

UNDERSTANDING THE CORRECT DEFINITION OF COMPENSATION

Items for Consideration



UNDERSTANDING COMPENSATION DEFINITIONS USED BY THE PLAN

A different definition of compensation may be used for determining benefits, nondiscrimination testing, and maximum benefits/contributions determinations. It is important to understand which definitions of compensation are used by your plan so that you can set up your payroll system properly.

- Do you know what the plan's definition of compensation is for determining contributions or benefits?
- Do you know which definition(s) of compensation your service provider team needs to perform any required nondiscrimination testing or limits testing?
- Has anyone from your service provider team explained the differences in the various definitions of compensation?

PAYROLL SETUP

You will need to ensure that the correct definition of compensation is used for determining contributions and benefits. Most payroll systems have a default compensation option for benefits such as "gross pay". Many payroll systems let you determine exactly which pay-codes will count for specific benefit purposes. In some cases, you can control which pay-codes get used but there are cases where the changes must be made by the payroll company. Most often, the payroll system is set up when you first start using it and never reviewed again.

- Do you know which of the pay-codes you currently use are part of "plan compensation"?
- Does your payroll system give you access to information on which of the pay-codes are actually being considered for "plan compensation" or do you have to request this information from your payroll provider?
- Do you ever add pay-codes and if so, who determines whether they count as "plan compensation"?
- Do you have a process to periodically review the payroll system setup to ensure the right definition of compensation is used?

REPORTING COMPENSATION TO YOUR SERVICE PROVIDER TEAM

Each year, one member of your service provider team should be reviewing contributions and performing any required nondiscrimination and limits testing. You will have to either provide this information to your service provider team or allow them to obtain this information directly from your payroll system.

- Do you know which service provider needs compensation information and exactly what information they require?
- If you must provide the service provider with the information, is there an internal process to ensure the correct information is reported?
- If your service provider obtains the compensation information from the payroll system directly, who is liable if they download incorrect information?
- What does your service provider's agreement indicate with regard to their responsibility for obtaining the correct compensation data or reviewing the compensation data for reasonableness and accuracy?

Please see the final page of this document for important information about suggested use.

IMPORTANT INFORMATION ABOUT USING THIS DOCUMENT

The answers to the questions in this questionnaire could, and very well might be, used against you in a DOL audit or a lawsuit. **We do NOT recommend that you complete and retain this questionnaire without first reviewing the answers with ERISA legal counsel.** The intention is to provide you with questions to discuss internally rather than to create a paper trail that can be used against you.

Depending on your particular situation, there may be other items you should consider. Larger entities will have plan document issues with regard to mergers and acquisitions which are not covered by this questionnaire. There may be administrative policies that exist outside of the plan documents that help govern how the plan works that are not addressed here. This questionnaire is not intended to be exhaustive.