

## Session 2D Annual Cycle of ESOP Administration

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California/Western States  
2017 Chapter Conference  
October 11-13, 2017  
Paradise Point Resort & Spa, San Diego, CA




About Us	ESOP	Employees
Resource Recovery Company	4400 participants	3250 (soon to be 3700)
Formed in 1921	Union and Non-Union	70% union
100% employee-owned S Corp.	Celebrating 31 years	45 sites in 3 states




### Annual Cycle of ESOP Administration

Session Agenda

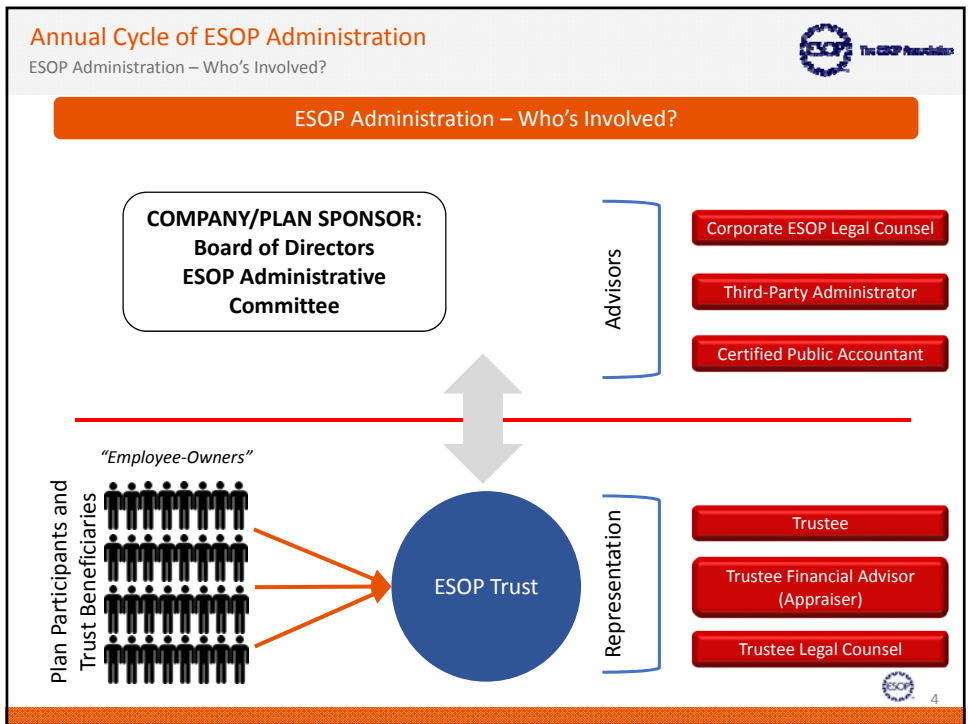


**Session Agenda**

- ❑ Parties Involved in Administration
- ❑ Understanding Your Plan Document
- ❑ Typical Timeline
- ❑ Company Census
- ❑ TPA Work after Receiving Census




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Annual Cycle of ESOP Administration


ESOP Administration – Who’s Involved?



ESOP Administration – Who’s Involved?

Plan Sponsor and Parties Engaged by Plan Sponsor


- ESOP Administrative Committee (typically accounting, finance, HR)
- Third-party administrator (“TPA”) and recordkeeper
- Corporate ESOP/ERISA legal counsel
- Corporate CPA/Auditor
- As needed:
  - Employee Benefit Plan (“EBP”) auditor
  - Repurchase obligation consultants
  - ESOP communications consultants
  - Investment manager



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Annual Cycle of ESOP Administration


ESOP Administration – Who’s Involved?



ESOP Administration – Who’s Involved? (continued)


ESOP Trust

- ESOP Trustee – Internal, independent, or combination
- Independent Appraiser
- As needed:
  - ESOP trust legal counsel
  - Asset custodian
  - Financial advisor/investment manager




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**Annual Cycle of ESOP Administration**  
ESOP Administration – ESOP Administrative Committee




**ESOP Administrative Committee - Understand Your Plan!**

- Very important that you understand the basic provisions of your plan document
  - Eligibility
    - Who is eligible? Are any groups excluded?
    - Understand “Eligible Compensation” – what is included and excluded?
  - Participation
    - What does it take for an eligible employee to participate in the plan? Ex. A 12 month period during which employee works 1,000 hours
  - Re-employment
    - Was employee vested when they left?
    - If not vested, review provisions regarding breaks in service
  - Vesting of benefits
  - Distribution policy
    - When are participant benefits generally distributed?
    - Understand the mechanics of the distribution payment process
    - Understand the benefit claims procedure




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**Annual Cycle of ESOP Administration**  
ESOP Administration – ESOP Administrative Committee

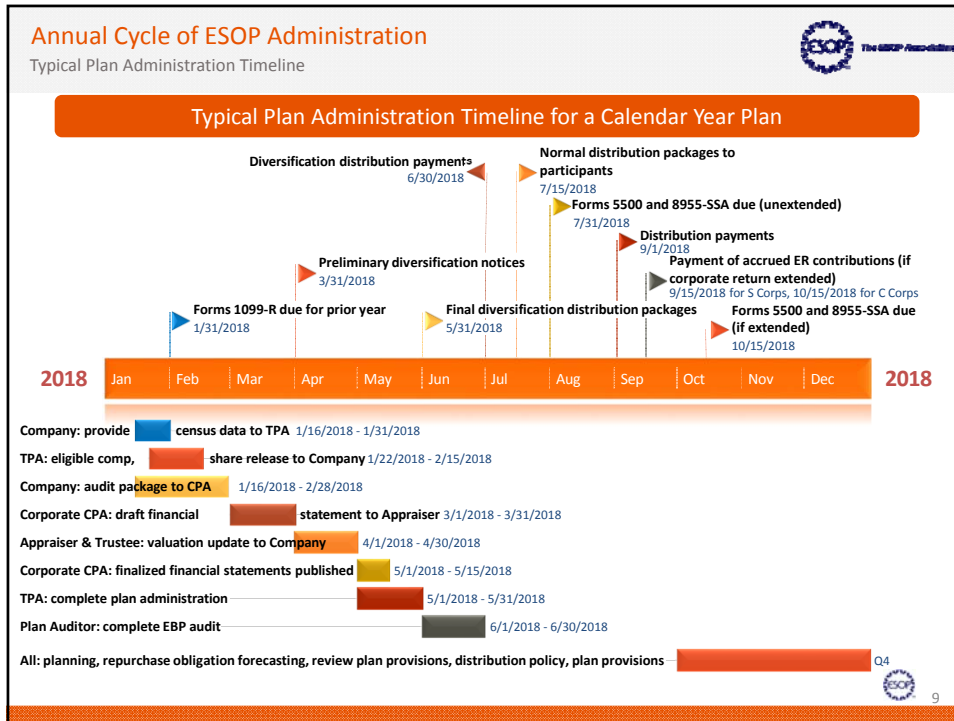


**ESOP Administrative Committee - Understand Your Plan!**

- Understand the required reporting and disclosures
  - Summary Plan Description (“SPD”)
  - Account statements
  - Summary Annual Report (“SAR”)
  - Form 5500 & Form 995-SSA,
  - 1099-R & tax withholding
- Document your work!**
  - Committee meeting minutes
  - Communications with third-party administrator, legal counsel, and trustee
  - Resolutions or directives
  - Beneficiary designation forms
  - Evidence of having distributed the SPD and SAR
  - Distribution materials:
    - Consent to distribution
    - Payment instructions
    - Special Tax Notice
    - Claims resolution process
  - Determining eligible pay and hours



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### Annual Cycle of ESOP Administration

Company Provides Census Data to TPA

**Company: Provides Annual Census and Administration Data to TPA**


- Your census data is critical to the rest of the administration
  - Need to ensure that the census data provided is accurate
- Recordkeeper will provide you with a list of required census items
- In addition, if any of the below apply, provide to your TPA:
  - Plan restatements, new amendments, new distribution policy
  - Change in your fiscal year
  - Confirmation of mergers, divestitures, change in company structure from S to C and vice versa
  - Company Officers
  - Changes in ownership

**Annual Cycle of ESOP Administration**  
Company Provides Census Data to TPA




**Company: Provides Annual Census and Administration Data to TPA (continued)**

- Review new Qualified Domestic Relations Orders (“QDRO,” due to divorces) and beneficiary accounts (due to death of participant)
- Review leased employees
  - Identify “non-excludables” (Substantially full-time basis) for inclusion in minimum coverage testing under 410(b)
  - Review hire dates and credited service for “onboarded” leased employees (possible immediate eligibility and accelerated vesting)
- Identify re-hired employees (eligibility and vesting)
- Identify related employees for 409(p) testing or 409(n) restrictions


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**Annual Cycle of ESOP Administration**  
Company Provides Census Data to TPA



**Company: Provides Annual Census and Administration Data to TPA (continued)**

- Common census issues:
  - Missing termination dates
  - No hours or wages, but no termination date (leave of absence?)
  - Duplicate SSN’s (change of name, work authorization)
  - Wages on census do not reconcile to payroll reports (W-2/3, 941’s)
- May help to keep a log of changes that occur during the year to provide to your recordkeeper with your census file including:
  - Rehires
  - Name or SSN Changes
  - Changes in union status (if applicable)
  - Deaths (actives, retirees, and vested terms)
  - Lost participants

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## Annual Cycle of ESOP Administration

TPA: Eligible Comp, Share Release to Company



### TPA: Eligible Comp, Share Release to Company

- TPA provides eligibility determination, maximum deductible contribution, and share release to Company
- Company should carefully review eligibility determination
- Reconciling ESOP census to payroll reports (W-2/3, 941) now can avoid delays and errors later in the process
- Preliminary trust reconciliation process – Company or TPA?
  - Cash transactions
  - Amortization schedules for Exempt Loans
  - Share release
  - Contribution accruals



## Annual Cycle of ESOP Administration

Next Steps




### Next Steps

- Company closes books and provides audit package to corporate CPA
- Corporate CPA delivers draft financial statements
- Trustee sets stock value, based upon independent appraisal
- Corporate CPA publishes finalized financial statements
- TPA completes plan administration including compliance testing
- CPA completes employee benefit plan audit
- Distribution payments
- Q4: planning, repurchase obligation forecasting, review distribution policy, contribution policy, plan provisions




**Annual Cycle of ESOP Administration**  
Next Steps



**Other Administration Responsibilities**


- Form 5500 Filing (see timeline for due date)
- Form 8955-SSA Filing (see timeline for due date)
- Statements to all participants (due once per year)
- SPD Distribution to new participants (due 90 days after plan entry date)
- Term vested letters to employees who termed in prior year (due by Form 8955-SSA filing date) – benefit statements may suffice if properly designed
- SAR Distribution to all participants (later of nine months after plan year end or 2 months after due date of Form 5500)



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CAWS 2017 Chapter Conference - October 11-13, 2017 - Paradise Point Resort & Spa, San Diego, CA