



Tips for Your ESOP Administration Cycle

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Agenda

- **Review the key requirements and timing for keeping your ESOP on track**
- **Think about documented processes and procedures for successful year end processing**
- **For illustration purposes, let's assume a December plan yearend**



Tip From the Trenches

We have learned from assisting plan sponsors as they strive to administer their ESOP is that careful coordination between these parties:

The Board;

Finance function/CFO;

Human Resources; and

TPA

Leads to the best results!



Plan Administration Cycle

- **Planning**
- **Data gathering**
- **Eligibility determination**
- **Allocations to participant accounts**
- **Determine account balances**
- **Run discrimination tests**
- **Plan summary and participant statements**
- **Form 5500, other regulatory filings**
- **Distribution/ diversification processing**



Planning Tips - Before Yearend

- **Perform due diligence on your team of ESOP service providers**
- **Hire an experienced ESOP auditor- large plans only**
- **Consider desired changes in plan design**
- **Confirm next restatement deadline**



Planning Tips – Before Yearend

- **Consider any potential Plan amendments**
- **Provide draft amendments or restatement to your Third Party Administrator (TPA) *before* they are signed**
- **Consider possible changes to your Distribution Policy**



Distribution Policy Considerations

- **Segregation (to add or remove takes a plan amendment)**
- **Stock distributions, S Corp stock considerations**
- **Installment threshold**
- **Diversification options**
 - **Active participants to 401(k) only?**
 - **Former participants in cash or to IRA?**
 - **Investments within the ESOP?**

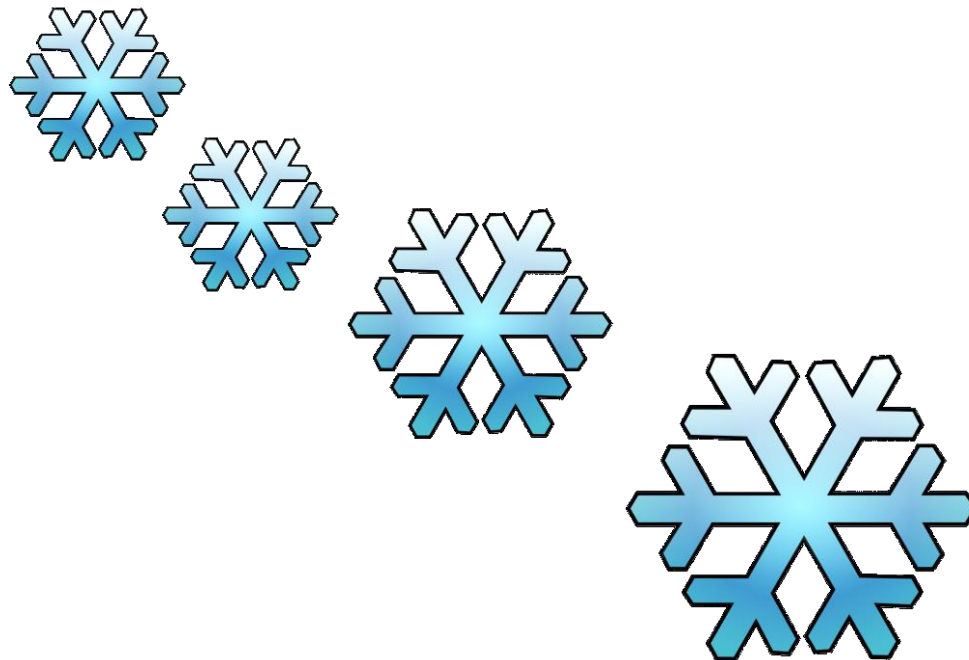


January Tips

- **Hold kick off meeting**
- **Establish a formal timeline**
- **Arrange for preliminary diversification forms**
- **Provide executed plan documents and amendments to TPA along with all new loan documents**

January - Gather Data

- **Gather census, trust and other information requested by TPA**





Census Preparation Tips

- **IRS recommendation: Get a 2nd check of the census file to ensure its completeness; tie out totals to W3 or payroll reports**
- **Report terminations due to death/disability/retirement**
- **Check your next month (January) payroll files for employees with no compensation – should they be reported as terminated in the prior year?**
- **Report those on military leave or who have returned from leave; they may be due make up benefits**



Census Preparation Tips

- **Check Plan rules for reporting hours**
- **Check dates of termination**
- **Identify rehires**
- **Identify any leased employees**
- **Identify those that the Plan defines as not eligible to participate**
- **Identify family members of shareholders or key employees**
- **Double check your Plan's definition of Compensation!**



Compensation

- **Plan define Compensation to be used for contribution allocations**
 - **Personal use of auto, other fringe benefits, expense or moving reimbursements, deferred compensation payments - in or out?**
- **Plan says whether to count full year salary or amount earned after plan entry date**
- **Compensation does not include severance payments to a former employee – only paid because of employment termination**



ESOP Trust Tips

- **Process transactions through the trust**
- **Identify all activity:**
 - **Have CFO confirm contributions, dividends, S corporation distributions (and any due to the ESOP at year end)**
 - **Identify all withdrawals, including any stock distributions/corporate redemptions**
 - **Disclose accrued contribution amount or indicate TO BE DETERMINED.**

NOTE: There are a number of rules regarding the allocation and use of dividends or S corporation dividends!



ESOP Minimum Allocation Rule

IRC Section 404(k)

Leveraged ESOPs

Provides that dividends (or S-corporation earnings distributions) paid on allocated stock (stock allocated to participant accounts as of the record date of the dividend) can be used to repay an ESOP loan, but only if each participant account receives an allocation of employer stock (which is released at the original transaction value i.e. cost basis), which has a current market value not less than the cash dividends that account would have otherwise received.



ESOP Minimum Allocation Rule

If your share price has decreased due to another employer stock transaction, economic or other factors, you may not meet the minimums and will need to make up the delta between the allocated dividend and the share value replacing it with either cash or a release of additional stock.

It also provides that you can only use the Dividend or S-distribution of earnings to pay a loan payment on the shares attached to the loan.

Dividends on shares already paid for by the ESOP (no longer leveraged), or bought with cash accumulations in the ESOP without leverage are not available to pay current ESOP loan payments.

ESOP Minimum Allocation Rule

Example of tracking sheet:

S-Corporation ESOP 25% ESOP Case Study						
	Esop	Loan	Loan	Non-Leveraged	Non-ESOP	Total
	Dividend Payments	Suspense Shares	Allocated Shares	Shares	Dr. Love	Shares
	Loan 11/9/2014	146,613.0000	0.0000	78,387.0000	675,000.0000	900,000.0000
	2014 Share Release	-736.4500	736.4500			0.0000
	Net ESOP Shares	145,876.5500	736.4500	78,387.0000	675,000.0000	900,000.0000
S-Distribution of Earnings						
1st Quarter	\$ 100,000.00	\$ 16,208.51	\$ 81.83	\$ 8,709.67	\$ 75,000.00	\$ 100,000.00
2nd Quarter	\$ 120,000.00	\$ 19,450.21	\$ 98.19	\$ 10,451.60	\$ 90,000.00	\$ 120,000.00
3rd Quarter	\$ 100,000.00	\$ 16,208.51	\$ 81.83	\$ 8,709.67	\$ 75,000.00	\$ 100,000.00
4th Quarter	\$ 800,000.00	\$ 129,668.04	\$ 654.62	\$ 69,677.33	\$ 600,000.00	\$ 800,000.00
	\$ 1,120,000.00	\$ 181,535.26	\$ 916.47	\$ 97,548.27	\$ 840,000.00	\$1,120,000.00
Total ESOP Loan P&I for 2015	\$ 1,016,485.68					
Sources of P&I Payments 2015	Total					
Contribution Needed	\$ 834,033.95					
Dividends Available						
On Unallocated Shares	\$ 181,535.26					
On Allocated Shares	\$ 916.47					
Total	\$ 1,016,485.68					
Cannot Utilize For Loan Payment						



ESOP Trust Tips

- **Provide trust information early to your TPA; don't wait for share value!**
- **Provide appraiser with correct shareholder data**
- **Stock Book=Financials=Appraisal
=Participant/ESOP Trust Records**



Other Data - Tips

- **Provide updated stock ownership and officer data to TPA**
- **If S corporation, have CFO confirm all data needed for Section 409(p) testing**



Some Examples of Synthetic Equity

- **Stock Options**
- **Warrants**
- **Stock Appreciation Rights**
- **Phantom Stock**
- **Restricted Stock**
- **Nonqualified deferred compensation**
- **Certain split dollar arrangements**
- **Incentive/ bonus plan tied to stock price**
- **Certain deferred issuance stock rights**



February - TPA at Work

- **Identify eligible participants**
- **Determine who shares in company contributions**
- **Trust reconciliation, Plan financials**
- **Calculate shares released from suspense**
- **Determine ESOP forfeitures**
- **Allocate contributions and forfeitures**
- **Allocate earnings/dividends**
- **Record distributions paid**

March Tips

- **Review census report**
- **Review share release calculations**
 - **Two share release methods – generally outlined in pledge or collateral agreement**
- **Review draft financial statements**
- **Gather pre-Diversification forms**





April Tips

- **Complete RMDs for participants who first met requirements during calendar year – due by April 1st**
- **Appraiser delivers draft Appraisal**
- **Trustee reviews draft Appraisal Report and documents that review**
- **Consider review of preliminary Summary of Accounts**



May Tips

- **Trustee forwards stock value to TPA**
- **TPA completes testing, final reports**
- **Tips:**
 - ▶ **Reconfirm ESOP plan audit dates**
 - ▶ **Provide TPA with comprehensive list of auditor needs**
 - ▶ **Review reports and action items**
 - ▶ **Review 409(p) testing and develop plan of action if results are of concern**



May Tips

- **Employee meetings, provide statements, answer questions**
- **Participant reminders:**
 - **Complete your beneficiary form**
 - **Read your Summary Plan Description**
 - **Contact your Communications committee with questions, ideas for promoting your ESOP**
- **Inventory your beneficiary forms!**
- **Send distribution and diversification forms**
 - **If TPA sending forms, provide updated death information and updated addresses**
 - **Do lost participant search**



June Tips

- **Process distributions and diversifications:**
 - **Handle any small balance force outs**
 - **Confirm all installment payments are made**
 - **Check Plan – do installments stop if rehired?**

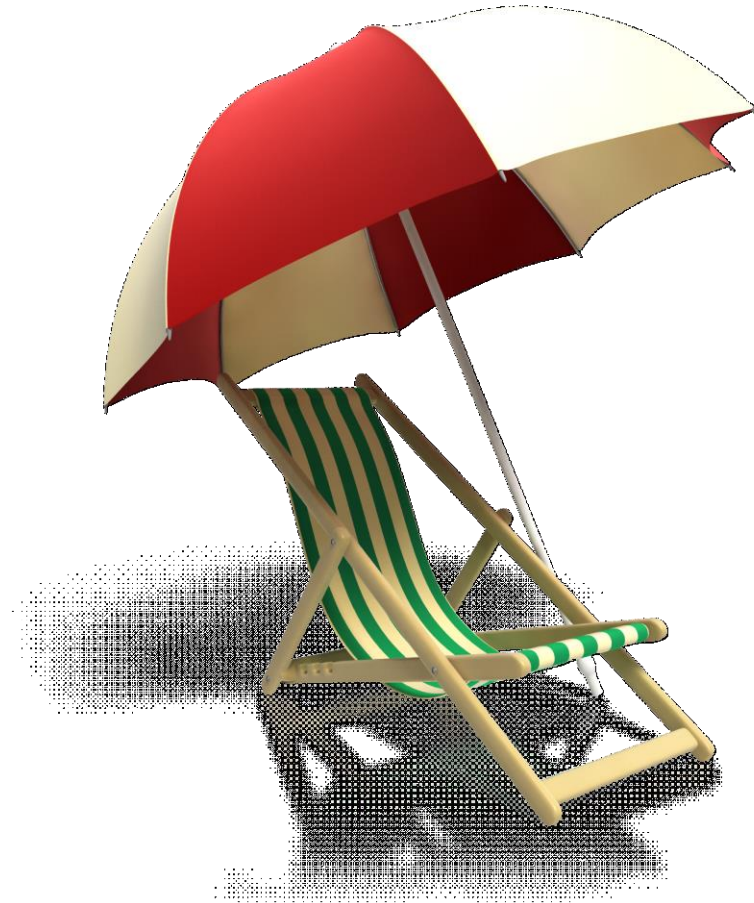
July Tips

- **File Form 5500, 8955-SSA or file extension**
- **Provide updated SPD/ SMM to participants within 210 days after the close of the plan year in which adopted**
- **Do all participants have the SPD?**
- **Remind auditors to GET DONE!**



August Tip

- **Take a vacation!**



September

- **Summary Annual Report (SAR) to participants by 9/30 if Form 5500 not extended (or within 2 months after extended Form 5500 due date of 10/15)**





October Tips

- **Consider new repurchase obligation study**
- **File extended Form 5500 by 10/15**
- **Consider preliminary 409(p) compliance testing if S corporation, especially if considering stock changes, coordinate with CFO new synthetic equity (stock options, stock appreciation rights, phantom stock, etc.)**



November Tips

- **Vote!**
- **Cleanup, organize files**
- **Attack the To Do list**
- **Address any plan auditor-reported deficiencies, action items**
- **Revisit timeline, communications strategies**
- **Hold wrap up calls if not already done**
- **Analyze what worked and what didn't and make revisions to procedures**



Thank You!

