



Thank you for choosing Randall & Hurley, Inc.

As the largest employee benefits firm in the Inland Northwest, Randall & Hurley, Inc. has consistently been associated with quality administration and consulting. It is our goal to continuously improve our services and provide new and innovative products to make the operation of a qualified retirement plan easier for you.

This Administration Guide provides step-by-step instructions for some of the most common situations you will encounter as a Plan Administrator. Because of the complex Internal Revenue Service and Department of Labor rules governing qualified plans, it is important that all employees who will be assisting in the operation of your plan be aware of the content included within this booklet.

If you have any questions, please do not hesitate to contact us.

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Please note: This document is not to be construed as offering legal or actuarial advice. It is intended to help you maintain proper records and perform other duties that will enable your plan consultant or other professional to complete and file the various forms referred to in this manual on a timely basis. Comprehensive and accurate records will also enable your plan consultant or professional adviser to assist you effectively in the event of an IRS audit or upon the filing of claims for benefits by participants and beneficiaries. If you need specific advice regarding a plan-related issue, please contact your plan consultant at Randall & Hurley, Inc.

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Plan Installation and Maintenance

If you are implementing your plan, please make sure the following procedures are completed. For plans that have already been implemented, these items should have already taken place.

NOTICE TO INTERESTED PARTIES

Some plan documents and associated government forms are required to be filed with the IRS for approval. In this case, the employer is required to inform certain persons, known as “interested parties,” that it intends to file an application for determination of a “qualified” plan with the IRS. The “Notice to Interested Parties” must be posted in at least one highly visible place at the employer’s place of business. The Notice must be posted no less than 7 days nor more than 21 days prior to the date the application for determination is filed with the IRS. The Notice allows “interested parties” to submit written comments to the IRS or Department of Labor regarding the qualification of the plan. Please contact our offices if you did not receive this Notice.

“Interested Parties” generally means all of the employer’s employees. When a current plan is being amended or restated, this Notice is also required, and “interested parties” includes the employer’s employees, participants of the plan, and any other individuals receiving benefits under the plan.

APPLYING FOR A TIN (TAX IDENTIFICATION NUMBER)

The Trust is required to have a Tax Identification Number. The plan is required to furnish this number when establishing accounts with banks and other similar situations. This number will also be reported on certain tax forms, such as the Form 1099-R and Form 945.

Although some employers elect to use the Employer Identification Number, we strongly suggest the plan apply for a separate identification number in order to easily separate and identify plan funds from employer income. A TIN may be obtained by filing IRS Form SS-4, the Application for Administrator’s Tax Identification Number. We will gladly apply for a TIN for your plan(s) at no charge to you.

OBTAINING ERISA BOND COVERAGE

Section 412 of ERISA requires all qualified plans to obtain a “fidelity bond” for all plan fiduciaries. A fiduciary is any person or entity who handles the plan’s assets, including the administrator, the trustee, and the employer.

The minimum bond amount required is \$1,000 or 10% of the assets of the plan, whichever is greater. It may be easier to apply for coverage slightly above the minimum required so that you do not need to change your bond coverage each year. The bond can be obtained as an endorsement to your existing general liability coverage. Keep a copy of this policy with your plan records.

A fidelity bond is not required under the following circumstances: (1) if the fiduciary is a bank or insurance company, (2) if the plan benefits self-employed individuals with no common-law employees, or (3) if the plan is sponsored by an employer (whether incorporated or not) which is wholly owned by an individual (or the individual and his/her spouse) *and* where such individual (and spouse) are the only employees.

REQUIRED CPA AUDIT

ERISA requires that all plans with 100 or more eligible employees obtain a CPA audit and opinion letter, which must be attached to your annual government filings. Note, you may be required to obtain an audit even if you don’t have 100 participants in the plan since the audit requirements are based on *eligible employees*.

Please contact us if you anticipate that you will need to comply with this requirement so that we can coordinate this process with our preparation of the plan’s IRS filings.

Employee Enrollment

Once the installation process is complete, employees must enroll in the plan. The following items must be completed to properly enroll an employee. The following procedures also apply to new employees hired after the inception date of the plan.

DETERMINING ELIGIBILITY

When a participant meets certain eligibility criteria, he or she is able to participate in the plan. The plan's eligibility standards are specified in the plan document and in the Summary Plan Description (SPD). It is important to obtain a complete list of current employees, including their birth dates and the dates they began employment with the employer. This list should be continually updated to monitor eligibility and status changes.

ENROLLING AN EMPLOYEE

Once an employee becomes eligible to participate, you must inform the employee that he or she is now eligible to participate in the plan. The employee should then complete a designation of beneficiary form, and he or she should also complete any additional forms required for participation, such as the Salary Reduction Agreement. The participant must also receive a copy of the Summary Plan Description (SPD) within 90 days from the date he or she becomes a participant.

DESIGNATION OF BENEFICIARY FORM

A vital component of the enrollment process is the Designation of Beneficiary Form. Each participant should complete this form. An unmarried participant should name a beneficiary of his death benefit as well as a contingent beneficiary. If a married participant designates anyone other than his or her spouse as beneficiary, the spouse must consent to the designation, and the consent must be witnessed by a notary public. (We can notarize this consent at our offices for no charge.)

This section is continued on the next page.

If a participant dies or becomes incapacitated and a beneficiary is not named, the participant's creditors may have access to the participant's vested benefits in the plan. If you wish, we can provide the most recently named beneficiary on the participant's statement.

The original Designation of Beneficiary Form should be kept in the employee's personnel file. You may choose to send copies of the completed forms to our offices.

SALARY REDUCTION AGREEMENT

If employee contributions are permitted, each participant must complete a Salary Reduction Agreement, authorizing the employer to reduce his or her compensation by the amount elected and deposit this amount into the plan trust on his or her behalf. The participant may change his or her election in accordance with the procedures outlined in the plan document.

The original Salary Reduction Agreement should be kept in the employee's personnel file. Please send copies of the completed forms to our offices.

SUMMARY PLAN DESCRIPTION

You are required to distribute a Summary Plan Description (SPD) to each employee once he or she is eligible to participate in the plan. The SPD document is written in "plain English" and describes the benefits offered under the plan, the rights of the participant, and other important provisions, such as the plan's vesting schedule.

For a plan amendment and restatement, a new SPD including the modifications made to the plan, must be given to participants no later than 210 days after the close of the plan year in which the change was adopted. If the plan is not amended, the administrator is required to supply each participant with an updated SPD every 10 years, measured from the date the SPD was first distributed. If the plan is amended in a non-substantial manner, this period is reduced to 5 years.

The Taxpayer Relief Act of 1997 eliminated the requirement to file the SPD with the DOL. However, the SPD should be filed with the DOL upon request. A civil penalty could be imposed on the plan administrator for failure to comply with such requests (usually 30 days).

Record Keeping

Keeping accurate records is one of the most important tasks of maintaining a qualified retirement plan. The list of tasks to be performed as plan administrator is lengthy and must be completed in compliance with applicable law. Substantial penalties may be incurred if certain filing deadlines and other requirements are not met. We will help ensure compliance, but it is essential that you keep complete and accurate records of all plan activity on an ongoing basis. This will simplify the reporting and disclosure procedures and will enable your plan consultant to file the necessary forms on a timely basis.

CENSUS INFORMATION

Near the end of the plan's year end, we will contact you with a census request, including a list of employees from the preceding plan year. You must update this information and return it to our offices so that we may complete your reporting and filing requirements on a timely basis.

The details about the transmission and specific requirements of this request are detailed in the census request packet, but generally include the following information:

- Participant Data (date of birth, date of hire, date of participation, date of termination, and marital status)
- Employee Compensation and Deferral Amounts for the Plan Year
- Hours Worked During the Plan Year, by Employee
- Any Employee Name Changes or Changes in Shareholder Status

INVESTMENT ACTIVITY

You must keep copies of the plan's investment activities throughout the year. To decrease delays, we recommend that duplicate copies of the plan's trust account statements be sent to our offices. (Your broker can help you do this.) We will need photocopies of any activity which you do not place with your broker.

This section is continued on the next page.

Please note, the accounting requirements for a qualified plan are different from normally accepted accounting procedures. Therefore, careful records must be kept concurrently with the various transactions made. For example, rolling over a certificate of deposit or treasury note is a separate transaction even though no monies changed hands. Also, unrealized gains or losses in the value of an asset must be reported. Attempting to reconstruct transactions from bank and brokerage statements is time-consuming and costly and may result in delinquent filings. It is in your best interest to keep complete and accurate records.

DIRECTED INVESTMENTS

If your plan allows a participant to direct the investment of his account balance, commonly referred to as “for the benefit of”/ “fbo” accounts, you are not under a duty to question the soundness of any direction by the participant, nor are you responsible for any loss caused by your compliance with the participant's directions. The participant's directions should be in writing.

PROHIBITED TRANSACTIONS

The Department of Labor has responsibility for regulating the investment of plan assets. Under current regulations, the following activities are prohibited:

- The sale, exchange, or leasing of any property between the plan and a pii*
- Loans between the plan and a pii* (except as provided in the plan document)
- Furnishing of goods, services, or facilities between the plan and a pii*
- Transfer of plan assets to, or use of plan assets by, a pii*
- Acquisition of employer securities or employer real property in excess of allowable limits

*A pii (party in interest) is defined as: (1) a provider of services to the plan (plan sponsor included), (2) any employee or employee organizations member who is covered by the plan, (3) an owner, direct or indirect, of 50% or more of the employer, (4) a member of the family of any person previously listed, or (5) a corporation, partnership, estate, or trust that is 50% (or more) owned by a person listed previously, their officers, directors, 10% (or more) shareholders, partners, or joint venture associates.

MEETING & DECISION RECORDS

Every meeting to discuss the retirement plan should have written documentation, and the documents should be kept with permanent plan records. Examples of meetings that should be recorded include investment meetings to determine investment policy (see below) and choose investments, meetings to discuss plan provisions and changes, and meetings to determine the amount of employer contributions.

You should maintain a written investment policy and maintain minutes which conform to your method of managing trust assets. The policy should address liquidity, portfolio mix, diversification, and other disciplines which are appropriate for your strategy. Be sure to comply with your investment policy. A written policy can be evidence against you if you fail to comply with the provisions of it.

If you need assistance in drafting your investment policy, please contact our offices.

General Procedures

The following activities occur commonly during the administration of a qualified retirement plan. If you have any questions about these procedures, please feel free to contact our offices.

DEPOSITING EMPLOYEE CONTRIBUTIONS (DEFERRALS)

If your plan permits employee contributions, e.g., 401(k) plan, the amount should be equal to that elected on the Salary Reduction Agreement (see the Employee Enrollment section). The IRS imposes a calendar year dollar ceiling on these contributions, and we will notify you of these limits when they are published. You will also receive an update toward the end of the year that you may post in your offices. You should monitor your compliance with the dollar limit to avoid time-consuming and costly refund corrections.

Salary deferral contributions must be deposited to the trust as soon as “administratively feasible.” The Department of Labor has clarified this phrase so that contributions should be deposited with every payroll and whenever payroll taxes are deposited. Any late deposits must be reported on the Form 5500 and the excise tax on late deposits must be filed with Form 5330.

MAKING EMPLOYER CONTRIBUTIONS

All employer contributions to the plan (including matching and profit sharing) must be deposited to the trust before the employer’s tax filing deadline. If you file for a business tax extension, this also extends the due date for your employer contributions. Contributions must be made in cash (by check, etc.). We will provide a corporate resolution with your census packet which you may use to document the contribution to the plan. Some CPAs require this documentation for profit sharing or matching contributions.

The company tax deduction for these contributions, when combined with all other contributions, is limited to 25% of the total eligible participant’s compensation for the company. The individual employee’s maximum benefit is limited to 100% of pre-deferral compensation per employee. Note, the IRS currently includes sole proprietors and partners matching contributions (when added to salary deferral contributions) to the annual dollar limitation on salary deferrals.

ACCEPTING ROLLOVERS

If your plan permits rollover contributions, employees will be able to deposit a distribution from a prior employer into the plan in their behalf. Please ask for a copy of the IRS Form 1099-R for the distribution, and a copy of the approval letter for the prior plan, as well as a letter from the prior plan administrator confirming the taxable amount of the distribution. The participant must deposit the rollover contribution into the plan within sixty (60) days of receiving the distribution from the prior plan. Please let us know prior to accepting a rollover contribution. The rollover amount cannot include IRA or other after-tax contributions.

DISCRIMINATION TESTING

Randall & Hurley, Inc. will perform all discrimination tests appropriate for your plan and provide you with the detailed results of these tests in your annual report. The purpose of these tests is to ensure that “key” or “highly compensated” employees do not receive better benefits, options, contributions, or choices than the other employees. The IRS definition of “key” and “highly compensated” is based on compensation and adjusted each year. The current IRS definition is also included in your report.

If your plan fails the average deferral percentage (ADP) test, all excess deferrals must be returned to the affected participant(s) within the 2 1/2 month period following the end of the plan year. Failure to return excess deferrals to the participant(s) within this time frame will result in excise taxes against the employer in an amount equal to 10% of the total amount of the excess deferrals.

HARDSHIP WITHDRAWALS

If your plan permits hardship withdrawals, employees may receive a portion of their plan balances while they are currently employed by the employer. Your plan document may allow hardship withdrawals from deferral contributions only, or may allow participants to withdraw funds from deferrals, profit sharing accounts, and matching accounts. Minimum (and maximum) limitations may also be specified in the document.

This section is continued on the next page.

Further, a participant electing to receive a hardship withdrawal will be suspended from making contributions to the plan for a period of six months. (Upon completion of this suspension, the participant is eligible to begin contributions immediately.) He or she will also be subject to a 10% early withdrawal penalty by the IRS unless the participant attains age 59 1/2 first.

Hardship withdrawals, if permitted, must be authorized by the plan administrator, must be accompanied by written documentation of the hardship, and the employee (and spouse) must complete the application form.

Currently, the IRS defines a hardship event as one of the following:

- Payment of certain medical expenses (already incurred)
- To prevent eviction or foreclosure from a participant's current residence
- Payment of tuition for a post-secondary education expense for the participant or his or her dependents for the next semester or quarter
- Purchase of principal residence

PARTICIPANT LOANS

If your plan permits participant loans, participants may borrow against their account balances and make payments through payroll deductions. The employer may impose certain limitations, including a maximum and minimum dollar limit, and a maximum number of loans per participant. The employer may also choose to pass on the loan fee to the participant. A written loan policy documenting these choices is required.

The participant must also complete a promissory note. Randall & Hurley, Inc. will distribute all required forms when loan paperwork is requested. Further, if 25 or more participant loans exist within a plan, you must comply with the "Truth in Lending Disclosure Act" of the Federal Reserve Board Regulation Z, Section 226.2(a).

The IRS and DOL have numerous regulations affecting participant loans, and violation of these rules can result in severe penalties.

EMPLOYEE TERMINATION OR RETIREMENT

When a participant with a vested interest in the plan terminates his employment or retires, you should notify our offices. We will send the participant the necessary paperwork to begin the distribution process, including forms required by the IRS and DOL, such as the Special Tax Notice Regarding Plan Payments.

Generally, a participant may choose to rollover the distribution to an IRA or another qualified plan, “cash out” his or her plan balance, or a combination of both. Some plans also allow for installment payments. A participant who chooses to cash out his or her balance may incur serious tax consequences and should consult the Notices included with the distribution packet. Distributions to the participant in excess of \$200 must have federal income tax withheld at a rate of 20%. The participant, unless age 59 1/2, may also be subject to the IRS 10% early withdrawal penalty.

If a participant’s account balance is less than \$5,000, the plan administrator may choose to distribute the proceeds to the participant or a rollover IRA (upon thirty (30) days notice) if the participant makes no election. If the participant’s balance is greater than \$5,000 and the participant chooses to postpone the distribution until further notice, the plan administrator may charge a reasonable annual fee to maintain the account.

If income tax is withheld from the distribution, the plan administrator must deposit this amount using a Federal Tax Deposit Coupon (Form 8109), indicating that the amount deposited represents 945 tax. The identification number on the coupon should be the same identification number used to register the assets of the trust. In other words, the plan’s TIN (see the *Plan Installation and Maintenance* section.) You should contact your local IRS office to obtain the appropriate coupons for these deposits. The due date of these deposits is the same as those that apply to the timing of employee deferrals, i.e., as soon as “administratively feasible” as defined by the DOL. Please provide us with copies of each Form 8109 you submit to the IRS.

The total of all federal income tax withholding deposits for a calendar year are then reported to the IRS on Form 945 by January 31 of the following year. Randall & Hurley, Inc. will prepare Form 945 if we also prepare your 1099-R Forms.

DISABILITY OR DEATH OF AN EMPLOYEE

Upon the disability of a participant, he or she may become fully vested and may (if the document states) share in the employer contribution for the year in which the participant is disabled. Disability occurs when an individual is unable to perform his or her normal work function and an alternative work function is not available. You should obtain a physician's letter certifying the effect of the disability on the participant's ability to perform his or her job. You may contest a disability.

Likewise, a participant may become fully vested (and may share in the employer contribution for the year) upon his or her death. You should obtain a certified copy of the death certificate and provide us with a copy.

In either case, we will prepare the necessary distribution paperwork and forms once we are notified of this situation. If the participant is married, payment of the participant's account balance is paid to the spouse, unless indicated otherwise on the *Designation of Beneficiary Form*.

REHIRED EMPLOYEES

Former plan participants who are rehired have special options available to them. They are immediately *eligible* to contribute, and may reenroll in the plan for contribution purposes according to your enrollment procedures.

If they are rehired within five years after termination and then repay any prior distribution, the employer must restore the prior forfeiture amount, either from forfeiture carry forwards or from employer contributions. Please contact us to review these options if this situation occurs.

AGE 70 1/2 DISTRIBUTIONS

Once a participant reaches age 70 1/2, he or she may be required to begin to withdraw a portion of the benefits accumulated in all employee benefit plans. Participants have options available which will affect future taxation. The participant should review these tax consequences with his or her financial advisor before electing a distribution method.

QUALIFIED DOMESTIC RELATIONS ORDERS (QDROs)

As a rule, plan assets are not subject to the claims of creditors, except in the case of a Qualified Domestic Relations Order (QDRO). A QDRO is an order, issued by a state court, that gives a spouse, former spouse, child, or other legal dependent of the participant the right to any part of the participant's interest in the plan.

If a participant submits a QDRO to you for payment, you must first determine if the QDRO is valid. Randall & Hurley, Inc. will review the QDRO and make a determination at no charge. If the QDRO is found valid, you must pay benefits in compliance with it.

FORMS 1099-R AND FORM 1096

If a distribution has occurred during the plan year, a Form 1099-R must be provided to each participant who received a distribution (or elected a direct rollover) by January 31 of the following calendar year. Form 1096 is the transmittal form (similar to a cover letter) that should accompany the 1099-R Forms when they are filed with the IRS. The deadline for filing these forms with the IRS is February 28 of the year following the distributions. In most cases, Randall & Hurley, Inc. will prepare these forms at no additional charge to you.

SUMMARY ANNUAL REPORT

Each participant is required to receive a Summary Annual Report each year. This report explains the information contained in the Form 5500 and contains information about the assets of the plan. It also states that participants have the right to examine the Plan's Form 5500 and specific plan transactions. The SAR must be furnished to participants on or before the last day of the ninth month following the plan year end, or the due date of your Form 5500, whichever is later. Randall & Hurley, Inc. will provide you with this report when we prepare your Form 5500.

CLAIMS PROCEDURE

Assuming accurate records are maintained, it is unlikely that errors will be made in calculation and payment of benefits. Accurate and complete records are also the best defense against claims.

However, it is possible that you will be faced with a claim from a participant (or beneficiary) at some point. If the claim is denied, you must provide a detailed, written explanation of the reasons for the claim's denial. References to specific plan sections should be included in the explanation. The denial, by law, must be given to the participant no later than 90 days following the date the claim was actually filed.

The participant then has 60 days to file a written request for a review of the denial. This period may be extended in some instances to 120 days. The review process is covered in detail in the plan document and must be strictly adhered to. If the review is denied, a written explanation must be given to the participant within 60 days following the date the review was filed. Once the appeals process is exhausted, the participant may take his or her claim to federal court.