Disparity	The amount by which the Excess Contribution Percentage exceeds the Base Contribution Percentage.
Disqualification	Loss of qualified (tax-favored) status by a plan, generally resulting from operation of the plan in a manner contrary to the provisions of the plan or that discriminates against rank-and-file employees.
Eligibility	
Employee	An individual who is compensated for services performed and whose duties are under the control of an employer.
Employee Retirement Income Security Act (ERISA)	Employee Retirement Income Security Act, passed in 1974, is a comprehensive body of federal law which incorporates the Department of Labor (DOL) rules which govern retirement savings plans. The Internal Revenue code (IRC) contains many provisions which are similar to those found in ERISA.
Employee Stock Ownership Plan (ESOP)	A plan by which employees build ownership in their company. Shares thus purchased are held in a trust.
Employer Securities	For an ESOP, common stock issued by the employer that is readily tradable on an established securities market. If the employer has no readily tradable common stock, employer securities include employer-issued common stock that has a combination of voting power and dividend rights at least the equal of the class of common stock with the greatest voting power and the class of common stock with the greatest dividend rights. Noncallable preferred stock that is convertible into common stock that meets the requirements of employer securities also qualifies if the conversion price is reasonable.

Term

Definition

Excess Aggregate Contributions	If the 401(k) plan does not provide for immediate 100 percent vesting of employer matching contributions, the same numerical nondiscrimination tests that apply to elective 401(k) salary reduction contributions also apply separately to employer matching contributions to the plan. If the test has not been met and the plan year has ended, the excess matching contributions are referred to as excess aggregate contributions.
Excess Compensation	That portion of each participant's compensation (if any) that exceeds the integration level specified in the plan.
Excess Contribution Percentage (ECP)	The percentage of employer contributions and forfeitures allocated to participants on the basis of excess compensation.
Excess Contributions	Each plan year a 401(k) plan must meet a special discrimination test. The discrimination test is met if the average deferral percentage of the highly compensated group does not exceed the average deferral percentage of all other employees by more than 1.25 times. If the test has not been met and the plan year has ended, the excess elective 401(k) salary reduction contributions are referred to as excess contributions.
Excess Deferrals	If a participant's total elective 401(k) salary reduction contributions for the calendar year exceed the annual limitation, the excess is referred to as an excess deferral.
Fiduciary	Any person who exercises discretionary authority or control over the management or disposition of plan assets or who gives investment advice to the plan for a fee or other compensation.
Five-Percent Owner	Any person who owns, directly or indirectly, more than 5 percent of the stock of the employer. If the employer is not a corporation, the ownership test is applied to the person's capital or profits interest in the employer.
Forfeitures	The benefits that a participant loses if he or she terminates employment before becoming eligible for full retirement benefits under the plan. For example, a participant who leaves the service of an employer at a time when he or she will receive only 60 percent of benefits forfeits the remaining 40 percent.
GUST	GUST is an acronym for four of the tax acts that make up the body of changes. The Acts are as follows: G - General Agreement on Tariff and Trade (GATT) U - Uniformed Services Employment, Reemployment and Relief Act (USERRA) S - Small Business Job Protection Act of 1996 T - Taxpayer Relief Act of 1997 Also, a part of this whole package is the IRS Restructuring and Reform Act of 1998.

Term

Definition

Hardship Withdrawal	An early withdrawal from a retirement savings plan that is allowed under limited circumstances as specified in the plan document. To obtain a hardship withdrawal, an employee must suffer an immediate and heavy financial need. The rules and requirements which apply to hardship withdrawals are regulated by the Internal Revenue Code (IRC).
Highly Compensated Employee (HCE)	The employee is a 5 percent or greater owner of the employer at any time during the year or preceding year, or the employee had compensation for the preceding year in excess of \$80,000 (indexed) and is in the top 20 percent of employees by compensation for such year.
Individual Retirement Account (IRA)	An account with tax incentives to encourage individuals to save money for retirement. There are three types of IRAs available. The Traditional IRA allows money to be invested tax-free until retirement, after which withdrawals are treated as ordinary income. In addition, some investors may deduct their Traditional IRA contributions from their taxable income. The two new IRAs created by the Taxpayer Relief Act of 1997 include the Roth IRA and the Coverdell Education Savings Account. While contributions are not tax deductible, these two new IRAs offer taxpayers the ability to withdraw accumulated earnings free from federal income taxes after certain requirements are met.
Integrated Plan	The use of Social Security to determine contributions in a defined contribution plan and benefits in a defined benefit plan. Prior to the Tax Reform Act of 1986, this was referred to as integration. Also known as Permitted Disparity .
Integration Level	The integration level is the amount of compensation, specified in the plan, at or below which, the rate of contributions (or benefits) provided under the plan is less than the rate provided to compensation above such level. In defined contribution excess plans, the integration level of the plan cannot exceed the TWB in effect as of the beginning of the plan year.
Interested Party	As defined by applicable Internal Revenue Service regulations, Interested Party includes each present employee, without regard to whether he/she is a Plan participant.
Involuntary Cash-Out	Plan sponsors have always been allowed to provide involuntary cash-outs to terminating employees with "small" benefits. The current limit is \$5,000, excluding rollover balances. If today's benefit value is under \$5,000, the plan administrator may cash out the benefit. Employers can adopt the \$5,000 limit but they are not forced to. Plans can also establish a limit lower than \$5,000.
Key Employee	A key employee is an employee (or former employee) who, at any time during the plan year containing the determination date; was an officer having annual compensation in excess of \$130,000, a 5 percent or more owner or a 1 percent or more owner whose compensation exceeds \$150,000.

Term

Definition

Leased Employees

Loan	Many 401(k) retirement savings plans offer a loan provision and for those that do, the Department of Labor (DOL) and Internal Revenue Code (IRC) rules allow participants to borrow up to 50 percent of the total vested assets in their account, up to a maximum of \$50,000, less adjustments for outstanding loans. Through payroll deductions, you repay your account the balance you borrowed, plus a fixed rate of interest. The specific terms of the loan – such as frequency of payments and interest rate - will be defined by your plan. As long as you repay your loan on time, you will not be subject to withholding taxes or penalties which apply to early withdrawals.
Lump Sum Distribution	A single payment representing the entire amount due to you from your 401(k) or pension plan.
Market Value	The fair value at which an investment could be sold today.
Master Trust	A Master Trust refers to a trust that either holds the assets of two or more retirement plans, or holds accounts managed by two or more separate investment managers.
<u>Minimum Funding</u>	
Money Purchase Pension Plan (MPP)	A defined contribution plan under which the employer's contributions are mandatory and are usually based on each participant's compensation. Retirement benefits under the plan are based on the amount in the participant's individual account at retirement.
Nonelective Contribution	A contribution to a cash-or-deferred arrangement other than an elective deferral. (An elective deferral is a participant-elected contribution that the participant could have chosen to receive instead as cash.) If the amount of the nonelective contribution depends on the amount of a participant's elective deferral, it is an "employer matching contribution."
Non-Highly Compensated Employee (NHCE)	An employee who is not a highly compensated employee.
Officer	An administrative executive of a corporate employer who is in regular and continued service. One employed for a special and single transaction or one who has only nominal administrative duties is excluded.
One-Percent Owner	Any person who owns, directly or indirectly, more than one percent of the stock of the employer. If the employer is not a corporation, the ownership test is applied to the person's capital or profits interest in the employer. A one-percent owner is a key employee only if his/her annual compensation from the employer is more than \$150,000.
Owner-Employee	A sole proprietor or a partner who owns more than 10 percent of either the capital interest or the profits interest in a partnership.

Term

Definition

Partial Plan Termination	Reducing benefits or making participation requirements less liberal, although not amounting to a complete termination of the plan, may be considered a partial termination, resulting in the vesting of accrued benefits for at least part of the plan. The typical types of partial terminations include: the employer closing a plant and thereby substantially reducing the percentage of employees participating under the plan, the reduction of benefits for participating employees, the substantial reduction of contributions to the plan, and the exclusion of a group of employees from participation after they were included in the plan.
Participant	Any employee or former employee of an employer; member or former member of an employee organization; sole proprietor, or partner in a partnership; who is or may become eligible to receive a benefit of any type from an employee benefit plan, or whose beneficiaries may be eligible to receive any such benefit.
Party in Interest	
Pension Benefit Guaranty Corporation (PBGC)	The federal agency, established as a nonprofit corporation, charged with administering the plan termination provisions of ERISA Title IV and the Multiemployer Pension Plan Amendments Act of 1980. Employers pay premiums to the PBGC, which guarantees benefits up to a specified maximum for participants and beneficiaries when defined benefit plans terminate.
Periodic Valuation/Accounting	Refers to the method of recordkeeping where your account is adjusted quarterly or annually to reflect investment earnings or losses. It allows you to perform investment transfers respectively on a quarterly or annual basis. Also known as Balance Forward Accounting .
Permitted Disparity	The use of Social Security to determine contributions in a defined contribution plan and benefits in a defined benefit plan. Prior to Tax Relief Act of 1986, this was referred to as integration. Also known as an Integrated Plan.
Permitted Disparity Rules for a Defined Contribution Excess Plan	The maximum permitted disparity between the Excess Contribution Percentage and the Base Contribution Percentage cannot be more than the lesser of: The Base Contribution Percentage, or The maximum percentage, determined by the integration level specified by the plan, in the table .
Plan Administrator	Under ERISA, the person designated as such by the instrument under which the plan is operated. If the administrator is not so designated, administrator means the plan sponsor. The administrator's responsibilities include: (1) act solely in the interest of plan participants and beneficiaries; (2) manage the plan's assets to minimize the risk of large losses; and (3) act in accordance with the documents governing the plan.

Term

Definition

Plan Document	For purposes of qualified retirement plans, a definite written program maintained by an employer for the benefit of employees or beneficiaries that is intended to be permanent and is communicated to employees. Sets for the benefits available under an employee benefit plan and the eligibility requirements.
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[Plan Entry Date \(PED\)](#)

Plan Year	Any 12-consecutive-month period that has been chosen by the plan for keeping its records. The 12-month period may be the calendar year, a fiscal year, or a policy year (if insurance is used to fund all plan benefits). The plan year does not have to coincide with the employer's taxable year or begin on the first day or the month. Change of a plan year usually requires the consent of the IRS.
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Preallocation Accounts	A segregated account which will hold contributions until they are allocated. Contributions are usually invested in a form of money market investment fund while held in this account.
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Pre-Tax Contributions	Contributions made by an employee before taxes.
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Profit Sharing Plan	A defined contribution plan under which the employer agrees to make discretionary contributions (usually out of profits). A participant's retirement benefits are based on the amount in his/her individual account at retirement.
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[Prohibited Transaction](#)

[PS-58 Costs](#)

Qualified Domestic Relations Order (QDRO)	Generally, benefits in a qualified plan are subject to spendthrift provisions, which prohibit the assignment or alienation of those benefits. The Retirement Equity Act, which became part of ERISA, created an exception so as to permit a state court to divide benefits in a qualified plan. When a QDRO is entered, the alternate payee (the former spouse, child or other dependent) will be treated as a participant for all purposes of the plan. The alternate payee may receive all or part of the benefits in the participant's account depending upon the court order. A QDRO is any judgment, decree or order including an approval of a property settlement agreement, that relates to the provision of child support, alimony payments or marital payments to a spouse, former spouse, or a child of a participant in a qualified plan that is made pursuant to a state domestic relations law. The court will generally be prohibited from ordering a plan to provide payment in any amount or form which is not otherwise available under the plan. The court may, however, order payment to begin to an alternate payee on or after the date on which the participant actually retires. The Plan Administrator will be charged with determining whether the order meets the requirements of a QDRO.
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Term

Definition

[Qualified Joint and Survivor](#)

Qualified Joint and Survivor Annuity (QJSA)	An annuity from a pension plan that runs for the life of the participant, with a survivor annuity for the life of the spouse not less than 50 percent nor more than 100 percent of the annuity payable for their joint lives, and that is the actuarial equivalent of a single annuity for the life of the participant.
Qualified Preretirement Survivor Annuity (QPSA)	If a pension plan participant dies before starting pension benefits, the surviving spouse receives this type of annuity. Amount of QPSA depends on type of plan and age of participant at death.
Qualified Retirement Plan	A plan that meets the requirements of the Internal Revenue Code (generally Section 401(a)). The advantage of qualification is that the plan is eligible for special tax considerations. For example, employers are permitted to deduct contributions to the plan even though the benefits provided under the plan are deferred to a later date.
Required Beginning Date	The date on which plan or IRA distributions must commence to be paid.
Required Minimum Distribution (RMD)	Generally, minimum distributions from retirement plans must begin no later than April 1 of the year an individual attains age 70½ or, if later, the year of retirement. Tax penalties apply if minimum distributions are not made by the required dates.
Rollover	The transfer of funds from one retirement account, such as an IRA or 401(k), to another, to continue deferral of taxation of retirement savings. If the transfer is not done within a specified time period, the funds are taxed as ordinary income.
S Corporation	A corporation whose shareholders have elected not to be taxed as a regular (or "C") corporation, but like a partnership, with profits and losses passing through directly to the shareholders, rather than at the corporate level.
Safe Harbor Plan	A 401(k) plan exempt from nondiscrimination testing of elective and/or matching contributions in exchange for providing certain minimum levels of matching or nonelective contributions. Effective for plan years beginning after December 31, 1998.
Salary-Reduction Agreement	Under this type of cash-or-deferred arrangement, each eligible employee may elect to reduce his/her current compensation or to forego a salary increase and have these amounts instead contributed to the plan on his/her behalf on a pretax basis. Also known as Salary Deferral Election.
Securities	A generic term for investment instruments. Stocks, bonds, futures and options are all examples of securities.
Separate Lines of Business	
Shareholder Employee	A more than 5 percent shareholder of an S Corporation.

Term

Definition

Social Security Tables	The Social Security values used in retirement calculations are based on the following assumptions: The tables are based on the current Social Security formula written into law by Congress. Social Security payroll taxes (FICA) have been paid throughout the entire career by employers or by the individual if previously self-employed. The Social Security benefit is computed from the current salary. Social Security benefits are intended to be retirement supplements.
Summary Description of Material Modifications (SMM)	A summary of any material change or modification of a plan or the information contained in the summary plan description that must be furnished to each participant and beneficiary.
Summary Plan Description (SPD)	A requirement of ERISA for a written statement of a plan in an easy-to-read form, including a statement of eligibility, coverage, employee rights and appeal procedure. It is provided to participants, beneficiaries and, upon request, the Department of Labor.
Taxable Wage Base (TWB)	The TWB is the maximum amount of an individual's earnings in any calendar year that may be considered wages for Social Security purposes and subject to OASDI taxes.
Trustee	A person, bank or trust company that has responsibility over financial aspects of funds. One who acts in a capacity of trust as a fiduciary and to whom property has been conveyed for the benefit of another party.
Vesting	Accrued benefits of a participant that have become nonforfeitable under the vesting schedule adopted by the plan. Thus, for example, if the schedule provides for vesting at the rate of 20 percent per year, a participant who has been credited with three years of service has a right to 60 percent of the accrued benefit. If he or she terminates service without being credited with any additional years of service, he or she is entitled to receive 60 percent of the accrued benefit.
Years of Service	A 12-consecutive-month period specified in the qualified retirement plan during which the participant completes at least 1,000 hours of service.
