

GET TO KNOW BDO – HR SERVICES

EBP COMMENTATOR

THE NEWSLETTER OF THE BDO EMPLOYEE BENEFIT PLAN AUDIT PRACTICE



This edition spotlights a few of the key employee benefit plan (EBP) issues affecting plan sponsors this year.

HAVE YOU HEARD OF THE PCORI FEE?

Much of the discussion regarding the impending compliance deadline for the Affordable Care Act (ACA) has been focused on the Play or Pay penalties applicable to employers with 50 or more full-time employees (including full-time equivalents) that do not offer adequate health care coverage to these employees. Another provision affects sponsors that offer health and welfare plans and it must be addressed by July 31, 2013.

ACA created the Patient-Centered Outcomes Research Institute (PCORI or the Institute), a private, nonprofit corporation, to conduct research and evaluate health outcomes, clinical effectiveness, risks and benefits of medical treatments, etc. ACA requires the Institute to be funded, in part, by a fee collected from health plan providers. For fully insured plans, the fee will be paid by the health insurance issuer. For self-insured plans

(including plans where benefits are paid from general assets of the plan sponsor), the plan sponsor will pay the fee.

The PCORI fee generally will apply to major medical benefits, while many other benefits (such as dental plans, vision plans and health flexible spending arrangements) are usually excluded.

▶ Read more

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▶CONTINUED FROM PAGE 1

THE PCORI FEE

For self-insured plans, the payment of the PCORI fee will be calculated on Form 720, which will be filed by the plan sponsor. The fee applies to plan years ending after Oct. 1, 2012, and is due July 31, 2013. The amount of the PCORI fee applicable for plan years ending after Oct. 1, 2012, and before Oct. 1, 2013, is \$1 for each "covered person" (the fee will be increased to \$2 the following year).

"Covered person" is a term that includes employees, spouses and dependents who are covered under the plan.

The average number of covered persons is determined annually, after the end of the plan year, under one of three methods provided in the regulations. The three allowed methods are the actual count method, the snapshot method and the Form 5500 (Annual Return/Report of Employee Benefit Plan) method. The Form 5500 method allows the average number of covered persons to be based on the number of participants reported on the Form 5500 or Form 5500-SF. If the plan offers coverage only for the employee (e.g., self-only coverage), the number of covered persons equals the beginning of the year participant count plus the end of the year participant count divided by two. If the plan offers dependent coverage, the covered persons number equals the beginning of the year participant count plus the end of the year participant count (do not divide by two).

Employers may use this method provided the Form 5500 is filed no later than July 31 of the year following the last day of the plan year. Therefore, plan sponsors that are subject to this fee might ask for their plan audit and Form 5500 preparation to be accelerated in order to use the Form 5500 method. If an extension of time is necessary, the plan sponsor will need to determine the participant count using either the actual count method or the snapshot method. Under the actual count method, the number of covered persons would be calculated by adding the total covered persons each day of the plan year and dividing that number by the total number of days in the plan year. For the snapshot method, at least one day from each quarter would be selected and divided by the number of days selected.



How to be prepared (and not panicked) when your auditor asks for a SOC 1 report: a very brief overview of SSAE 16 and SOC 1 reports

Statement on Standards for Attestation Engagements No. 16, otherwise known as SSAE 16, provides guidance for service auditors, or the independent audit firms that actually prepare reports on a service organization's systems. (Auditing Standard No. 70 [SAS 70] was split into two new standards, SSAE 16 and AU-C 402 – *Auditing Standard on the Use of Service Organizations*.) Although intended for service auditors, the issuance of the new guidance under SSAE 16 impacts you, the plan sponsor, as it changed the format and terminology of the report provided by the service auditor.

For purposes of EBP audits, plan sponsors will generally need to obtain the relevant SOC 1 reports, as these reports are intended for use by user entities and cover those internal controls relevant to financial reporting. Expect your plan auditor to request these during the planning phase of the audit for any of the plan's significant transactions that are outsourced to service organizations.

You also have responsibilities related to these reports, as part of your required fiduciary duty, to provide oversight to the plan's operations. Plan sponsors should generally perform the following:

1. Obtain all relevant SOC 1 reports for any outsourced services from the service organizations.

2. Review the key areas of the SOC 1 reports, including (a) the independent service auditor's report, noting any qualifications, and (b) the general areas of testing performed by the service auditor. Watch for any noted qualifications and/or exceptions or deviations as they could negatively impact the recording of the plan's transactions and eventual plan reporting. If you note any such items, discuss these findings with the plan auditor and the service organization, if necessary, to determine any impact to the plan.
3. Review any carve-outs and identify those that are significant to the plan's operations. (Carve-outs are for those sub-service organizations used by the service organization to perform certain processes or services and, consequently, the sub-service organization's controls are not included within the SOC 1 report.) Work with your service organization and/or your auditor to identify these carve-outs. You may need to obtain additional reports to adequately cover the plan's operations.
4. Review the user entity controls (formerly referred to as user controls under SAS 70) and confirm these controls, as applicable, have been implemented and are operating effectively as part of the plan's operations. Any user entity controls not in place at the plan sponsor could have an adverse effect on the integrity of the data contained in the reporting documents.

Documentation of the performance of the above steps is a critical component of complying with your plan sponsor responsibilities and provides evidence of compliance with your oversight duties.

DID YOU KNOW...?

Fair Value Measurement Disclosures

As discussed in the [Winter 2013](#) edition, be sure you have obtained information needed to properly prepare the disclosures related to ASU 2011-04 and have appropriate support to provide your auditors.

Indefinite Deferral of Certain Quantitative Disclosures Affecting ESOPs

In April 2013, the FASB issued an exposure draft regarding the permanent deferral of certain quantitative disclosures related to nonpublic EBPs holding private company employer equity securities. The comment period for the exposure draft expired on May 31, 2013, and on June 12, 2013, the FASB made the decision to indefinitely defer the effective date. For further information, refer to the [BDO Flash Report](#) issued in April 2013 and the [FASB's announcement](#).

PBGC Premium Rate Increases for 2013

Under MAP-21, plan sponsors should expect higher PBGC premiums for both single employer and multiemployer plans. For additional information please refer to the [Fall 2012](#) edition and the [PBGC premium payment instructions](#).

Single-Employer Plans:

Flat-Rate Premium - \$42 per participant
Variable-Rate Premium - \$9 per \$1,000 of UVB (Unfunded vested benefits) and is capped at \$400 times the number of participants

Multiemployer Plans:

Flat-Rate Premium - \$12 per participant

401(k) Compliance Check Questionnaire Final Report

In March 2013, the IRS issued its final report summarizing the results obtained from the 401(k) Compliance Check Questionnaire. For more information refer to the IRS [401\(k\) Compliance Check Questionnaire Final Report webpage](#).

Department of Labor (DOL) Released Online Retirement Toolkit

In June 2013, the DOL launched an online retirement toolkit to help workers identify key issues related to retirement planning.

It provides tools and information to assist workers in understanding important decisions related to employment-based plans. The retirement toolkit can be accessed at <http://www.dol.gov/ebsa/pdf/retirementtoolkit.pdf>.

Delinquent Contributions

We have observed a recent trend in DOL audits of delinquent contributions. In the past, DOL auditors were generally using the DOL calculator to determine the lost earnings due to a plan resulting from delinquent contributions. More recently, however, the DOL has been communicating that the online calculator can be used to calculate interest only if the plan sponsor formally applies to the Voluntary Fiduciary Correction Program (VFCP). Otherwise, if not submitted under the VFCP, the sponsor would calculate lost earnings based on the higher of:

- The rate of return for each individual participant account (e.g., for administrative convenience, the highest rate of return of any plan investment option may be used), or
- The IRC underpayment rate (the IRC rates may be manually calculated in accordance with VFCP Section 5(b) using IRS Factors or may be obtained by using the DOL calculator).

BDO is available to assist you in calculating the appropriate lost earnings as well as in preparing a VFCP submission for your plan.

Upcoming Deadlines

Form 11-K Filing Deadline

Generally, for calendar year-end plans, the deadline is 180 days after the plan's year-end. Since the 180th day falls on a weekend this year, the deadline is Monday, July 1, 2013.

Form 5500 Filing Deadline

Generally, for calendar year-end plans, the filing deadline is the last day of the seventh month after the plan's year-end, which is Wednesday, July 31, 2013. An extension of 2½ months is available by filing Form 5558. If extended, the deadline for a calendar year-end plan is Tuesday, Oct. 15, 2013. As discussed in this edition, if your company sponsors a self-insured health and welfare plan and wants to use the Form 5500 method for calculating

MARK YOUR CALENDAR

AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update

Dec. 12-13, 2013
Washington, D.C.

This two-day event helps you stay abreast of the most recent updates on employee benefit plans issues, including changes in accounting, auditing, tax and enforcement regulations. Sessions are presented by regulators, standard setters and leading practitioners, including members of BDO's National EBP Group.

HELPFUL WEBSITES

<http://www.irs.gov/uac/Patient-Centered-Outcomes-Research-Trust-Fund-Fee-Questions-and-Answers>

<http://www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/SORHome.aspx>

<http://www.dol.gov/ebsa/>

<http://www.efast.dol.gov>

<http://www.irs.gov/>

<http://ebpaqc.aicpa.org>

<http://asc.fasb.org>

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its PCORI fees, consider accelerating the audit and filing the Form 5500 by July 31, 2013. It should be noted that this year, a separate Form 5558 must be filed for each plan. In addition, a separate Form 5558 must be filed to extend Form 8955-SSA (Annual Registration Statement Identifying Separated Participants With Deferred Vested Benefits) for each plan. (The Form 5558 is no longer required to be signed in order to extend the Form 8955-SSA filing.)



BDO EBP PRACTICE

BDO is nationally recognized in the field of employee benefit plan consulting and auditing. We audit over 1,100 plans nationwide, ranging from 100 participants to close to 300,000 participants. Our engagements are staffed with accountants experienced with all types of audits including defined contribution (401(k), profit sharing, ESOP, and 403(b) plans), defined benefit (pension, cash balance) and health and welfare plans. We have extensive ERISA knowledge of audit and filing requirements, including full-scope, limited-scope, Form 11-K filings and Master trusts.

In addition, BDO has a National Employee Benefit Plan Audit Group that meets regularly to develop training and guidance and discuss updates in the industry and auditing practices. Our professionals are regular presenters at local, state and national seminars. BDO's professionals continue to be extensively involved with the American Institute of Certified Public Accountants (AICPA) National Conferences on Employee Benefit Plans. Many of our professionals serve in leadership roles in the accounting profession as senior advisors and are active members of several governing boards and CPA societies. For example, our professionals currently serve on various AICPA committees, such as the AICPA Employee Benefit Plan Audit Quality Center Executive Committee and the AICPA's Joint 403(b) Plan Audit Task Force (we are proud to have representation at the Chair level for these committees). BDO's EBP professionals have also served on the Employee Benefit Plan Expert Panel.

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Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

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