Covering “Your” Assets and Liabilities

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Disclaimer

The information and opinions presented today are those of the presenter and do not necessarily represent the opinions or positions of NIPA.
Polling Instructions

Insert information to permit audience to log polling answer through CE software.
Polling Question #1

Which category best describes your role with regard to plan accounting / Form 5500:

A. Preparer / reviewer (including actuaries)
B. Oversee persons preparing/set firm practices and standards
C. User of Form 5500 data (sales, consultant, etc.)
D. Observer (I’m here for the entertainment!)
Before and After

- Daily valuation and institutional processing
  - **Before**: Balance forward defined contribution plans tended to use modified cash basis accounting for small plans and accrual accounting for large plans
  - **After**: Small daily valued defined contribution plans shifted to cash basis accounting so that all reports would sync.
- GAAP requires audited plans to use accrual accounting.
Accounting Methods

• **Cash basis** recognizes revenues when collected (rather than when earned) and expenses when paid (rather than when incurred).

• When **modified cash basis** accounting is employed, employer/participant contributions accruals are recorded as are certain liabilities (e.g. uncashed checks) without taking into account all such potential accruals.

• **Accrual** based accounting will look for all potential income earned (e.g., contributions, dividends, etc.) and expenses attributable to the reporting year (e.g., invoices issued after year end but for services related to the plan year).
EPCU Program Underway

Why did I receive an EPCU Compliance Check Letter?

• Our records show the Form 1120 deduction amount exceeds the Form 5500 series return contribution amount by at least $1,000.

What is EPCU attempting to determine?

• We want to determine whether certain plan sponsors who maintain one defined contribution plan may have taken an improper deduction. An improper deduction occurs when the Form 1120 deduction amount exceeds the Form 5500 contribution amount. Only employers with a tax year ending identical to that of the plan year ending will be reviewed. Item 2(a)(1) on Schedule I or Item 2(a)(1) on Schedule H filed with the Form 5500 and Item 8(a)(1) on the Form 5500-SF provide the total dollar amount of employer contributions for the plan year. This amount will be compared with the dollar amount listed on Item 23 of the Form 1120.
Polling Question #2

• Does your firm routinely compare the deduction taken on the business return with the value reported on the Form 5500 series filing for the same tax period?

A. YES
B. NO
C. SOMETIMES
GAAP Accounting

• US GAAP = Accounting principles generally accepted in the US as promulgated by FASB.

• GAAP reporting
  • Fair values must be disclosed
  • Distributions approved but unpaid not reflected on statements but must be shown on Schedule H [reconciling note in financial statements]
  • Comparative statements presented
ADP/ACP Refunds

• What’s practical – account for on a cash basis
• What auditors want – account for on an accrual basis
  • Auditors offset participant contributions by total amount of ADP refund (including investment return)

<table>
<thead>
<tr>
<th>Contributions:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Received or receivable in cash from: (A) Employers</td>
<td>2a(1)(A)</td>
</tr>
<tr>
<td>(B) Participants</td>
<td>2a(1)(B)</td>
</tr>
<tr>
<td>(C) Others (including rollovers)</td>
<td>2a(1)(C)</td>
</tr>
<tr>
<td>(2) Noncash contributions</td>
<td>2a(2)</td>
</tr>
<tr>
<td>(3) Total contributions. Add lines 2a(1)(A), (B), (C), and line 2a(2)</td>
<td>2a(3)</td>
</tr>
</tbody>
</table>

• Form 5500 reporting should reflect true total participant contributions and the ADP refund as a corrective distribution.

f Corrective distributions (see instructions) | 2f
Polling Question #3

- How does your firm account for ADP/ACP refunds on small plans?
  
  A. CASH basis
  
  B. ACCRUAL basis
Uncashed Checks

• Accounting treatment driven by manner in which benefits are paid
  • Institutional / omnibus accounts – uncashed checks at year end are generally not recognized on the financial statements or Form 5500. All benefits are reported as paid.

<table>
<thead>
<tr>
<th>Benefit payment and payments to provide benefits:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Directly to participants or beneficiaries, including direct rollovers………………………………………..</td>
</tr>
<tr>
<td>(2) To insurance carriers for the provision of benefits…………………………………………………………………</td>
</tr>
<tr>
<td>(3) Other……………………………………………………………………………………………………………………………..</td>
</tr>
<tr>
<td>(4) Total benefit payments. Add lines 2e(1) through (3)…………………………………………………………………..</td>
</tr>
<tr>
<td>2e(1)</td>
</tr>
<tr>
<td>2e(2)</td>
</tr>
<tr>
<td>2e(3)</td>
</tr>
<tr>
<td>2e(4)</td>
</tr>
</tbody>
</table>

• Plans with their own checkbooks may be reflecting the in-transit nature of the benefit payment.
Polling Question #4

• Does your firm generally account for uncashed checks on the plan’s year end financials?
  A. YES
  B. NO
  C. DEPENDS on what information is available
Forfeiture of Uncashed Checks

• See my presentation from 2014 NAFE entitled *The Trouble With Forfeitures*

• Most institutions consider checks to be stale-dated after 180 days

• Depending on service provider/institution, uncashed check listing provided
  • Monthly
  • After 90 days
  • Never
Uncashed Check Treatment

• DOL considers amounts to be plan assets subject to fiduciary responsibilities [see Advisory Opinion Letter 93-24A]

• Can the plan treat the amount as a forfeiture?
  • Plan may provide such treatment
  • Must reinstate benefit if a claim by a participant/beneficiary is subsequently made for the forfeited benefit. [See Reg. § 1.411(a)-4(b)(6)]
  • How does a plan track such information? Should these persons be reported on Form 8955-SSA?
Sample Plan Language #1

**MISSING PAYEE**

If all or any portion of the distribution payable to a Participant or Beneficiary shall, for a period of *more than five years* after such distribution becomes payable, remain unpaid because the Plan Administrator has been unable to ascertain the whereabouts of the Participant or Beneficiary after sending a registered letter, return receipt requested, to the last known address of such Participant or Beneficiary, the amount so distributable shall be treated as a forfeiture under Article 6 hereof. Notwithstanding the foregoing, *if a claim is subsequently made by the Participant or Beneficiary for the forfeited benefit, such benefit shall be reinstated without any credit or deduction for earnings and losses.* Amounts forfeited from a Participant's Account under this Section shall be used to restore forfeitures, reduce Company contributions (or reallocate as Company contributions) made pursuant to Article 4 or to pay Plan expenses. [emphasis added]
Sample Plan Language #2

- **Missing Participants and Beneficiaries.** If the Trustee mails by registered or certified mail, postage prepaid, to the last known address of a Participant or Beneficiary, a notification that such Participant or Beneficiary is entitled to a distribution hereunder and if (a) such notification is returned by the post office because the addressee cannot be located at such address and if neither the Employer nor the Trustee shall have any knowledge of the whereabouts of such Participant or Beneficiary **within 3 years** from the date such notification was mailed, or, (b) **within 3 years** after such notification was mailed to such Participant or Beneficiary, he does not respond thereto by informing the Trustee of his whereabouts, the ultimate disposition of the then undistributed balance of the Account of such Participant or Beneficiary shall be forfeited except as otherwise provided with the then applicable Federal laws, rules and regulations. **If a benefit is forfeited because the Participant or Beneficiary cannot be found, such benefit will be reinstated if a claim is made by the Participant or Beneficiary.** [emphasis added]
Polling Question #5

• Generally, which action is most common for your clients’ plans?

A. If the participant has no account balance, then the uncashed check amount is treated as a forfeiture; otherwise the amount is restored to the account.

B. The participant’s account is always reinstated.

C. The amount is always forfeited.
Accounting for Forfeitures

- Of uncashed checks – amounts were previously reported as distributions; therefore, any forfeiture of the same amount would be an offset to distributions
  - Benefits paid $ 30,000
  - Uncashed checks treated as forfeitures -10,000
  - Net amount reported on Form 5500 $ 20,000
Other Fallout

• Clients coming and going
  • Make sure your checklist includes management of uncashed checks.
  • Is there a way to manage information about forfeitures that could be restored if rehired employee makes repayment of previous distribution?
  • What about rehired participants that were deemed distributed?
Polling Question #6

• Does your firm have an effective way to track potential forfeiture restoration for rehires?
  A. YES
  B. NO
  C. MAYBE
Polling Question #7

• In your opinion, should participants whose uncashed checks were forfeited be reported on Form 8955-SSA?

A. YES
B. NO
C. MAYBE
Revenue Sharing

- Three schools of thought
  - Add to investment income (e.g., increase mutual fund income)
  - Report as “other income” on Form 5500
  - Adjust expenses
Polling Question #8

• How does your firm report revenue sharing type adjustments paid to the plan?

A. Add to investment income (e.g., increase mutual fund income)

B. Report as “other income” on Form 5500

C. Adjust expenses
Accounting Tips

• Learn to separate recordkeeping results from financial statements
• Contribution true-ups or negative contributions are just cash flow to the plan
• Except for uncashed checks, forfeitures are never cash flow – the $ never left the plan!
• Consider how IRS / DOL might view the inclusion or exclusion of amounts in a particular reporting year.
Thank you!

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