

The normal form of payment for a top-heavy defined benefit plan is an annuity payable for 60 months certain and life thereafter. The plan has always been top-heavy. The top-heavy minimum annual accrual for a participant with less than 10 years of service must be actuarially equivalent to 2% of average annual compensation payable as a single life annuity.

Consider the following statement:

The actuarially equivalent conversion must be determined using a "standard interest rate" and "standard mortality table" (as defined under the regulations pertaining to general nondiscrimination testing).

Question 18

Is the above statement true or false?

- (A) True
- (B) False

Plan effective date: 1/1/2000.

Type of plan: Cash balance plan.

Cash balance account: 10% of compensation credited at the end of the plan year accumulated at the applicable interest rate.

Actuarial equivalence: Interest rate: Applicable interest rate.
Pre-retirement mortality: None.
Post-retirement mortality: Applicable mortality table.

Applicable interest rate: 6.25% per year.

Vesting service: All service from date of hire.

Vesting schedule: 6-year graded schedule for top-heavy plans.

Data for non-key employee Smith:

Date of birth	01/01/1941
Date of hire	01/01/1997
Date of termination	12/31/2000
Compensation for each year	\$50,000

Selected annuity factors (applicable interest rate and applicable mortality table):

x	$\ddot{a}_x^{(12)}$
60	11.648
65	10.443

The plan is top-heavy for the year 2000.

Question 21

In what range is the lump sum to which Smith would be entitled on 12/31/2000?

- (A) Less than \$3,200
- (B) \$3,200 but less than \$3,800
- (C) \$3,800 but less than \$4,400
- (D) \$4,400 but less than \$5,000
- (E) \$5,000 or more

2004

Data for Question 38 (4 points)

Plan year for profit sharing plan: January 1 to December 31

Plan year for defined benefit plan: July 1 to June 30.

Brown was a key employee in 2001. After 2001, Brown is no longer a key employee.

Information for all participants:

	<u>Profit Sharing Account Balances</u>		<u>Defined Benefit Plan PVABs</u>	
	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>7/1/2003</u>	<u>7/1/2004</u>
Key employee Smith	\$ 275,000	\$ 350,000	\$ 225,000	\$ 300,000
Key employee Jones	350,000	425,000	230,000	275,000
Brown	100,000	125,000	100,000	125,000
All Others (non-key)	625,000	650,000	700,000	750,000

There have never been any distributions from the profit sharing plan or defined benefit plan.

Question 38

In what range is the top-heavy ratio that will determine if the defined benefit plan is top heavy for the plan year beginning 7/1/2004?

- (A) Less than 44%
- (B) 44% but less than 46%
- (C) 46% but less than 48%
- (D) 48% but less than 50%
- (E) 50% or more

2005

Data for Question 5 (1 point)

Participant:	Smith
2004 compensation:	\$190,000
Ownership:	4% equity partner
Employer:	Unincorporated

Consider the following statement:

Smith is a key employee for 2005.

Question 5

Is the above statement true or false?

- (A) True
- (B) False

2005

Data for Question 6 (1 point)

Plan A first becomes top heavy in 2005.

A year of vesting service is credited for each plan year a participant has 1,000 hours of service.

Consider the following statement:

During 2005, only participants with 1,000 or more hours of service are subject to the top heavy vesting schedule.

Question 6

Is the above statement true or false?

(A) True

(B) False

2005

Data for Question 25 (4 points)

A company sponsors two plans. Both plans satisfy coverage and nondiscrimination on their own, without requiring aggregation.

Each employee of the company is employed at only one of its two locations.

Plan 1 is for employees of Location 1. The plan is effective 1/1/1998.

Annual accrued benefit: 1.25% of pay for the first 5 years of participation, 0.75% of pay thereafter.

Plan 2 is for employees of Location 2. The plan is effective 1/1/1997.

Annual accrued benefit: \$400 for each year of participation.

Top-heavy ratio by plan year for employees of:

<u>Plan Year</u>	<u>Location 1</u>	<u>Location 2</u>	<u>Total - both</u>
1998, 1999, and 2000	64%	72%	67%
2001, 2002, and 2003	55%	65%	59%
2004	59%	66%	64%

Data for two employees, both active at 12/31/2004:

	<u>Smith</u>	<u>Brown</u>
Location	1	2
Date of hire	1/1/1997	1/1/2002
Key Employee	Never	Never
Compensation each year since hire:	\$30,000	\$25,000

If a plan is top-heavy, the company will make the smallest increases in benefits allowable to satisfy top-heavy requirements.

Question 25

In what range is the sum of Smith's and Brown's annual accrued benefits at 12/31/2004?

- (A) Less than \$3,530
- (B) \$3,530 but less than \$3,730
- (C) \$3,730 but less than \$3,930
- (D) \$3,930 but less than \$4,130
- (E) \$4,130 or more

2005

Data for Question 40 (3 points)

An employer sponsors Plan A, a defined benefit plan, and Plan B, a defined contribution plan.

These plans are top-heavy for the 2004 plan year.

Data for selected non-key employees:

	<u>Smith</u>	<u>Jones</u>	<u>Brown</u>
2004 Compensation	\$30,000	\$75,000	\$60,000
Date of hire	1/1/2004	1/1/2004	1/1/2004
Employment classification	Salaried	Hourly	Supervisory
Plan participation	B	A	A and B

Consider the following statements regarding the top-heavy minimum contribution or benefit for 2004:

- I. Smith must receive a contribution allocation of at least \$1,500 to satisfy the top-heavy minimum.
- II. Jones must receive an annual benefit accrual of at least \$1,500 to satisfy the top-heavy minimum.
- III. If Brown receives either a contribution allocation of at least \$3,000 or an annual benefit accrual of at least \$1,200, the top-heavy minimum will be satisfied.

Question 40

Which, if any, of the above statements is (are) true?

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II, and III
- (E) The correct answer is not given by (A), (B), (C), or (D) above.

2015

Data for Question 3 (1 point)

Consider the following statement:

For purposes of determining whether a plan is top-heavy, the determination date is the last day of the preceding plan year, or in the case of the first plan year the first day of the plan year.

Question 3

Is the above statement true or false?

(A) True

(B) False

2015

Data for Question 17 (2 points)

Valuation date: 1/1/2015.

Normal retirement benefit: 1% of 3-year final average compensation for each year of service.

Data for participant Smith:

Date of birth	1/1/1950
Date of hire	1/1/1998
Key employee	Never
Annual compensation history for given year(s)	
1998 – 2010	\$55,000
2011	60,000
2012	65,000
2013	70,000
2014	75,000

The plan was determined to be top-heavy for 2003 and all subsequent plan years.

Question 17

In what range is Smith's annual accrued benefit as of 1/1/2015?

- (A) Less than \$12,700
- (B) \$12,700 but less than \$13,900
- (C) \$13,900 but less than \$15,100
- (D) \$15,100 but less than \$16,300
- (E) \$16,300 or more

2015

Data for Question 42 (3 points)

An employer sponsors a defined benefit (DB) and a defined contribution (DC) plan.

Plan year for DB plan: 10/1 to 9/30.

Valuation date for DB plan: 10/1.

Plan year for DC plan: Calendar year.

Selected data:

	<u>Key employees</u>	<u>Non-key employees</u>
<u>Present value of accrued benefits</u>		
DB plan as of 10/1/2013	\$200,000	\$100,000
DB plan as of 10/1/2014	225,000	90,000
DB plan as of 10/1/2015	190,000	160,000
<u>Account balances</u>		
DC plan as of 12/31/2013	\$80,000	\$50,000
DC plan as of 12/31/2014	130,000	60,000
DC plan as of 12/31/2015	150,000	70,000

Question 42

In what range is the top-heavy ratio that will be used to determine whether the defined contribution plan is top-heavy for 2015?

- (A) Less than 60%
- (B) 60% but less than 65%
- (C) 65% but less than 70%
- (D) 70% but less than 75%
- (E) 75% or more

2015

Data for Question 43 (3 points)

Valuation date: 12/31/2014.

Normal retirement benefit: 1.5% of final 3-year average compensation times years of service.

Plan vesting schedule: 100% vested after five years of service.

Top-heavy vesting schedule: Six year graded.

The plan was determined to be top-heavy for 2009-2013, but is not top-heavy in 2014.

The plan provides the smallest top-heavy benefit allowable.

Data for non-key participant Smith:

Date of hire 1/1/2009

<u>Year</u>	<u>Compensation</u>
2009	\$80,000
2010	85,000
2011	95,000
2012	85,000
2013	95,000
2014	100,000

Question 43

In what range is Smith's largest possible annual vested accrued benefit as of 12/31/2014?

- (A) Less than \$8,500
- (B) \$8,500 but less than \$9,000
- (C) \$9,000 but less than \$9,500
- (D) \$9,500 but less than \$10,000
- (E) \$10,000 or more

2015

Data for Question 44 (1 point)

As of the 2014 valuation date, the benefits for key employees were valued at \$615,000 and the total value of benefits for all participants was \$1,005,000.

There has been never been a distribution from the plan.

Consider the following statement:

The plan is top-heavy for the 2015 plan year.

Question 44

Is the above statement true or false?

(A) True

(B) False

2016

Data for Question 11 (1 point)

Smith owns 45% of a plan sponsor.

Smith's grandchild, a 4% owner, is an employee of the plan sponsor, has annual compensation of \$60,000, and is not an officer or director of the company.

The remaining 51% is owned by an unrelated party.

The ownership structure has not changed in the last five years.

Consider the following statement:

Smith's grandchild is a key employee for top-heavy purposes under IRC section 416.

Question 11

Is the above statement true or false?

(A) True

(B) False

2016

Data for Question 17 (1 point)

An employer maintains two separate plans with valuation dates as of the end of the respective plan years.

Both plans were adopted during 2000.

The plans are part of a required aggregation group.

The plan year for Plan A begins on 7/1.

The plan year for Plan B begins on 1/1.

Consider the following statement:

For purposes of calculating the top-heavy ratio for the plans for their plan years that end in the 2016 calendar year, the present value of Plan A benefits is calculated as of 6/30/2015 and the present value of Plan B benefits is calculated as of 12/31/2015.

Question 17

Is the above statement true or false?

(A) True

(B) False

2016

Data for Question 26 (4 points)

A company sponsors a defined benefit plan and a profit sharing plan.

Smith and Jones each own 50% of the company, and are the only key employees in the company's history.

The valuation date of the defined benefit plan is 1/1.

Selected participant data:

	Smith	Jones	Total of non-key employees
Present value of accrued benefits at 1/1/2015	\$200,000	\$300,000	\$50,000
Present value of accrued benefits at 12/31/2015	0	350,000	100,000
Profit sharing account balances at 12/31/2015	100,000	400,000	200,000

Smith dies on 1/15/2015, and does not accrue any additional benefits in either plan for 2015.

On 2/1/2015, Smith's beneficiary is paid a death benefit of \$500,000 from the defined benefit plan.

Jones has been receiving annual payments of \$50,000 from the defined benefit plan on 2/1 of every year beginning in 2008.

There have been no other distributions from either plan.

X = the ratio used to determine whether the plans are top-heavy in 2016.

Question 26

In what range is X ?

- (A) Less than 80.0%
- (B) 80.0% but less than 81.5%
- (C) 81.5% but less than 83.0%
- (D) 83.0% but less than 84.5%
- (E) 84.5% or more

Data for Question 33 (2 points)

Consider the following statements:

- I. All plans of an employer are required to be aggregated for purposes of top-heavy testing.
- II. All plans of an employer in which a highly compensated employee participates are required to be aggregated for purposes of top-heavy testing.
- III. Plans with different plan years can be aggregated for top-heavy testing purposes.

Question 33

Which, if any, of the above statements is (are) true?

- (A) None
- (B) I and II only
- (C) I and III only
- (D) II and III only
- (E) The correct answer is not given by (A), (B), (C), or (D) above