Chapter 1

Introduction and Background[1]

Introduction

1.01 The purpose of this guide is to provide guidance on accounting, auditing, and reporting on the financial statements of employee benefit plans (plans). This guide applies to defined contribution retirement plans,[2] defined benefit pension plans, and defined benefit and defined contribution health and welfare benefit plans. In the United States, there are nearly 2.2 million health plans, a similar number of other welfare plans, and nearly 694,000 private pension plans (which includes both defined contribution retirement plans and defined benefit pension plans). The Employee Retirement Income Security Act of 1974 (ERISA) covers nearly 150 million workers, retirees, and dependents of private sector pension and welfare plans with estimated assets of $9.3 trillion.

1.02 The guidance presented in the following chapters is not all-inclusive but, rather, is limited generally to matters that warrant special emphasis or that experience has indicated may be useful. This guide is based on the assumption that the readers are generally knowledgeable in accounting and auditing; therefore, the guide focuses predominately on specific auditing, accounting, and reporting matters with respect to the financial statements of employee benefit plans. Accordingly, the guide does not discuss the application of all accounting principles generally accepted in the United States of America (GAAP)[3] and auditing standards as they pertain to the auditing of such financial statements. The nature, timing, and extent of auditing procedures are matters of professional judgment and will vary according to the type of plan, the scope of the audit, the number of eligible participants, the types of investments, the valuation methodologies used, the internal control environment, plan operations and administrative structure, the auditor's assessment of the level of risk, and other factors. The independent auditor is also expected to be familiar with applicable governmental laws and regulations, such as those of the DOL, IRS, and Pension Benefit Guarantee Corporation (PBGC).

1.03 This guide applies to audits of the financial statements of plans that are subject to the financial reporting requirements of ERISA, as well as those that are not. The recommendations contained in this guide apply to the financial statements of plans sponsored by commercial or not-for-profit private sector entities.

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[1] Refer to the preface for important information about the applicability of the professional standards to audits of issuers and nonissuers. (See definitions in the preface.)

[2] The term *defined contribution retirement plan* used in this guide is intended to encompass all defined contribution plans (except health and welfare defined contribution plans that are covered in chapter 7, "Health and Welfare Benefit Plans," of this guide). FASB *Accounting Standards Codification®* uses the term *defined contribution pension plan*. This guide has elected to use the term *defined contribution retirement plan* because it more accurately reflects all types of defined contribution plans.

[3] All references made in this guide to U.S. GAAP relate to accounting principles generally accepted in the United States of America as promulgated by FASB.

Applicability to Governmental Entities

1.04 The accounting provisions of this guide are not intended to apply to employee benefit plans of governmental entities. Chapter 13, "Defined Benefit Pension Plans (Plan & Employer Considerations)," of AICPA Audit and Accounting Guide *State and Local Governments* contains guidance for auditors performing audits of employee benefit plans of governmental entities. The chapter addresses accounting, financial reporting, and auditing considerations for governmental defined pension plans and participating governmental employers in those plans.

1.05 Although the audit objectives for governmental pension plans are similar to those for private sector pension plans, ERISA, which generally applies to private sector pension plans, does not apply to most governmental entities. However, certain plans of Indian tribes, educational institutions, and component units may be subject to DOL audit and reporting requirements.[4]

1.06 As noted in AICPA Audit and Accounting Guide *State and Local Governments*, public corporations[5] and bodies corporate and politic are governmental organizations. Other organizations are governmental if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments
- The potential for unilateral dissolution by a government, with the net assets or net position reverting to a government
- The power to enact and enforce a tax levy

Furthermore, organizations are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal taxation. However, organizations possessing only that ability (to issue tax-exempt debt) and none of the other governmental characteristics may rebut the presumption that they are

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[4] Technical Questions and Answers (Q&A) section 9160.35, "Reporting on Indian Tribe Financial Statements Prepared in Accordance With Accounting Standards as Promulgated by FASB" (*Technical Questions and Answers*), provides guidance on the auditor's report when the financial statements of an Indian Tribe meet the generally accepted accounting principles (GAAP) definition of a state or local government, yet prepares its financial statements in accordance with accounting standards as promulgated by FASB. The question and answer provides guidance and an illustrative report that an auditor may issue containing two opinions—one opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the appropriate GAAP (GASB) and a second opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting standards as promulgated by FASB. This Q&A can also be applicable to an Indian tribe's plan financial statements.

[5] *Black's Law Dictionary* defines a *public corporation* as

> [a]n artificial person (for example, [a] municipality or a governmental corporation) created for the administration of public affairs. Unlike a private corporation it has no protection against legislative acts altering or even repealing its charter. Instrumentalities created by [the] state, formed and owned by it in [the] public interest, supported in whole or part by public funds, and governed by managers deriving their authority from [the] state. *Sharon Realty Co. v. Westlake, Ohio Com. Pl., 188 N.E.2d 318, 323, 25, O.O.2d 322*. A public corporation is an instrumentality of the state, founded and owned in the public interest, supported by public funds and governed by those deriving their authority from the state. *York County Fair Ass'n v. South Carolina Tax Commission*, 249 S.C. 337, 154 S.E.2d 361, 362.

governmental if their determination is supported by compelling, relevant evidence.

> The preceding definition of a government is category B[6] accounting and financial reporting guidance for governmental entities because GASB has cleared it. Therefore, employee benefit plans sponsored or administered by an entity meeting the criteria in paragraph 1.06 are subject to the accounting standards promulgated by GASB and, as applicable, should refer to those standards and the related interpretive guidance in the AICPA Audit and Accounting Guide *State and Local Governments*.

1.07 When an employee benefit plan is sponsored or administered by a governmental entity, as defined previously, the appropriate GAAP for the financial statements of the plan is promulgated by GASB. Therefore, other than paragraph 1.06, the accounting and financial reporting guidance in this guide does not constitute category (b) accounting and financial reporting guidance for such plans because the AICPA did not make this guide applicable to employee benefit plans of governmental entities, and GASB did not clear it.

Background

1.08 A *plan* is the reporting entity, as defined under ERISA and FASB *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*; 962, *Plan Accounting—Defined Contribution Pension Plans*; and 965, *Plan Accounting—Health and Welfare Benefit Plans*. Although this guide does not specifically discuss accounting, auditing, and reporting for employee benefit trusts as separate entities, it may be useful to auditors reporting on an employee benefit trust.

Defined Contribution Retirement Plans

1.09 As stated in the FASB ASC glossary, *defined contribution plans* provide an individual account for each participant and provide benefits that are based on (*a*) amounts contributed to the participant's account by the employer or employee; (*b*) investment experience; and (*c*) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans, which are discussed in more detail in chapter 5A, "Defined Contribution Retirement Plans," include (*a*) profit sharing plans; (*b*) money purchase pension plans; (*c*) thrift or savings plans, including 401(k) and 403(b) arrangements; (*d*) certain target benefit plans; and (*e*) stock bonus plan such as employee stock ownership plans (ESOPs). See paragraph 1.10 for a discussion about ESOPs. Defined contribution retirement plans listed previously, other than ESOPs, are discussed in more detail in chapter 5A of this guide.

Employee Stock Ownership Plans

1.10 As stated in the FASB ASC glossary, an ESOP is an employee benefit plan that is described by ERISA and the IRC of 1986 as a stock bonus plan, or combination stock bonus and money purchase pension plan, designed to invest

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[6] For state and local governments, category B guidance includes AICPA Audit and Accounting Guides specifically made applicable to state and local governmental entities by the AICPA and cleared by GASB. See appendix B, "Category B Guidance," of AICPA Audit and Accounting Guide *State and Local Governments* for further details.

primarily in employer stock. ESOPs are discussed in more detail in chapter 5B, "Employee Stock Ownership Plans," of this guide.

Defined Benefit Pension Plans

1.11 According to FASB ASC 960-10-05-4, *defined benefit pension plans* provide a promise to pay to participants specified benefits that are determinable and based on such factors as age, years of service, and compensation. These plans, which are discussed in more detail in chapter 6, "Defined Benefit Pension Plans," of this guide also include cash balance plans and pension equity plans.

Health and Welfare Benefit Plans

1.12 As stated in the FASB ASC glossary, *health and welfare benefit plans*, which are discussed in more detail in chapter 7, "Health and Welfare Benefit Plans," of this guide, include plans that provide (*a*) medical, dental, visual, psychiatric, or long-term health care; severance benefits; life insurance; or accidental death or dismemberment benefits; (*b*) unemployment, disability, vacations or holiday benefits; and (*c*) other benefits, such as apprenticeships, tuition assistance, daycare, dependent care, housing subsidies, or legal services. Health and welfare benefit plans may be either defined benefit or defined contribution plans, as follows:

a. Defined benefit health and welfare plans specify a determinable benefit that may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services.

b. Defined contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts rather than the amount of benefits the participants are to receive.

Financial Accounting and Reporting for ERISA Plans

1.13 FASB ASC 960, 962, and 965 provide standards of financial accounting and reporting for financial statements of defined benefit pension plans, defined contribution plans, and health and welfare benefit plans, respectively.

1.14 Employee benefit plans that are subject to ERISA are required to report certain information annually to federal government agencies (that is, the DOL, IRS, and PBGC) and to provide summarized information to plan participants. For many plans, the information is reported to the DOL on Form 5500, *Annual Return/Report of Employee Benefit Plan*, that includes financial statements prepared in accordance with U.S. GAAP[7] and certain supplemental schedules (for example, Schedule H, line 4i—Schedule of Assets [Held at End of Year], and Schedule H, line 4j—Schedule of Reportable Transactions).

[7] For employee benefit plans, the applicable financial reporting framework is typically U.S. GAAP or certain *special purpose frameworks* (for example, modified cash basis), as defined in AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*), and as permitted by the Employee Retirement Income Security Act of 1974 (ERISA) and the DOL regulations. See paragraphs 2.04 and 11.27 of this guide for further discussion about the use of special purpose frameworks in employee benefit plan financial statements.

(See appendix A, "ERISA and Related Regulations," of this guide for a listing of DOL supplemental schedules.)

Governmental Regulations

1.15 Various provisions of the IRC affect employee benefit plans and trusts established pursuant to employee benefit plans. If an employee benefit plan and its underlying trust qualify under IRC Section 401(a), certain tax benefits are available, including (*a*) current tax deductions by plan sponsors for contributions, subject to certain limitations; (*b*) deferment of income to participants until the benefits are distributed; (*c*) exemption of the trust from income taxes, other than tax on unrelated business income; and (*d*) favorable tax treatment of certain benefit distributions to participants or their estates. Special rules apply to nonqualified plans and trusts depending on whether the plan is funded or unfunded. Generally, qualified plans provide benefits to relatively broad groups of employees, whereas nonqualified plans provide benefits to only a few key employees and may not be currently funded. Additionally, IRC Sections 419 and 419A allow employers to make tax deductible contributions to health and welfare benefit plans. Generally, ERISA preempts state laws and regulations. (See the discussion of ERISA in appendix A of this guide.)

Reporting and Disclosure Requirements

1.16 ERISA provides for federal government oversight of the operating and reporting practices of employee benefit plans. In addition to establishing reporting requirements for covered plans, ERISA establishes minimum standards for participation, vesting, and funding for defined benefit and defined contribution plans sponsored by private entities. It also establishes standards of fiduciary conduct and imposes specific restrictions and responsibilities on fiduciaries.

1.17 Under ERISA, the DOL and IRS have the authority to issue regulations covering reporting and disclosure requirements and certain administrative responsibilities. The PBGC guarantees participants in most defined benefit pension plans certain minimum pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

1.18 Appendix A of this guide describes which plans are covered by ERISA and pertinent provisions of ERISA and related reporting and disclosure regulations issued by the DOL. Additional guidance concerning the effects of the IRC, ERISA, and related regulations on the operating and reporting practices of employee benefit plans is discussed throughout this guide.

1.19 Section 104(a)(4) of ERISA describes the power of the DOL to reject reports, and Section 104(a)(5) of ERISA grants the Secretary of Labor the authority to retain an independent auditor, if necessary, after having rejected a filing. Additionally, Section 107 of ERISA requires persons who have to file any report or certify any information required under ERISA to maintain records (for example, vouchers, worksheets, receipts, and applicable resolutions) on matters of which disclosures are required and to keep such records available for examination for a period of not less than six years. The DOL interprets this section of ERISA to include all working papers supporting audits of employee benefit plans. Section 502(c)(2) of ERISA describes the penalties that may be assessed by the DOL. (See appendix A of this guide.)

Plans Pursuant to the SEC Reporting Requirements

1.20 The SEC requires employee stock purchase, savings, and similar plans with interests that constitute securities registered under the Securities Act of 1933 to file Form 11-K[8] pursuant to Section 15(d) of the Securities Exchange Act of 1934. Plans that are required to file Form 11-K are deemed to be issuers under the Sarbanes-Oxley Act of 2002 (SOX) and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the PCAOB.[9] Although such plans are audited in accordance with PCAOB standards for filing with the SEC, they will also need to be audited in accordance with generally accepted auditing standards (GAAS) for filing with the DOL. Accordingly, auditors will find this guide helpful in conducting audits of all ERISA plans when filing with the DOL.

1.21 The Form 11-K filing does not require a SOX Section 302 certification. Although the rule is silent regarding Section 404(a) reports on Form 11-K, the SEC staff has agreed that because Form 11-K filers are not subject to Item 308 of Regulation S-K, Form 11-K need not include a Section 404(a) report.[10] See paragraphs 5.279–.284 of this guide for further discussion on SEC reporting requirements.

> **Note**
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> See the PCAOB website at www.pcaobus.org for a complete listing of PCAOB auditing standards and related conforming amendments.

Audit Requirements

1.22 ERISA contains a requirement for annual audits of plan financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants are subject to the audit requirement. (See appendix A of this guide.) Based on an evaluation of the audit evidence obtained, the auditor expresses, in the form of a written report, an opinion in accordance with the auditor's findings or states that an opinion cannot be expressed. The opinion states whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. In addition, ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules. Some of this information is required to be covered by the auditor's report. When performing a full-scope audit of an employee benefit plan, the auditor is typically engaged to report on whether the supplemental schedules that are required to be covered by the auditor's report are fairly presented in relation to the financial statements as a whole. (See paragraphs 11.19–.23 of this guide for a discussion of reporting on the supplemental schedules.) See paragraphs 11.61–.63 of this guide for reporting guidance under a limited-scope audit.

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[8] Or other applicable SEC filings, such as Form 10-K/A.

[9] Page 59 of the December 1, 2005, SEC *Accounting and Disclosure Issues* provides guidance regarding the preapproval of audits of employee benefit plans. To view the entire document, see www.sec.gov/divisions/corpfin/acctdis120105.pdf.

[10] This information was taken from the Center for Audit Quality SEC Regulations Committee highlights. Be alert to changes in this position by monitoring the SEC Regulations Committee website at http://thecaq.aicpa.org.

1.23 When included in a filing with the DOL, the auditor's report is required to be prepared in accordance with GAAS and to reference such standards. Although the audit requirement under ERISA is an important part of the total process designed to protect plan participants, a GAAS audit is not designed to be a compliance audit of all legislative and regulatory requirements under ERISA. Under the law, plan administrators, the IRS, and the DOL have responsibility to determine such compliance. The Form 5500 annual report, the financial statements prepared by the plan administrator, and the independent auditor's report all contribute to the monitoring activities of these parties and agencies.

1.24 Subject to SEC oversight, Section 103 of SOX authorizes the PCAOB to establish auditing and related attestation, quality control, ethics, and independence standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by SOX or the rules of the SEC. Accordingly, public accounting firms registered with the PCAOB are required to adhere to all PCAOB standards in the audits of *issuers*, as defined by SOX, and other entities when prescribed by the rules of the SEC. Generally, plans that are required to file Form 11-K would be considered issuers. See chapter 5, "Defined Contribution Retirement Plans Including Employee Stock Ownership Plans," of this guide for guidance on Form 11-K filings.

Operation and Administration

1.25 Employee benefit plans vary by basic type (defined contribution retirement plans, defined benefit pension plans, and defined benefit and defined contribution health and welfare benefit plans) and by basic operating and administrative characteristics. Employee benefit plans may be single employer plans, multiemployer plans,[11] or multiple employer plans (MEPs).

1.26 Single employer plans are generally established by the management of one employer (or a controlled group of corporations) either unilaterally or through collective bargaining, and the employer is the plan sponsor. By contrast, multiemployer plans are normally negotiated and established pursuant to a collective bargaining agreement between an associated group of employers, such as in the construction trades, and the union representing the employees. The plan sponsor of a multiemployer plan, with whom ultimate administrative responsibility rests, is a joint employer or union board of trustees.

1.27 *MEPs* are plans that are maintained by more than one employer but not treated as a multiemployer plan. MEPs are generally not collectively bargained and are intended to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration. A MEP maintains separate accounts for each employer so that contributions provide benefits only for employees of that contributing employer.

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[11] ERISA defines the term *multiemployer plan* as a plan to which more than one employer is required to contribute, that is maintained pursuant to one or more collective bargaining agreements between one or more employee organizations and more than one employer, and that satisfies other requirements that may be prescribed by DOL regulations. As used in this guide, the term *single employer plan* may include plans with more than one employer under common control.

Note

See DOL advisory opinions 2012-04A and 2012-03A for further discussion about whether certain types of plans are viewed as a MEP or a series of single employer plans.

1.28 It is important to have an understanding of the roles and responsibilities of the key parties that are involved in the operation and administration of an employee benefit plan. An understanding of these roles and responsibilities can be obtained from the plan document, trust agreement, service agreements, insurance contracts, and internal policies and procedures manuals.

1.29 Contributions may be required from participants only (contributory plans), both employers and participants (contributory plans), or employers only (noncontributory plans). Noncontributory plans may contain provisions for payment of contributions or premiums by participants to maintain their eligibility during periods of unemployment; they may also provide for voluntary contributions by participants.

1.30 Benefits paid to participants may be funded in a variety of ways, such as through accumulated employer and employee contributions and the related investment income (self-funded); the purchase of insurance contracts (insured plans); or a combination of both (split-funded plans).

1.31 Employee benefit plans are normally established and maintained by plan sponsors pursuant to plan instruments. The provisions of plan instruments normally deal with such matters as eligibility to participate, entitlement to benefits, funding, operation and administration of plan provisions, identification of the plan's named fiduciary and allocation of responsibilities among those who also serve in the capacity as fiduciaries for control and management of the plan, and delegation by fiduciaries of duties in connection with administration of the plan. The plan instrument is amended or restated from time to time for changes in provisions or to conform to new regulatory requirements. A plan subject to ERISA is required to be in writing. The IRS has prepared and updated standard (master or prototype) plans that are available to plan sponsors. In addition, standardized plans that have IRS approval are available from various third-party sources. See chapter 9, "Plan Tax Status," of this guide for a further discussion of plan design.

1.32 The named fiduciary is responsible for the operation and administration of a plan, including the identification of a plan administrator. This individual is usually an officer or other employee of the plan sponsor and typically reports to the plan sponsor's board of directors or management. The named fiduciary has continuing responsibility for operation of the plan in accordance with the terms of the plan instrument, any trust instrument or insurance contract, and government laws and regulations. Generally, the named fiduciary makes policy decisions concerning such matters as interpretation of the plan provisions, determination of the rights of participants under the plan, management of investments, and delegation of operational and administrative duties.

1.33 Although the named fiduciary retains responsibility for oversight of the plan, the plan's day-to-day administration (for example, collection of contributions, payment of benefits, management of cash and investments, maintenance of records, and preparation of reports) generally can be delegated to other parties, such as (*a*) the plan sponsor; (*b*) a trustee, such as a bank trust department; (*c*) an insurance company; (*d*) an investment adviser; (*e*) a third-party recordkeeper, (*f*) a third-party claims processor; or (*g*) the person(s) designated as the plan administrator or administrative agent.

1.34 In self-funded plans, the plan assets are commonly managed in accordance with a trust instrument that sets forth, among other matters, the authority and responsibilities of the trustees and any investment advisers and managers. In insured plans, the plan assets typically are managed in accordance with an agreement that sets forth the duties and responsibilities of the insurance company.

Accounting Records[12]

1.35 As with other entities, the accounting records of employee benefit plans ordinarily contain information necessary for effective management and reliable financial reporting. The complexity of a plan's accounting records will vary with such factors as the type of plan, number of employer contributors, complexity of the investment arrangements, complexity of the benefit formula, variety of benefit payment options, and delegation of administrative duties.

1.36 ERISA requires that records be maintained in sufficient detail to permit benefits to be properly calculated and paid when due. Section 105 of ERISA sets forth the requirements applicable to the furnishing of benefit statements to plan participants and beneficiaries. Section 209 of ERISA also requires the maintenance of records by employers relating to individual benefit reporting. See appendix A of this guide for further guidance. The accounting records that form the foundation for the preparation of the plan's financial statements will vary in complexity depending on the type of plan, decentralization of operations, complexity of plan provisions, and delegation of administrative functions. These records may be maintained by the employer or third-party administrators and outside service organizations, such as trustees, insurance companies, consulting actuaries, service bureaus, and contract administrators. During the audit of the plan, it is important to understand the roles and responsibilities of all parties involved in the plan's administration, as well as the accounting records each party maintains. The terms of these services are usually documented in a service agreement that is entered into between the plan and service provider.

1.37 The following are common records and reports that are used when auditing the financial statements of an employee benefit plan, with explanations about how these records and reports are generally produced and used. This may vary by plan, depending on the systems and processes in place:

a. *General accounting records*. Plans are required to maintain records of their receipts and disbursements; however, in many cases, they are prepared by the trustee, insurance company, or recordkeeper. Many times, general ledgers are not maintained by the plan sponsor:

    i. Trust or custodian statements are maintained by the trust or custodian system and represent books and records of the

[12] Many plans outsource their processing of transactions to a third-party administrator or an outside service organization. Often, the plan sponsor does not maintain independent accounting records of transactions initiated through these media. See chapter 4, "Internal Control," of this guide for further guidance.

plan. These statements detail all receipts and disbursements, including investment transactions, during the period. The trustee or custodian system records contributions, earnings and losses, plan investments, expenses, and distributions.

ii. Recordkeeper statements are maintained by the recordkeeping system and represent both the activity posted to each participants' account during the period, as well as a plan-level consolidation of all such activity. The recordkeeping system helps track and properly allocate contributions, earnings and losses, plan investments, expenses, and distributions in a participant's account.

b. *Investment asset records*. ERISA requires detailed reporting of investment assets, including reportable transactions, party in interest transactions, and leases and loans in default. These records are often maintained by the trustee or custodian. In a directed trust arrangement, transactions are executed by the trustee or custodian at the direction of the recordkeeper or investment manager.

c. *Participant records (employee data)*. Records are maintained to determine each employee's eligibility to participate in the plan and receive benefits. Eligibility for participation and benefits may be based on such factors as length of service, earnings, and contributions and can be affected by age or breaks in service. Additionally, these records include employee identification number, sex, marital status, employee classification, date of birth, date of hire or rehire, rate of pay or hours worked, other forms of compensation, and contributions made to employer-sponsored plans, in addition to participant elections for salary deferral percentages and health and welfare options. These records are generally part of, or derived from, the human resource information systems or payroll systems maintained by the employer or plan. The records are updated on a recurring basis due to changes in information, such as employee hires, terminations, retirements, changes in classification, and compensation. These records are often made available to third-party service providers, such as the recordkeeper or plan actuary. Participant records are generally made available to these parties through payroll data feeds. The service providers utilize the payroll data feeds to update participants' accounts for determination of eligibility and eligibility for distributions (based on terminations and retirements).

d. *Contribution records*. These records are often maintained on the payroll system. The information includes the employer and employee contributions, as well as any participant loan repayments, if applicable for each participant in the plan. Separate contribution records are maintained for each plan contributor in a multiemployer or MEP to record payments and accumulated contributions and to determine delinquencies and errors. These records provide sufficient detail to record contributions and payments received from a number of employers according to pertinent agreements or from individual participants.

e. *Distribution records*. Records are often maintained by the recordkeeper or party responsible for calculating amounts available for distribution under the plan. As previously noted, the participant records will be utilized to determine if a participant is eligible for a distribution and may require authorization. Once the determination of eligibility for distribution is determined, the responsible party will use participant records and participant account information to determine the amount available for distribution based upon vesting provisions of the plan. The distribution is deducted from the plan or the participant's account maintained by the recordkeeper, and the approved distribution is communicated to the trustee for payment to the participant or beneficiary. The payment is made by check or electronic funds transfer with applicable tax withholding, if applicable. The nonvested portion of the participant's account remains as a plan asset (either in the participant's account or in a forfeiture account). Distributions generally occur on a recurring basis, with monthly trust statements and recordkeeping reports summarizing distributions paid during the reporting period.

f. *Claim records*. Claim records for health and welfare plans are generally extensive. They are used for such purposes as determining that the claim was in accordance with the plan instrument, if plan deductibles are met, and when or if benefit limits have been reached by individual claimants and for accumulating various historical data regarding types and amounts of claims, amounts paid, and timing of claims.

g. *Individual participants' account information*. ERISA requires information that reflects each plan participant's share of the total net assets of the plan to be maintained. Changes in the value of net assets are allocated to the participants' accounts in accordance with the terms of the plan instrument. This information, which is not part of the basic books and records of a defined contribution plan, ordinarily should be in agreement with the aggregate participant account information contained in the basic books and records.

h. *Administrative expenses*. Expenses are supported by invoices, contracts, agreements, or other written evidence. Many times, these expenses are paid by the trustee or custodian, with appropriate documentation and approvals provided by plan management.

i. *Reconciliations*. The plan administrator ordinarily reconciles the records for the plan to the data obtained from third-party administrators and the information provided by the trustee, and the administrator investigates any differences.