

# 6.4. ADP/ACP Test

10/29/2024 2:00 pm CDT

## Set ADP/ACP Testing Parameters

Clicking on ADP/ACP Test from the Tasks page will expand the ADP/ACP Parameters. Here you can enter details about how ADP/ACP Testing should be handled in the plan. This is also where prior year testing data can be entered if prior year testing is selected and it is the first year on the system. Note that if you want to use disaggregation of otherwise excludable employees, you select this option on the “Combined Test Parameters” screen as it will apply to all of the required tests.

The screenshot shows a web interface for configuring ADP/ACP testing parameters. The interface is organized into several sections, each with a collapse/expand arrow on the left. At the top right, there are buttons for 'Run' (with a green checkmark) and 'Reports' (with a printer icon).

- ADP/ACP Overrides:** Includes 'Override 402(g)/Catchup calculations:' with a help icon and radio buttons for 'Yes' and 'No'.
- 410(b)/401(a)(4)/ADP/ACP Testing Options (Modify R):** Includes 'Testing Divisions (Multiple Employer Plan)', 'Plan Aggregation', and 'Disaggregation using otherwise excludable employees', each with a help icon and a 'No' radio button.
- Testing Parameters:** This section is further divided into:
  - Testing Groups:** 'Two definitions of compensation used:' with a help icon and radio buttons for 'Yes' and 'No'.
  - Methods to Avoid Failure:** Includes 'Borrow contributions from ADR:', 'Create catchup:', and 'Recharacterize:', each with a help icon and radio buttons for 'Yes' and 'No'.
  - Failure Corrections:** Includes 'Roth correction order for ADP failures:' with a help icon and a 'Last' dropdown menu, and 'Refund income calculation:' with a help icon and a 'Safe harbor' dropdown menu.
- Prior Year Elections:** This section is divided into:
  - ADP Prior Year Elections:** 'ADRs of NHCEs:' with a help icon and a 'Current year' dropdown menu.
  - ACP Prior Year Elections:** 'ACRs of NHCEs:' with a help icon and a 'Current year' dropdown menu.
  - First Plan Year:** 'First Plan Year as an Elective Deferral plan:' with a help icon and radio buttons for 'Yes' and 'No'.

For more information and examples, click on the help button for a particular question.

## Run ADP/ACP Test

Clicking the "Run" button next to ADP/ACP Test from the Tasks page will calculate the ADP/ACP Test based on the testing parameters. Test results will be displayed (PASS/FAIL) in a pop-up window. ADR (Actual Deferral Ratio), ACR (Actual Contribution Ratio), ADP (Actual Deferral Percentage) and ACP (Actual Contribution Percentage) will be shown if applicable for nonhighly and highly compensated employees.

Please note that if you are using disaggregation of otherwise excludable employees for the ADP/ACP tests, you will see three rows of results on the ADP ACP Test Results screen; if either test fails, you will need to select a correction method in the “testing combination to correct” drop-down box. You can either select “ExclNHCE:1” - this corrects based on the test excluding NHCEs who have not met statutory eligibility. Or you can select “Two Tests:1” which runs two separate tests, on those not excludable and on those excludable, and corrects based on those results. You

should make this selection before printing the ADP/ACP report.

- “DisaggOver” - this shows the test results for the group who are not excludable.
- “DisaggUnder” - this shows the test results for the group who do not meet statutory eligibility.
- “ExclNHCE” - this shows the results excluding only the NHCEs not meeting statutory eligibility from the test.

Of course if there are no excludable HCEs, lines one and three above will show the same results.

To correct a failed ADP or ACP test follow the steps below. On the ADP/ACP Test Results screen you will see a summary of the outcome of test. If either test has failed you will see the correction options available.

## Do Refunds/Calculate Catch-ups

Clicking this link will display the amount of refunds to HCEs necessary to pass the test. If any of the HCEs targeted to receive a refund are catch-up eligible and have not used their entire annual catch-up amount, then as much of the refund as possible will be recharacterized as catch-up. Amounts that do need to be returned will be displayed in the ADP (or ACP) Refund Earnings box. You can calculate earnings either by entering the amount of the beginning balance plus contributions during the year, and the earnings for the Elective Deferral or Roth source for the HCE, then click the “Update earnings” link and the software will calculate the amount of the earnings to be refunded. Or, if you have transaction files in the Transaction Menu area, you can click the “Update ADP/ACP refund earnings with transaction data” link to calculate the earnings.

## Estimate QNECs

You should also see the option to estimate QNECs so long as the plan is set up to allocate QNECs to NHCEs only; this is in the Eligibility section of Plan Specifications. You can click the “Estimate QNECs” link to see the percentage required for each NHCE; the total cost of the QNEC is also displayed. Note that the allocation formula for the QNEC is selected in Plan Specifications under Contributions. Pro-rata, Bottom-up (Targeted) and Fixed Amount formulas are all available.

ADP/ACP Testing Results												
Group		ADP					ACP					
Union/Non-Union	NHCE Cnt	NHCE ADP	MAX	HCE ADP	ADP Result	NHCE Cnt	ACP Orig	From ADP	ADJ NHCE ACP	ADJ MAX	HCE ACP	ACP Result
N/A	1	0.80	1.60	6.39	FAIL			N/A		N/A	N/A	N/A

**Test Fails**  
Select testing combination to correct:

[Do Refunds/Calculate Catch-ups](#) | [Estimate QNECs](#)

Report	Format
ADP/ACP Detail	<input type="button" value="Print"/> <input type="button" value="PDF"/> <input type="button" value="Excel"/>
ADP/ACP QNEC Estimate	<input type="button" value="Print"/> <input type="button" value="PDF"/> <input type="button" value="Excel"/>

## ADP/ACP Test Report

You can print the detail report, test corrections report and QNEC reports directly from the "ADP ACP Test Results" page or once you return to the Compliance Menu page, click on the "Reports" button to view the ADP/ACP test results.

As is the case for all the default reports on the system, if there is information you would like to see that is not in one of the predefined reports, go to the [Other Import/Export/Report Menu](#) and review some of the more detailed report grids there or set up your own report under the [Work With Data Entry Grids](#) menu.