

## **ESOP-A: ESOP Administration**

### **Course Overview**

The administration of employee stock ownership plans (ESOPs) requires knowledge of unique allocation and compliance testing requirements. The ESOP Administration certificate is designed to provide education regarding the administration of ESOPs for the beginning and intermediate ESOP administrator.

The knowledge gained from the ESOP Administration certificate is extremely valuable to firms that administer ESOP plans. Whether the intent is to educate an existing ESOP administrator further or to train a new ESOP administrator, the ESOP certificate holder is a key component in successful ESOP administration.

The ESOP Administration certificate will provide administrators with an understanding of the administration of an ESOP, including the basics of determining contributions, the applicable deadlines, calculations for termination and retirement benefits, and other critically important aspects of these types of plans. Further coverage of ESOP topics is found in the CPC ESOP module.

The ESOP Administration certificate is valuable to professionals interested in expanding their knowledge of ESOPs; providing full ESOP administration services to their clients; improving their consulting abilities with ESOP clients; and becoming a more valuable asset to their employer.

ERISA law along with IRS, DOL and PBGC regulations provide a framework for the rules that govern qualified plan operations, including ESOPs. The nature of the ESOP is different in many respects from 401(k) or profit sharing plan administration and this certificate program explains those differences. This certificate program covers the following topics, among others, as they relate specifically to ESOPs: determine share releases, participant allocations, deduction limits, contribution limits, dividend allocations, tax deferred sales of stock under IRC §1042, distributions (including diversification distributions), the differences between C corporation and S corporation ESOPs, including IRC §409(p) (S corporation anti-abuse rules), forfeitures, stock distributions, recycling and reshuffling shares in an ESOP, income tax withholding, annual reporting and voting rights.

This course develops concepts for an administrator to better understand ESOPs and the intricacies of plan administration for ESOPs.

This course is specifically designed for administrators and candidates transitioning into intermediate ESOP areas. This program does not delve deeply into ESOP consulting. ESOP consulting is covered in the CPC ESOP module.

This course also considers the importance of the ESOP practitioner's compliance with ASPPA's Code of Professional Conduct, which aims to further the ethical behavior of ASPPA members.

The candidate will be awarded the ESOP certificate upon successful completion of this open book exam. The exam is provided exclusively through on-line resources.

It is presumed that a candidate sitting for the ESOP-A examination should have knowledge of material covered in ASPPA's Qualified Plan Administrator (QPA) and the Retirement Plan Fundamentals (RPF) course.

### **Suggested Reading**

Kevin G. Long, Esq. and Debi Raphael, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

Bloom, Lauren. *Elegant Ethical Solutions*. Elegant Solutions Consulting: Goodlettsville, TN.

### **Additional Resources**

Tripodi, Sal L. *The ERISA Outline Book*. Arlington, VA: ASPPA. Use the most recent edition available, but please note that this examination only covers changes in law and regulations established prior to August 1, 2014. The examination does cover changes implemented in the Pension Protection Act (PPA).

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### **Exam**

The corresponding online open-book exam will include 75 questions of which 65 are multiple choice and 10 are True/False. Upon completion of the exam, a candidate will receive an immediate score and feedback report. **A score of 64 or more out of 75 is a passing score.** There are two attempts of the examination. If a candidate fails one attempt of the ESOP-A exam, he/she may register, pay and take the second version within the same year. **Please note that the enrollment period for each attempt is six months. Exams must be submitted six months from first enrollment date.** Upon successful completion of the exam, the ESOP-A certificate will be immediately issued online to the candidate.

## **Additional Information**

All candidates are encouraged to visit ASPPA's Candidate Corner ([www.asppa-net.org/candidate-corner](http://www.asppa-net.org/candidate-corner)) for additional information. It is the candidate's responsibility to check the ASPPA Web site for the most current information on examinations and publications. The Candidate Corner includes study tips, current information on regulatory limits, and other helpful information. You may also contact ASPPA with questions at [rpa@usaretirement.org](mailto:rpa@usaretirement.org).

## **Topic 1 – ESOP Overview**

### **Overview**

The first chapter is an overview of the ESOPs for Plan Administrators course. The second chapter provides an overview of common ESOP terms and different types of ESOPs along with reasons and methods an ESOP may be utilized in succession planning and in conjunction with corporate finance objectives.

### **Learning Objectives**

The successful candidate will be able to:

- 1.01 Summarize the objectives that may be accomplished by establishing an ESOP.

### **Exam Weighting**

This topic will comprise approximately 1 to 5 percent of the exam questions.

### **Suggested Reading**

Chapter 1 and Chapter 2: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## **Topic 2 – Types of ESOPs**

### **Overview**

While ESOPs are often referred to as stock bonus, non-leveraged, or leveraged plans, there is only one type of ESOP. These and other characteristics are discussed in this topic.

### **Learning Objectives**

The successful candidate will be able to:

- 2.01 Explain the primary types of ESOPs.
- 2.02 Explain the primary characteristics of leveraged and non-leveraged ESOPs.

### **Exam Weighting**

This topic will comprise approximately 1 to 5 percent of the exam questions.

Chapter 3: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 3 – ESOP Requirements

### Overview

As the introduction to ESOPs continues, the following ESOP requirements are covered in this topic: statutory definition of ESOPs, company stock investment requirements, voting rights pass-through, stock distributions, put options, distribution timing, diversification, and ESOP exempt loans.

### Learning Objectives

The successful candidate will be able to:

- 3.01 Explain the primary requirements of an ESOP.

### Exam Weighting

This topic will comprise approximately 1 to 4 percent of the exam questions.

### Suggested Reading

Chapter 4: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 4 – C Corporation vs. S Corporation ESOPs

### Overview

Prior to 1997 ESOPs were only available to C corporations. This chapter explores the many differences between ESOPs sponsored by C corporations versus S corporations.

### Learning Objectives

The successful candidate will be able to:

- 4.01 Describe how the entity types (e.g., C corporation or S corporation) impact an ESOP and its operation.

### Exam Weighting

This topic will comprise approximately 1 to 5 percent of the exam questions.

### Suggested Reading

Chapter 5: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 5 – ABC, Inc. Case Study

### Overview

This topic includes the considerations for determining if an ESOP is a good retirement plan choice for a company and why an ESOP was a good choice for the case study company used in this text.

### Learning Objectives

The successful candidate will be able to:

- 5.01 Identify when an ESOP is a good retirement plan consideration for a company.

### Exam Weighting

This topic will comprise approximately 1 to 4 percent of the exam questions.

### Suggested Reading

Chapter 6: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 6 – Leveraging an ESOP

### Overview

This topic covers funding an ESOP through an exempt loan and the methods of share releases (principal and interest and principal only) for leveraged ESOPs. The special ESOP rules for contribution limits under IRC §404 and IRC §415 are also covered. The intricacies of tax-deferred sales of stock under IRC §1042, including qualified replacement property, prohibited allocations and non-allocation period are also discussed.

### Learning Objectives

The successful candidate will be able to:

- 6.01 Determine the number of ESOP shares to be released from the suspense account.
- 6.02 Explain and calculate ESOP allocations and how they are impacted by the deduction limit.
- 6.03 Explain and calculate ESOP allocations and how they are impacted by the annual addition limit under IRC §415.
- 6.04 Describe how an owner may take advantage of the IRC §1042 election.
- 6.05 Describe the tax advantages a shareholder of a closely held corporation may receive by establishing an ESOP.
- 6.06 Determine who is restricted under IRC §1042.
- 6.07 Determine how long persons are restricted from receiving IRC §1042 shares.
- 6.08 Explain why tracking shares in different accounts is important.
- 6.09 Explain the consequences of failing to follow IRC §409(n).

## **Exam Weighting**

This topic will comprise approximately 12 to 17 percent of the exam questions.

## **Suggested Reading**

Chapter 7: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 7 – ESOP Allocations and Contributions

### **Overview**

The Internal Revenue Code (IRC), regulations, and related rulings limit the contribution and allocation formulas that can be provided in an ESOP.

### **Learning Objectives**

The successful candidate will be able to:

- 7.01 Explain how ESOP allocations may be completed.
- 7.02 Explain how contributions to an ESOP may be used to satisfy a matching contribution for a 401(k) salary deferral feature.
- 7.03 Calculate the allocation of a safe harbor matching contribution in an ESOP based on the fair market value of the employer stock.

## **Exam Weighting**

This topic will comprise approximately 3 to 7 percent of the exam questions.

## **Suggested Reading**

Chapter 8: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 8 – Dividends on ESOP Shares

### **Overview**

This topic focuses on the complexities that arise when a company sponsoring an ESOP provides dividends to its shareholders. These include dividend deduction, early distribution penalty tax exception, reasonable dividend deduction limit, allocation of dividends and S corporation ESOP dividends.

### **Learning Objectives**

The successful candidate will be able to:

- 8.01 Summarize the general rules of ESOP dividends.
- 8.02 Explain when and how ESOP dividends are deductible.
- 8.03 Calculate the number of shares allocated when dividends are used to pay the ESOP loan.
- 8.04 Explain how dividends are allocated on allocated and unallocated shares.

## **Exam Weighting**

This topic will comprise approximately 4 to 9 percent of the exam questions.

## **Suggested Reading**

Chapter 9: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 9 – S Corporation ESOPs

### **Overview**

This topic covers in depth the complexities and additional testing involved when an ESOP is sponsored by an S corporation. Including the features of an S corporation ESOP and the S corporation ESOP anti-abuse rule under IRC §409(p).

### **Learning Objectives**

The successful candidate will be able to:

- 9.01 Describe the fundamental differences between an S corporation and a C corporation ESOP.
- 9.02 Explain the mechanics of the IRC §409(p) test.
- 9.03 Perform the calculations and determine if an allocation passes or fails IRC §409(p).
- 9.04 Discuss the importance of determining the IRC §409(p) results for a company prior to the transaction converting to an S corporation.
- 9.05 Describe how allocations may be impacted in an ESOP sponsored by an S corporation.
- 9.06 Summarize the impact to an ESOP's annual data request when the company is an S corporation.

### **Exam Weighting**

This topic will comprise approximately 7 to 11 percent of the exam questions.

### **Suggested Reading**

Chapter 10: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 10 – Distributions

### **Overview**

Distributions can be a complex area of ESOP administration which requires the ESOP administrator to customize the approach to handling payments and forms of benefit. This topic includes ESOP distribution timing, method, taxation, put options, special rules for ESOP forfeitures and the differences that arise when the stock is privately held, or publicly traded.

### **Learning Objectives**

The successful candidate will be able to:

- 10.01 Describe how put options work in an ESOP.
- 10.02 Explain the impact of IRC §409(h) on ESOP distributions.

- 10.03 Calculate the NUA tax benefit on lump sum stock distributions.
- 10.04 Describe methods used to track cost basis of employer securities.
- 10.05 Explain how the forfeiture hierarchy works in an ESOP.
- 10.06 Explain how the distribution process works when an ESOP recycles shares.
- 10.07 Compare the mechanics and impact of a stock distribution with an immediate redemption in both a C corporation and an S corporation.
- 10.08 Explain the impact of IRC §409(o) on ESOP distributions.
- 10.09 Compare the differences in distribution election forms in an ESOP compared to a 401(k) plan.
- 10.10 Describe the process of reshuffling ESOP accounts.
- 10.11 Calculate the income tax withholding for distributions involving employer stock.

### **Exam Weighting**

This topic will comprise approximately 15 to 20 percent of the exam questions.

### **Suggested Reading**

Chapter 11: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 11 – Diversification Elections

### **Overview**

ESOPs are required to offer qualified participants an election during a qualified election period to diversify a portion of their account balances in investment options other than employer securities. This topic includes determining who is eligible, the timing requirements of diversification distributions, and sample diversification distribution calculations, along with coordination diversification distributions, installments, and the diversification requirements for publicly traded companies.

### **Learning Objectives**

The successful candidate will be able to:

- 11.01 Describe the methods that may be used to satisfy diversification.
- 11.02 Determine who is eligible to make a diversification election.
- 11.03 Explain how the years of participation may be determined for diversification purposes.
- 11.04 Discuss how the diversification elections are processed.
- 11.05 Calculate eligible stock diversification.
- 11.06 Explain the relation between diversification distributions and installment payments.
- 11.07 Define how diversification for a publicly traded company works under IRC §401(a)(35).
- 11.08 Describe administration issues of diversification distributions, including Form 1099-Rs.
- 11.09 Discuss how diversification distributions affect top-heavy testing.



### **Exam Weighting**

This topic will comprise approximately 12 to 17 percent of the exam questions.

### **Suggested Reading**

Chapter 12: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 12 – Annual Reporting

### **Overview**

Once a year the plan administrator or TPA prepares trust accounting reports for purposes of annual reporting on the IRS Form 5500.

### **Learning Objectives**

The successful candidate will be able to:

- 12.01 Describe ESOP trust accounting.
- 12.02 List the ESOP reporting characteristics on the Form 5500 filing.
- 12.03 Illustrate how to complete the ESOP specific portions of a Form 5500.
- 12.04 Explain when and why independent appraisals are required.

### **Exam Weighting**

This topic will comprise approximately 4 to 9 percent of the exam questions.

### **Suggested Reading**

Chapter 13: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 13 – Voting Rights

### **Overview**

Occasionally an ESOP administrator will have to deal with voting ESOP shares. This topic covers what issues are required to be put to a vote.

### **Learning Objectives**

The successful candidate will be able to:

- 13.01 Define issues in an ESOP that are required to be put to a vote.

### **Exam Weighting**

This topic will comprise approximately 1 to 4 percent of the exam questions.

### **Suggested Reading**

Chapter 14: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 1st Edition*. Arlington, VA: ASPPA, 2015.

## Topic 14 – Future Planning

### Overview

Often when completing the annual administration and reporting, the ESOP administrator will have the opportunity to help the plan sponsor plan for the future of the ESOP. Such planning includes rebalancing accounts and repurchase liabilities.

### Learning Objectives

The successful candidate will be able to:

- 14.01 Discuss how rebalancing works in an ESOP and how rebalancing may affect ESOP distributions.
- 14.02 Analyze the various methods that may be used to fund the ESOP's repurchase obligation.
- 14.03 Describe the impact and reasoning behind offering window period distributions.

### Exam Weighting

This topic will comprise approximately 2 to 6 percent of the exam questions.

### Suggested Reading

Chapter 15: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 15 – Winding Down ESOPs

### Overview

This topic covers some of the additional complexities that arise when freezing, terminating, or merging an ESOP.

### Learning Objectives

The successful candidate will be able to:

- 15.01 Discuss the method and impact of freezing an ESOP.
- 15.02 Discuss the method and impact of terminating an ESOP.
- 15.03 Describe the method and impact of a merger or acquisition of a company sponsoring an ESOP.

### Exam Weighting

This topic will comprise approximately 3 to 7 percent of the exam questions.

### Suggested Reading

Chapter 16: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.

## Topic 16 – Administration and Data Requirements

### **Overview**

Once a year the ESOP administrator must perform annual administration for the plan. The building blocks of this process include understanding the differences between the ESOP administration calendar and the 401(k) administration calendar, and the additional information that must be requested and maintained when administering the ESOP.

### **Learning Objectives**

The successful candidate will be able to:

- 16.01 Compare and contrast the differences between the ESOP administration calendar and a 401(k) administration calendar.
- 16.02 Identify the information that must be requested and maintained when administering the ESOP.

### **Exam Weighting**

This topic will comprise approximately 1 to 5 percent of the exam questions.

### **Suggested Reading**

Chapter 17: Kevin G. Long, Esq. and Debi Raphael, EA, CPC; Chang, Ruthenberg & Long PC, *ESOPs for Plan Administrators, 2nd Edition*. Arlington, VA: ASPPA, 2015.