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## 2003 Instructions for Schedule T (Form 5500)

### Qualified Pension Plan Coverage Information

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#### General Instructions

##### Purpose of Schedule

Schedule T (Form 5500) is used by certain qualified pension benefit plans to provide information concerning the plan's compliance with the minimum coverage requirements of Code section 410(b).

##### Substantiation Guidelines

Revenue Procedure 93-42, 1993-2 C.B. 540, provides guidelines designed to reduce the burdens of substantiating compliance with the coverage and nondiscrimination requirements that apply to qualified pension benefit plans. Generally, Rev. Proc. 93-42 sets forth guidelines for: **(1)** the quality of data used in substantiating compliance with the coverage and nondiscrimination rules, **(2)** the timing of coverage and nondiscrimination testing, **(3)** the testing cycle of a plan, and **(4)** the qualified separate lines of business (QSLOB) rules. The substantiation guidelines may be used in completing Schedule T, if applicable.

##### Who Must File

Schedule T (Form 5500) must generally be attached to the Form 5500 to report coverage information for a pension benefit plan (including profit-sharing and stock bonus plans) that is intended to be qualified under Code section 401(a) or 403(a). More than one Schedule T may be required. See the specific instructions for lines 1 and 2.

Schedule T may not be required every year. Check the Schedule T box on the Form 5500 (Part II, line 10a(2)), and enter the number attached in the space provided, **ONLY** if one or more Schedules T are attached to the Form 5500. If a Schedule T is not attached to the Form 5500 because the employer is using the three-year testing cycle rule in Revenue Procedure 93-42, and relying on the fact that the plan satisfied coverage in an earlier year, do not check the Schedule T box on Form 5500. Instead, enter in the space provided on Form 5500 line 10a(2) the year on which the employer is relying. See the instructions under **When to File** below. If the plan benefits the employees of more than one employer or if the employer operates QSLOBs, also see the instructions for lines 1 and 2.

##### When to File

Employers using the three-year testing cycle rule in Revenue Procedure 93-42 must file Schedule T for the first year in the plan's testing cycle. Schedule T need not be filed for the second or third year in the cycle if the employer is permitted to rely on the earlier year's testing. If the employer does not or cannot use the three-year testing rule, the Schedule T must be filed annually.

##### Specific Instructions

**Lines A, B, C, and D.** This information should be the same as reported in Part II of the Form 5500 to which this Schedule T is attached. You may abbreviate the plan name (if necessary) to fit in the space provided.

**Note.** For purposes of the Schedule T (Form 5500), all employers that are members of the same controlled group (that is, they are aggregated under Code section 414(b), (c), or (m)) are treated as a single employer. For purposes of the Schedule T (Form 5500), "employee" includes any self-employed individual, common-law employee, or leased employee (within the meaning of Code section 414(n)) of any member of the controlled group.

**Line 1.** If a plan benefits the employees of more than one employer and all the employers are members of the same controlled group, file only one Schedule T, treating all the employers as a single employer. However, if a plan benefits the employees of more than one employer and any of the employers are not members of the same controlled group, file as follows. File separate Schedules T for each controlled group and each other employer that have noncollectively bargained employees benefiting under the plan, as if the portions of the plan benefiting each controlled group's employees and each other employer's employees constituted separate plans. For this purpose, none of the employees benefiting under a plan are considered collectively bargained employees if more than 2% of the employees covered by the plan are professional employees. (See Treasury Regulation section 1.410(b)-6(d)(2) for the definition of collectively bargained employee and Treasury Regulation section 1.410(b)-9 for the definition of professional employee.) Schedule T need not be filed, however, for any controlled group or other employer that is permitted to rely on an earlier year's testing, as explained under **When to File** above. Instead, attach a list showing each controlled group and other employer that is relying on prior year testing, including name, employer identification number, and the testing year being relied on.

For purposes of Schedule T, each controlled group and each other employer that have employees benefiting under a plan that benefits the employees of more than one employer are referred to as "participating employers" in a plan "maintained by more than one employer." If applicable, enter on lines 1a and 1b the name and employer identification number of the participating employer to which the coverage information in lines 3 and 4 relates. Otherwise, leave lines 1a and 1b blank.

Alternatively, where two or more participating employers meet any of the exceptions in line 3, attach a list of such participating employers, including each participating employer's name and employer identification numbers and the line (3a, 3b, 3d, or 3e) that describes the exception that applies to that participating employer. This list may be combined with the list of participating employers that are relying on prior year testing, if applicable. Under this alternative, file separate Schedules T only for those participating employers that do not satisfy any of the exceptions in line 3 and are not relying on prior year testing.

**Line 2.** See Treasury Regulation section 1.414(r). Do not complete lines 2a through 2d unless the employer maintaining the plan operates QSLOBs.

**Line 2c.** See Treasury Regulation sections 1.414(r)-1(c) and 1.414(r)-8.

**Line 2d.** If the plan benefits the employees of more than one QSLOB, and the employer applies the minimum coverage requirements on a QSLOB basis, file a separate Schedule T for each QSLOB that has employees benefiting under the plan for which the Form 5500 is being filed, as if each portion of the plan that benefits the employees of a particular QSLOB constituted a separate plan. Identify on line 2d the particular QSLOB to which the coverage information in lines 3 and 4 relates. Otherwise, leave line 2d blank. (Schedule T need not be filed, however, for any QSLOB that is permitted to rely on a prior year's testing, as explained under **When To File** above. Instead, attach a list showing each QSLOB relying on prior year testing and the testing year being relied on.)

**Line 3.** Check box 3a, 3b, 3c, 3d, or 3e to indicate if you meet any of the exceptions they describe. If box 3a, 3b, 3c, 3d, or 3e is checked, skip line 4.

**Note.** Certain plans are required to be disaggregated, or may be permissively disaggregated, into two or more separate parts for purpose of applying the minimum coverage requirements of Code section 410(b). See the instructions for line 4c. If this plan is required to be disaggregated and each disaggregated part meets any of the exceptions described in line 3, check each box that applies and skip line 4. However, if any disaggregated part

of the plan meets none of the exceptions described in line 3, do not check any box and continue with line 4.

**Box 3a.** Check this box if, during the plan year, the employer employed only highly compensated employees (within the meaning of Code section 414(q)), excluding employees who were collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)).

**Box 3b.** Check this box if, during the plan year, the plan benefitted no highly compensated employees (within the meaning of Code section 414(q)), excluding employees who were collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)). See the instructions for line 4c(5) for the definition of "benefitting." This line should also be checked if no employee received an allocation or accrued a benefit under the plan for the plan year.

**Box 3c.** Check this box if, during the plan year, the plan benefitted only collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)). However, do not check this box if more than 2% of the employees covered by the plan were professional employees (within the meaning of Treasury Regulation section 1.410(b)-9).

**Box 3d.** Check this box if, during the plan year, the plan benefitted 100% of the nonexcludable nonhighly compensated employees of the employer. (Also check this box if, during the plan year, all of the nonhighly compensated employees of the employer were excludable.) The nonhighly compensated employees of the employer include all the self-employed individuals, common-law employees, and leased employees (within the meaning of Code section 414(n)) employed by the employer or any entity aggregated with the employer under Code section 414(b), (c) or (m) at any time during the plan year, excluding highly compensated employees (within the meaning of Code section 414(q)). Any such employee is a nonexcludable employee unless the employee is in one of the following categories:

1. Employees who have not attained the minimum age and service requirements of the plan.

**Note.** If a plan has multiple age and service conditions or if the employer is treating a plan benefitting otherwise excludable employees as two separate plans pursuant to Treasury Regulation section 1.410(b)-6(b)(3), refer to section 1.410(b)-6(b) and section 1.410(b)-7(c)(3) of the regulations regarding the determination of excludable employees.

2. Collectively bargained employees within the meaning of Treasury Regulation section 1.410(b)-6(d)(2).

3. Nonresident aliens who receive no U.S. source income.

4. Employees who fail to accrue a benefit solely because they: (a) fail to satisfy a minimum hour of service or a last day requirement under the plan; (b) do not have more than 500 hours of service for the plan year; and (c) are not employed on the last day of the plan year.

5. Employees of QSLOBs other than the one with respect to which this Schedule T is being filed.

**Box 3e.** Check this box if, for the plan year, the plan is treated as satisfying the minimum coverage requirements of Code section 410(b) under the "acquisition or disposition" rule in Code section 410(b)(6)(C).

**Line 4.** In general, a plan must satisfy the coverage requirements under one of three testing options. Under the daily testing option, the plan must satisfy the coverage requirements on each day of the plan year taking into account only employees who are employees on that day. A plan will satisfy the coverage requirements under the quarterly testing option if it satisfies them on at least one day in each quarter, taking into account only employees who are employees on that day, provided the quarterly testing dates reasonably represent the coverage of the plan over the entire plan year. Finally, a plan will satisfy the coverage requirements under the annual testing option if it satisfies them as of the last day of the plan year,

taking into account all employees who were employees on any day during the plan year.

Rev. Proc. 93-42 also allows an employer to substantiate that a plan satisfies the coverage requirements on the basis of the employer's workforce on a single day during a plan year, taking into account only employees who are employees on that day, if that day is reasonably representative of the employer's workforce and the plan's coverage throughout the year. This is referred to as "snapshot" testing.

If a plan satisfies the coverage and nondiscrimination requirements for a plan year, the employer may generally rely on this for the two succeeding plan years and will not have to test the plan in those years, provided there have not been significant changes.

If the employer is using single day, "snapshot" testing, the data given on lines 4a through 4f should be for the most recent snapshot day.

Enter on line 4 the beginning date of the plan year with respect to which the data on lines 4a through 4f was gathered.

**Line 4a.** The definition of leased employee is in Code section 414(n).

**Line 4b.** Employers can satisfy coverage by aggregating generally any qualified plans that are not mandatorily disaggregated. See the instructions for lines 4c and 4e regarding mandatory disaggregation. The aggregated plans must also satisfy the nondiscrimination requirements of Code section 401(a)(4) on an aggregated basis. If the employer aggregates this plan with any other plan(s) for the coverage and nondiscrimination requirements, enter the information requested and complete the rest of line 4 for the plans, as aggregated.

**Line 4c.** Certain single plans must be disaggregated or may be permissively disaggregated into two or more separate parts. Each of the disaggregated parts of the plan must then satisfy the coverage and nondiscrimination requirements as if it were a separate plan. Under the Treasury Regulations, the following plans must be disaggregated:

1. A plan that includes a Code section 401(k) arrangement (a qualified cash or deferred arrangement) and a portion that is not a section 401(k) arrangement.

2. A plan that includes a Code section 401(m) feature (employee and matching contributions) and a portion that is not a section 401(m) feature.

3. A plan that includes an ESOP and a portion that is not an ESOP.

4. A plan that benefits both collectively bargained employees and noncollectively bargained employees. None of the employees benefitting under a plan are considered collectively bargained employees if more than 2% of the employees covered by the plan are professional employees. (See Treasury Regulation section 1.410(b)-6(d)(2) for the definition of collectively bargained employee and Treasury Regulation section 1.410(b)-9 for the definition of professional employee.)

If the plan is disaggregated solely because it benefits both collectively bargained employees and noncollectively bargained employees, complete lines 4c and 4d for the part of the plan that benefits noncollectively bargained employees. Do not complete line 4e. No information is required with respect to the part of the plan that benefits collectively bargained employees. If the plan is disaggregated for other reasons, complete lines 4c and 4d for one disaggregated part of the plan that does not meet any of the exceptions described in line 3. Complete line 4e to report the ratio percentage(s) for the other disaggregated part(s) of the plan, regardless if identical to the entry on line 4d. For example, if the plan is a profit-sharing plan that provides nonelective contributions, Code sections 401(k) and 401(m) contributions, you may complete lines 4c and 4d for the nonelective part of the plan and enter on line 4e the ratio percentages for the sections 401(k) and 401(m) parts of the

plan. However, if the other disaggregated part(s) of the plan meets any of the exceptions described in line 3, enter the exception(s) on line 4e and leave the ratio-percentage spaces blank. For example, a plan provides for elective (section 401(k)), matching (section 401(m)) and discretionary nonelective contributions. The Code sections 401(k) and 401(m) parts of the plan do not meet any of the exceptions described in line 3 but satisfy the ratio-percentage test. There were no discretionary nonelective contributions allocated for the year. The nonelective contribution part of the plan thus satisfies exception 3b because it benefited no highly compensated employees. In this case, line 4 should be completed as follows. Complete lines 4c and 4d for the section 401(k) part of the plan and enter "401(k)" in the space provided below line 4d. Enter "401(m)" in the first line of line 4e and in the spaces to the right enter the ratio-percentage for the section 401(m) part of the plan. Enter "nonelective" in the second line of line 4e and in the right-most space enter "b."

An employer is also permitted to treat a plan benefitting otherwise excludable employees as two plans, one for the otherwise excludable employees and one for the other employees benefitting under the plan. See Treasury Regulation section 1.410(b)-7(c)(3) regarding permissive disaggregation of plans benefitting otherwise excludable employees.

**Line 4c(1).** Enter the total number of employees of the employer.

**Line 4c(2).** Enter the total number of excludable employees in the following categories:

1. Employees who have not attained the minimum age and service requirements of the plan.

**Note.** If a plan has multiple age and service conditions or if the employer is treating a plan benefitting otherwise excludable employees as two separate plans pursuant to Treasury Regulation section 1.410(b)-6(b)(3), refer to section 1.410(b)-6(b) and section 1.410(b)-7(c)(3) of the regulations regarding the determination of excludable employees.

2. Collectively bargained employees within the meaning of Treasury Regulation section 1.410(b)-6(d)(2).

3. Nonresident aliens who receive no U.S. source income.

4. Employees who fail to accrue a benefit solely because they: (a) fail to satisfy a minimum hour of service or a last day requirement under the plan; (b) do not have more than 500 hours of service for the plan year; and (c) are not employed on the last day of the plan year. See Treasury Regulation section 1.410(b)-6.

5. Employees of QSLOBs other than the one with respect to which this Schedule T is being filed.

**Line 4c(4).** The definition of highly compensated employee is contained in Code section 414(q) and its related regulations.

**Line 4c(5).** In general, an employee is "benefitting" if the employee receives an allocation of contributions or forfeitures, or accrues a benefit under the plan for the plan year. Certain other employees are treated as benefitting even if they fail to receive an allocation of contributions or forfeitures or to accrue a benefit solely because the employee is subject to plan provisions that limit plan benefits, such as a provision for maximum years of service, maximum retirement benefits, or limits designed to satisfy Code section 415. An employee is treated as benefitting under a plan (or portion of a plan) that provides for elective contributions under Code section 401(k) if the employee is eligible to make elective contributions to the Code section 401(k) arrangement even if he or she does not actually make elective contributions. Similarly, an employee is treated as benefitting under a plan (or portion of a plan) that provides for after-tax employee contributions or matching contributions under Code section 401(m) if the employee is eligible to make after-tax employee contributions or receive allocations of matching contributions even if none are actually made or received.

**Line 4d.** In general, to compute the ratio percentage, divide the number of nonexcludable employees who benefit under the plan and are not highly compensated by the total number of nonexcludable nonhighly compensated employees; put this result in the numerator (top of the fraction). Divide the number of nonexcludable employees who benefit under the plan and who are highly compensated by the total number of nonexcludable highly compensated employees; put this result in the denominator (bottom of the fraction). Divide the numerator by the denominator, multiply by 100, and enter the result in line 4d. Enter to the nearest 0.1%.

If the information on lines 4c and 4d pertains to one part of a disaggregated plan, identify, in the space provided, the disaggregated part of the plan to which the information on lines 4c and 4d pertains as follows: "nonelective," "401(k)," "401(m)," "ESOP," "non-ESOP," "excludable," "nonexcludable".

**Line 4e.** See the instructions for line 4c. Calculate the ratio percentage for the other disaggregated part(s) of the plan as described above and enter on line 4e. However, if the disaggregated part(s) of the plan meets any of the exceptions described in line 3, enter that exception on line 4e and leave the ratio-percentage spaces blank. If entering information on line 4e, identify the disaggregated part(s) of the plan as follows: "401(k)," "401(m)," "nonelective," "ESOP," "non-ESOP," "excludable," "nonexcludable".

If there are more than three other disaggregated parts of the plan, provide their ratio percentages, or the exception(s) they satisfy, on an attachment in the same format as line 4(e).

**Line 4f.** If the ratio percentage for the plan, or any disaggregated part of the plan, entered on line 4d or line 4e is less than 70%, the plan does not satisfy the ratio percentage test. An employer that is using single day "snapshot" testing may, in certain circumstances, need to adjust the 70% figure to compensate for the fact that the substantiation quality data or snapshot population does not reflect employee turnover and may overstate the plan's coverage. See section 3 of Rev. Proc. 93-42. If the plan, or any disaggregated part of the plan, does not satisfy the ratio percentage test, the plan will satisfy the minimum coverage requirements of the Code only if it satisfies the average benefit test.

A plan satisfies the average benefit test if it satisfies both the nondiscriminatory classification test and the average benefit percentage test. A plan satisfies the nondiscriminatory classification test if the plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of highly compensated employees. Under Treasury Regulation section 1.410(b)-4, a classification will be deemed nondiscriminatory if the ratio percentage for the plan is equal to or greater than the safe harbor percentage. The safe harbor percentage is 50%, reduced by  $\frac{3}{4}$  of a percentage point for each percentage point by which the nonhighly compensated employee concentration percentage exceeds 60%. The nonhighly compensated employee concentration percentage is the percentage of all the employees of the employer who are not highly compensated employees.

In general, a plan satisfies the average benefit percentage test if the actual benefit percentage for nonhighly compensated employees is at least 70% of the actual benefit percentage for highly compensated employees. See Treasury Regulation section 1.410(b)-5. All qualified plans of the employer, including ESOPs, Code section 401(k) plans, and plans with employee or matching contributions (Code section 401(m) plans) are aggregated in determining the actual benefit percentages. Do not aggregate plans that may not be aggregated for purposes of satisfying the ratio percentage test, other than ESOPs and Code sections 401(k) and 401(m) plans. In addition, all nonexcludable employees, including those with no benefit under any qualified plan of the employer, are included in determining the actual benefit percentages.