

Employee Benefit Plans

Explanation No. 7 Top-Heavy Requirements

Note:

Plans submitted during the 2020 Required Amendment List submission period must satisfy the applicable changes in plan qualification requirements listed in Section IV of Notice 2020-83, 2020-50 I.R.B. 1597 (the 2020 RA List).

This publication contains copies of:
Form 8385, Worksheet 7
Form 8397, Deficiency Checksheet 7

These forms are included as examples only and should not be completed and returned to the Internal Revenue Service.

Worksheet Number 7 (Form 8385) and this explanation are designed to aid the specialist in determining whether a plan is top-heavy as defined in Internal Revenue Code section 416 and, if so, whether the plan meets the special top-heavy requirements of that section.

The sections cited at the end of each paragraph of explanation are to the Internal Revenue Code and the Income Tax Regulations



The technical principles in this publication may be changed by future regulations or guidelines.

In general, a plan is top-heavy if the present value of benefits and/or the sum of the account balances for key employees exceeds 60 percent of the sum of account balances and/or benefits for all employees, except former key employees. Plans to which section 416 of the Code applies are required to contain provisions which will automatically become operative for years in which the plan is top-heavy. A top-heavy plan is required to: (1) provide 3-year 100% or 6-year graded vesting and (2) provide a minimum benefit or contribution to certain non-key employees. Employees may not be excluded from participation in a top-heavy plan because they have not earned a stated amount of compensation, did not make a mandatory contribution, or have withdrawn a mandatory contribution. A top-heavy minimum benefit or contribution may not be integrated with Social Security. In a defined benefit plan, a minimum benefit accrual must be made for each employee who earned a year of service in a top-heavy year, whether the employee has separated from service or not. If a plan ceases to be top-heavy, it may return to other, less strict, qualification requirements. However, violation of section 411(a)(10) by changes in vesting schedules must be precluded. For top-heavy purposes, a Simplified Employee Pension (SEP) is considered a defined contribution plan.

I. Applicability of the Top-Heavy Provisions

The worksheet need not be completed beyond this section if the plan is exempt from top-heavy provisions or is not treated as a top-heavy plan. A plan is exempt if:

Line a. The plan is not top-heavy and covers only employees who are included in a unit of employees covered by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining in reaching the agreement (this exemption is not available if more than one-half of the employees in the unit are officers, owners, or executives).

Line b. The plan is a governmental plan as defined in section 414(d) of the Code.

Line c. A plan is not treated as a top-heavy plan for any year that it meets the "SIMPLE" plan requirements of section 401(k)(11) of the Code and permits no contributions other than those required by section 401(k)(11). See Worksheet No. 12. Plans of tax-exempt organizations are subject to the top-heavy provisions unless they are covered by one of the exemptions.
401(a)(10)(B)(ii) & (iii) 401(k)(11)(D)(ii) 1.416-1 T-38

Line d. A plan is not treated as a top-heavy plan for any year that it meets the "safe-harbor" requirements under section 401(k)(12) for minimum contributions for participants and makes matching contributions that meet the requirements of section 401(m)(11). Also, a plan is not treated as a "top-heavy" for any plan year that it meets the "safe-harbor" requirements under section 401(k)(13) for automatic contributions arrangements and makes matching contributions that meet the requirements of section 401(m)(12).
416(g)(4)(H)

II. Provisions Which, if Present, Will Satisfy the Requirements of Section 416

All plans that are not exempt from the top-heavy requirements must include provisions to satisfy the requirements of section 416 for a year in which the plan is top-heavy. However, the provisions described below will satisfy the top-heavy requirements if made effective for all plan years and no participant is or could be a participant in another type of plan maintained by the employer.

Line a. Section 416(b) requires more rapid vesting than is required under section 411(a), specifically either: (1) 100% after three years of service, or (2) 20% after two years of service followed by 20% vesting for each subsequent year of service with 100% vesting after six years of service. All accrued benefits must be subject to the minimum vesting schedule, including benefits accrued before the plan became top-heavy. If a plan ceases to be top-heavy, the vesting schedule may be changed to a vesting schedule permitted without regard to section 416 so long as section 411(a)(10) is not violated. Thus, participants with 3 or more years of service must be able to elect the previous top-heavy vesting schedule. The top-heavy vesting schedule applies to all participants, even key employees. However, the accrued benefits of an employee who performs no service after a plan becomes top-heavy are not required to vest under top-heavy rules.
1.416-1 V-1 through V-7

Line b. A defined benefit plan must provide a top-heavy minimum benefit equal to the lesser of 20%, or 2% per year of service, of each non-key employee's average compensation for the five highest consecutive years. For purposes of the defined benefit minimum, the plan may disregard compensation for years (accrual computation periods) ending in plan years which began before January 1, 1984, and compensation for years beginning after the plan has ceased to be top-heavy. Similarly, for purposes of determining years of service for the defined benefit minimum, the plan may disregard years of service for any plan year beginning before January 1, 1984, and years of service for any plan year in which the plan was not top-heavy. In addition, for plan years beginning on or after 1/1/02, the plan may disregard any service with the employer to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no key employee or former key employee. If the accrual computation period does not coincide with the plan year, a minimum benefit must be provided, if required, for both accrual periods within the top-heavy plan year. For a top-heavy plan that does not base accruals on accrual computation periods, minimum benefits must be credited for all periods of service required to be credited for benefit accrual. (See Regs. section 1.410(a)-7.)

The defined benefit minimum is expressed as a life annuity (with no ancillary benefits) commencing at normal retirement age. The minimum benefit may be satisfied with employer-derived benefits accrued, whether or not attributable to years in which the plan is top-heavy.

Each non-key employee who is a plan participant and who has completed at least 1,000 hours of service (or the equivalent) must accrue a minimum benefit in accordance with the top-heavy rules. Also, if non-key employees have been excluded from the plan because compensation is less than a stated dollar amount, they must accrue a minimum benefit.

Each non-key employee otherwise eligible for a benefit accrual must receive a minimum defined benefit without regard to employment on a specific date, compensation of less than a stated amount, or failure to make a mandatory contribution. The plan may not permit forfeiture of the minimum accruals on account of the withdrawal of a mandatory contribution. Also, a non-key employee may not be precluded from receiving a minimum benefit because the participant is a former key employee. 416(c)(1)(C) 1.416-1 M-1 through M-6.

Line c. The minimum contribution (including forfeitures allocated) required in a top-heavy defined contribution plan is at least 3% of compensation (within the meaning of section 415) for that plan year. A lower minimum contribution is permissible if no key employee is allocated as much as 3% of compensation and non-key employees are allocated a percentage equal to the highest percentage of compensation allocated to any key employee. Amounts contributed pursuant to a salary reduction agreement must be included in determining the amount contributed on behalf of a key employee when the minimum contribution will be less than 3%. However, the plan may not treat such elective contributions made on behalf of employees other than key employees as employer contributions for the purpose of satisfying the minimum contribution or benefit requirements. For plan years beginning after 12/31/01, matching contributions under 401(m)(4)(A) are taken into account in satisfying the minimum contribution requirements.

Each non-key employee (including a non-key employee who is a former key employee) otherwise eligible for a contribution must receive a minimum contribution, if there has been no separation from service, without regard to whether the employee has completed a year of service, earned compensation of less than a stated amount, or made a mandatory contribution. The plan must also preclude forfeiture of account balances on account of the withdrawal of a mandatory contribution.

416(c)(2)1.416-1 M-7, M-10, M-11 1.416-1 M-20

Line d. Compensation used for determining a minimum benefit-minimum contribution is the compensation described in Code section 415 and the regulations thereunder. For purposes of determining whether an employee is a key employee under section 415, compensation includes any elective deferral as defined in section 402(g)(3) and any amount which is contributed or deferred by the employer at the election of the employee and which is not includible in the gross income of the employee by reason of section 125, 132(f)(4) or 457.

416(c)(2)(A); 415(i)(1)(D)

Line e. A plan must require that the provisions described in questions a, b, c and d be operative for any year the plan is top-heavy. If the plan makes such provisions operative for all years the plan will meet the requirements of section 416. Tax Reform Act of 1984, section 524(c) 1.416-1 T-36.

III. Test for Top-Heaviness

Line a.

- 1) A determination date is the last day of the preceding plan year, or in the case of the first plan year, the last day of such year. Key employee and top-heavy tests are made with reference to the determination date.
416(g)(4)(C) 1.416-1 T-22, T-23
- 2) A valuation date is the annual date on which plan assets must be valued for the purpose of determining the value of account balances or the date on which liabilities and assets of a defined benefit plan are valued. For the purpose of top-heavy tests, the valuation date for a defined benefit plan must be the same valuation date used for computing plan costs for minimum funding. The valuation date for a defined contribution plan must be the most recent valuation date within a 12-month period ending on the determination date. 1.416-1, T-24, T-25
- 3) Each plan of an employer in which a key employee participates, (in the plan year containing the determination date or any of the four preceding plan years) and each other plan which, during this period, enables any plan in which a key employee participates to meet the requirements of section 401(a)(4) or 410(b), are required to be aggregated for top-heavy testing purposes and are considered the required aggregation group. All employers aggregated under section 414(b), (c), or (m) are considered a single employer for this purpose.

If a required aggregation group is top-heavy, each plan in the group is top-heavy. If the required aggregation group is not top-heavy, no plan in that group is top-heavy. In the case of a multiple employer plan, each employer must meet the requirements of section 416 with respect to that employer's employees. If one employer participating in a multiple employer plan is top-heavy, the plan must provide the top-heavy minimums, vesting, etc., for all employees of the employer covered by the plan. If the plan does not so provide, all employers will be considered to be maintaining a plan which is not a qualified plan.

Where non-key employees do not participate in more than one plan, each plan must separately provide the applicable minimum contribution or benefit with respect to each such participant.

416(g)(2)(A)(i) 1.416-1 G-2, T-2, T-6, T-9, T-10

- 4) A permissive aggregation group is one or more plans that are required to be aggregated plus one or more plans that are not required to be aggregated but which may be aggregated with a required aggregation group. A plan may be permissively aggregated only if the resulting aggregation group satisfies the requirements of section 401(a)(4) and 410. If the resulting permissive aggregation

group is not top-heavy, no plan in the group is top-heavy. If the permissive aggregation group is top-heavy, only plans in the required aggregation group are top-heavy.

416(g)(2)(A)(ii) 1.416-1 T-7, T-8, T-11

- 5) A defined benefit plan is top-heavy when the ratio of the present value of accrued benefits for key employees to the present value of accrued benefits for all employees exceeds 60%. A defined contribution plan is top-heavy when the ratio of account balances for key employees to account balances for all employees exceeds 60%. If there is more than one plan, the top-heavy ratios must be consolidated by adding together the numerators and then adding together the denominators to form one ratio. All distributions made during the one-year period ending on the most recent determination date must be taken into account (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability and in determining whether the plan is top-heavy for plan years beginning before 1/1/02). Nondeductible employee contributions are to be included Any accrued benefit or account balance of an individual who has not performed services for the employer during the one-year period ending on the determination date (five-year period for plan years beginning before January 1, 2002), shall not be taken into account. However, former key employees who are now non-key employees are excluded entirely from both the numerator and denominator of any fraction used to determine topheaviness.

416(g)(1), 416(g)(3), 416(g)(4) 1.416-1 T-1, T-23 through T-32, T-39

- 6) For plan years beginning before 2002, the general definition of a key employee was: Any employee who at any time during the plan year containing the determination date, (the determination date year) or the four preceding years is an officer who meets a compensation threshold, one of the 10 largest owners of the employer who meets a compensation threshold, a 5% owner of the employer, or a 1% owner of the employer who meets a compensation threshold.

Effective for years beginning after December 31, 2001, a key employee is any employee or former employee (including a deceased employee) who at any time during the plan year containing the determination date is: (1) an officer of the employer having compensation greater than \$130, 000 (as adjusted under section 416(i)(1) of the Code for plan years beginning after 12/31/02); (2) a 5% owner of the employer; or (3) a one % owner of the employer having compensation in excess of \$150,000.

Compensation considered in determining who is a key employee is compensation as defined in section 415(c)(3), which includes amounts contributed by the employer pursuant to a salary reduction agreement and any amount which is contributed or deferred by the employer at the election of the employee and which is not includible in the gross income of the employee by reason of section 125, 132(f)(4) or 457.

An individual may be considered a key employee in a plan year for more than one reason. However, in testing whether a plan or group is top-heavy, an individual's accrued benefit is counted only once. The accrued benefits of a deceased employee retain the character of key or non-key employee status as if the employee were living.

For purposes of determining who is a key employee, the aggregation rules provided in section 414 are not applied when determining ownership. Percentage of ownership is determined in the following manner: first, the fair market value of all outstanding stock in the employer must be determined; then, the fair market value of stock owned by an individual is converted to a percentage of the total value of outstanding stock. For noncorporate entities, ownership of capital or profits is substituted for ownership of stock and the attribution rules of section 318 are applied analogously.

416(i) 1.416-1 T-12 through T-21

- 7) A non-key employee is any employee who is not a key employee. Non-key employees include employees who are former key employees.

416(i)(2) 1.416-1 T-1, T-12

Line b. For a single plan, the top-heavy tests are made as of the determination date. The present value of accrued benefits or the valuation of account balances must be determined as of the most recent valuation date which is within a 12-month period ending on the determination date. In a defined contribution plan, the account balance as of the valuation date must be adjusted for contributions due as of the determination date. In the case of a defined contribution plan not subject to the minimum funding requirements of section 412, the adjustment is generally the amount of any contributions actually made after the valuation date but on or before the determination date. However, in the first year of such a plan, the adjustment should also include the amount of any contributions made after the determination date that are allocated as of a date in that first plan year. In the case of a defined contribution plan that is subject to the minimum funding standards, the account balance should include contributions that would be allocated as of a date not later than the determination date, even though those amounts are not yet required to be contributed. In the case of a defined benefit plan, the present value of accrued benefits is computed as if the employee had terminated from service on: (i) either the valuation or the determination date of the first plan year; or (ii) the valuation date for all other plan years. For the second plan year of a plan, the accrued benefit taken into account for a current participant must not be less than the accrued benefit taken into account for the first plan year unless the difference is attributable to using an estimate of the accrued benefit as of the determination date for the first plan year and using the actual accrued benefit as of the determination date for the second plan year. For any other plan year the accrued benefit of a current employee must be determined as if the individual terminated service as of such valuation date. Where more than one plan is involved, a separate determination is first made for each plan on its determination date. The plans are then aggregated by adding the results of each separate determination for such dates that occur within the same calendar year. The combined results will indicate whether or not the plans so aggregated are top-heavy.

416(g) 1.416-1 T-22 through T-25

Line c. A defined benefit plan must specify reasonable actuarial assumptions for determining the present value of accrued benefits for purposes of the top-heavy test. Interest and post-retirement mortality assumptions must be made. Pre-retirement mortality and future increases in cost-of-living (but not increases in section 415 limitations) may be assumed. However, assumptions as to future withdrawals or future salary increases may not be used. Benefits not relating to retirement benefits must not be taken into account. The assumptions used for determining present values need not be the same as those used for minimum funding purposes or for determining the actuarial equivalence of optional benefits under the plan but must be definitely determinable (see Rev. Rul. 79-90). The assumptions used do not have to be related to the plan's actual experience. If the plan specifies assumptions that reflect reasonable mortality experience (on acceptable mortality tables) and an interest rate of not less than 5 percent nor greater than 6 percent, such assumptions are deemed reasonable.

1.416-1 T-26

Line d. If an aggregation group includes two or more defined benefit plans, the same actuarial assumptions must be used with respect to all such plans and must be specified in such plans.

1.416-1 T-26, T-36

Line e. A subsidized benefit is a benefit payable in a form other than the normal retirement benefit with a value that is greater than the actuarial equivalent of the normal retirement benefit. A subsidy is non-proportional unless it applies to a group of employees that would independently satisfy the requirements of section 410(b). Proportional subsidies are not taken into account when determining the present value of accrued benefits.

1.416-1 T-26, T-27

Line f. Only non-proportional subsidies are taken into account when determining the present value of accrued benefits. Thus, a defined benefit plan must provide that non-proportional subsidies are taken into account.

1.416-1 T-26, T-27

Line g. In determining whether a plan (or plans) is top-heavy, a participant's accrued benefit in a defined benefit plan must be determined using the method uniformly used for accrual purposes for all plans of the employer. If there is not such a uniform method, then the accrued benefit is to be determined as if it accrued not more rapidly than the slowest rate of accrual permitted under the fractional rule. 416(g)(4)(F)

IV. Employer Maintaining Multiple Plans - Coordination of Top-Heavy Minimums

If an employer maintains more than one plan, non-key employees covered under only a defined benefit plan must receive the defined benefit minimum. Non-key employees covered only by a defined contribution plan must receive the defined contribution minimum. The minimum benefit is described in Section II.c. of this Explanation. The minimum contribution is described in Section II.d.

Line a. Where all plans involved are defined contribution plans, only one plan need provide the minimum contribution for all participants of a required aggregation group. However, each other plan in the aggregation group is required to implement the top-heavy vesting rules.

Where employees are covered under both defined benefit and defined contribution plans, appropriate minimums may be provided in each plan. Also, required duplication or inappropriate omission, may be avoided by using one of the approaches described in b. through d. below. Where more than one plan is maintained for the same employees and employees receive the minimum under only one plan, the plans must contain provisions to assure any employees who subsequently fail to receive appropriate minimums under that plan, because, for example, it is terminated, will still receive minimums under one of the plans. 416(f) 1.416-1 M-8, M-12

Line b. The plans may provide the minimums in the defined benefit plan or provide a floor offset whereby the defined benefit minimum is provided in the defined benefit plan and offset by the vested employer derived benefits provided under the defined contribution plan.

1.416-1 M-12 Rev.Rul.76-259

Line c. Another safe harbor that may be used in the case of employees covered under both defined benefit and defined contribution plans is to prove, using a comparability analysis, that the plans are providing benefits for each non-key employee at least equal to the defined benefit minimum.

1.416-1 M-12

Line d. In order to avoid the cost of providing the defined benefit minimum alone, the complexity of a floor offset plan, or the fluctuation of a comparability analysis, a safe haven minimum defined contribution may be provided. If contributions and forfeitures under the defined contribution plan equal 5 percent of compensation for each year the plan is top-heavy, such minimum will be presumed to satisfy the section 416 minimums. The plan document must specify the method that will be used to satisfy the required minimums.

1.416-1 M-12, M-13, M-15

Employee Benefit Plan
Top-Heavy Requirements
(Worksheet Number 7 – Determination of Qualification)

Instructions – All items must be completed. A “Yes” answer generally indicates a favorable conclusion is warranted while a “No” answer indicates a problem exists. Please use the space on the worksheet to explain any “No” answer. If the employer has not requested a determination letter as to a particular item, the question related to that item should be answered “N/A.” See Publication 7002, Explanation Number 7 for guidance in completing this form.

The technical principles in this worksheet may be changed by future regulations or guidelines

Name of plan

I. Applicability of the Top-Heavy Provisions	Plan Reference	Yes	No	N/A
a. Is the plan a collectively-bargained plan and not top-heavy?				
b. Is the plan a governmental plan as defined in section 414(d) of the Code?				
c. Is the plan a “Simple” plan that satisfies section 401(k)(11) of the Code and that allows no contributions other than those required under section 401(k)(11)?				
d. Is the plan a “safe harbor” plan under section 401(k)(12) or 401(k)(13) of the Code, not treated as a top heavy plan under section 416(g)(4)(H)?				
II. Provisions Which, If Present, Will Satisfy the Requirement of Section 416	Plan Reference	Yes	No	N/A
a. Does the plan contain a vesting schedule at least as favorable as three-year 100 percent vesting or six-year graded vesting? [707]				
b. Provisions applicable only to defined benefit plans:				
(i) Does the plan provide a minimum benefit for each non-key employee that consists of --				
A. The product of the employee’s average compensation from the employer for the five highest consecutive years; and [710]				
B. The lesser of 20 percent per year of service? [711]				
(ii) Does each non-key employee obtain a minimum benefit if such non-key employee has 1,000 hours of service (or the equivalent) during an accrual computation period --				
A. Regardless of the non-key employee’s level of compensation [713]				
B. Regardless of whether a non-key employee declines to take mandatory contribution to a plan that generally requires such contributions; and [714]				
C. Regardless of whether a non-key employee is employed on specified date, such as the last day of the year? [715]				
(iii) Does the plan preclude the forfeiture of a minimum benefit due to the withdrawal of a mandatory contribution? [716]				
c. Provision applicable only to defined contribution plans:				
(i) Does the plan provide for a minimum contribution (for example, allocation) of not less than 3 percent of compensation per year, or if less than 3 percent, the highest rate allocated (including elective deferrals) to any key employee? [718]				
(ii) Does the plan provide that each non-key employee will receive a minimum contribution if the participant has not separated from service at the end of the plan year --				
A. Regardless of whether the non-key employee has less than 1,000 hours of service (or the equivalent): [721]				
B. Regardless of the non-key employee’s level of compensation; and [722]				
C. Regardless of whether the non-key employee declines to make a mandatory contribution to a plan that generally requires such contributions? [723]				
(iii) Does the plan preclude the forfeiture of account balances attributable to required minimum contributions if a non-key employee withdraws a mandatory contribution? [724]				

II. Provisions Which, If Present, Will Satisfy the Requirement of Section 416 - Continued	Plan Reference	Yes	No	N/A
d. Is compensation to be used for purposes of determining all minimums properly defined? [760 and 761]				
e. Are the provisions described in subsections a, b, c and d operative for each year of the plan regardless of whether the plan is top heavy? (if the answer is "Yes", skip the remainder of this worksheet. If the answer is "No", proceed to part III.)				
III. Tests for Top-Heaviness	Plan Reference	Yes	No	N/A
a. Are the following terms defined in the plan:				
(i) Determination date [731]				
(ii) Valuation date [732]				
(iii) Required aggregation group [733]				
(iv) Permissive aggregation group [734]				
(v) Top-heavy ratio [735 and 736]				
(vi) Key employee [763 and 764]				
(vii) Non-key employee [739]				
b. Does the plan provide that the accrued benefits and account balances that are to be taken into account in determining top-heaviness relate to the proper determination date? [740]				
c. If the plan is a defined benefit plan, does the plan specify the actuarial assumptions used to determine the present value of accrued benefits? [741]				
d. Are the actuarial assumptions identical for all defined benefit plans being tested for top heaviness? [742]				
e. Are proportional subsidies ignored when testing for top-heaviness in a defined benefit plan? [743]				
f. Are non-proportional subsidies considered when testing for top-heaviness in a defined benefit plan? [744]				
g. Does the plan provide that, for purposes of determining whether the plan is top-heavy, a participant's accrued benefit in a defined benefit plan will be determined under a uniform accrual method which applies in all defined benefit plans maintained by the employer or, where there is no such method, under the fractional rule? [745]				
IV. Employer Maintaining Multiple Plans – Coordination of Top-Heavy Minimums	Plan Reference	Yes	No	N/A
a. Does this plan provide the minimum benefit (contribution) if it is a defined benefit (contribution) plan? [746]				
b. If both defined contribution and defined benefit plans exist, does the defined benefit plan provide the defined benefit minimum or does a floor offset arrangement apply where the floor is the defined benefit minimum? [747, 748 and 749]				
c. If both defined contribution and defined benefit plans exist, is the minimum contribution comparable to the minimum benefit? [747, 748 and 749]				
d. If both defined contribution and defined benefit plan exist, is a minimum contribution of 5 percent of compensation provided for each non-key employee participating in both plans? [747, 748 and 749]				

Employee Plan Deficiency Checksheet

Attachment Number 7

Top-Heavy Plans

For IRS Use	Please furnish the amendment(s) requested in the section(s) checked below.
707 II.a.	Section _____ of the plan should be amended to provide for the use of a vesting schedule at least as favorable as three-year 100 percent vesting or six-year graded vesting for a plan year for which the plan is top-heavy. IRC section 416(b) and Regs. section 1.416-1, V-1 through V-7.
710, 711 II.b(i)A. and B.	A defined benefit plan must, for a year that the plan is top-heavy, provide a minimum annual benefit equal to the lesser of 20 percent, or 2 percent per year of service, of each non-key employee's average compensation from the employer for the five highest consecutive years. Section _____ of the plan should be amended accordingly. Regs. section 1.416-1, M-1 through M-6.
713 II.b.(ii)A.	Each non-key employee who is a plan participant and who has completed at least 1,000 hours of service (or the equivalent) during an accrual computation period must accrue a minimum benefit in accordance with the top-heavy rules regardless of the non-key employee's level of compensation. Section _____ of the plan should be amended accordingly. Regs. section 1.416-1, M-1 through M-6.
714 II.b.(ii)B.	Each non-key employee who is a plan participant and who has completed at least 1,000 hours of service (or the equivalent) during an accrual computation period must accrue a minimum benefit in accordance with the top-heavy rules regardless of whether a non-key employee declines to make a mandatory contribution to a plan that generally requires such contributions. Section _____ of the plan should be amended accordingly. Regs. section 1.416-1, M-1 through M-6.
715 II.b.(ii)C.	Each non-key employee who is a plan participant and who has completed at least 1,000 hours of service (or the equivalent) during an accrual computation period must accrue a minimum benefit in accordance with top-heavy rules regardless of whether a non-key employee is employed on a specified date, such as the last day of the year. Section _____ of the plan should be amended accordingly. Regs. sections 1.416-1, M-1 through M-6.
716 II.b.(iii)	Section _____ of the plan should be amended to preclude the forfeiture of a minimum benefit due to the withdrawal of a mandatory employee contribution. Regs. sections 1.416-1, M-1 through M-6.
718 II.c.(i)	Section _____ of the plan should be amended to provide for a minimum contribution (for example, allocation) for a year in which the plan is top-heavy of not less than 3 percent of compensation per year (within the meaning of section 415), or, if less than 3 percent, the highest rate allocated (including elective deferrals) to any key employee. Regs. sections 1.416-1, M-7, M-10 and M-11.
721 II.c.(ii)A.	Section _____ of the plan should be amended to provide that for a year in which the plan is top-heavy, each non-key employee will receive a minimum contribution if the participant has not separated from service at the end of the plan year, regardless of whether the non-key employee has less than 1,000 hours of service (or the equivalent). Regs. sections 1.416-1, M-7, M-10 and M-11.
722 II.c.(ii)B.	Section _____ of the plan should be amended to provide that for a year in which the plan is top-heavy, each non-key employee will receive a minimum contribution if the participant has not separated from service at the end of the plan year, regardless of the non-key employee's level of compensation. Regs. sections 1.416-1, M-7, M-10 and M-11.
723 II.c.(ii)C.	Section _____ of the plan should be amended to provide that for a year in which the plan is top-heavy, each non-key employee will receive a minimum contribution if the participant has not separated from service at the end of the plan year, regardless of whether the employee declines to make a mandatory contribution to the plan that generally requires such a contribution. Regs. sections 1.416-1, M-7, M-10 and M-11.
724 II.c.(iii)	Section _____ of the plan should be amended to preclude the forfeiture of account balances attributable to required minimum contributions if a non-key employee withdraws mandatory contributions. Regs. sections 1.416-1, M-7, M-10 and M-11.
760, 761 II.d.	Compensation to be used for determining a minimum benefit or a minimum contribution is the compensation described in the regulations under section 415. Compensation includes amounts contributed by the employer pursuant to a salary reduction arrangement and any amount which is contributed or deferred by the employer at the election of the employee and which is not includable in the gross income of the employee by reason of section 125, 132(f)(4) or 457. Section _____ of the plan should be amended to properly define compensation. IRC section 416(c)(2)(A), 416(i)(1)(D).
731 III.a.(i)	Section _____ of the plan should be amended to properly define determination date. A determination date is the last day of the preceding plan year, or in the case of the first plan year, the last day of such year. Key employee and top-heavy tests are made with reference to the determination date. IRC section 416(g)(4)(C) and Regs. sections 1.416-1, T-22 and T-23.

732 III.a.(ii)	Section _____ of the plan should be amended to properly define valuation date. A valuation date is the annual date on which plan assets must be valued for the purpose of determining the value of account balances or the date on which liabilities and assets of a defined benefit plan are valued. For the purposes of the top-heavy test, the valuation date for a defined benefit plan must be the same valuation date used for computing plan costs for minimum funding. The valuation date for a defined contribution plan must be the most recent valuation date within a 12-month period ending on the determination date. Regs. sections 1.416-1, T-24 and T-25.
733 III.a.(iii)	Section _____ of the plan should be amended to properly define required aggregation group. Each plan of an employer in which a key employee participates (in the plan year containing the determination date or any of the four preceding plan years) and each other plan which, during this period, enables any plan in which a key employee participates during the period tested to meet the requirements of section 401(a)(4) or 410(b), are required to be aggregated for top-heavy testing purposes and are considered the required aggregation group. All employers aggregated under Code sections 414(b), (c) or (m) are considered a single employer for this purpose. IRC section 416(g)(2)(A)(i), Regs. sections 1.416-1, T-6, T-9 and T-10.
734 III.a.(iv)	Section _____ of the plan should be amended to properly define permissive aggregation group. A permissive aggregation group is one or more plans that are not required to be aggregated but which may be aggregated with a required aggregation group. A plan may be permissively aggregated only if the resulting aggregation group satisfies the requirements of sections 401(a)(4) and 410. IRC section 416(g)(2)(A)(ii), Regs. sections 1.416-1, T-7, T-8 and T-11.
735, 736 III.a.(v)	Section _____ of the plan should be amended to properly define top-heavy ratio. A defined benefit plan is top-heavy when the ratio of the present value of accrued benefits for key employees to the present value of accrued benefits for all employees exceeds 60 percent. A defined contribution plan is top-heavy when the ratio of account balances for key employees to account balances for all employees exceeds 60 percent. If there is more than one plan, the top-heavy ratios must be consolidated by adding together the numerators and then adding together the denominators to form one ratio. IRC section 416(g)(1) and Regs. sections 1.416-1, T-1, T-23 through T-32 and T-39.
763, 764 III.a.(vi)	Section _____ of the plan should be amended to properly define key employee. As defined in IRC section 416(i), a key employee is any employee or former employee who at any time during the plan year containing the determination date, is or was: <ul style="list-style-type: none"> (1) An officer of the employer having annual compensation greater than \$130,000 (as adjusted under section 416(i)(1) for plan years beginning after 12/31/02.) (2) A five-percent owner of the employer; or (3) A one-percent owner of the employer who has annual compensation of more than \$150,000. For purposes of determining five-percent and one-percent owners, the rules of subsections (b), (c) and (m) of section 414 do not apply. Beneficiaries of an employee acquire the character of the employee who performed service for the employer. Also, inherited benefits will retain the character of the benefits of the employee who performed services for the employer. IRC section 416(i), Regs. sections 1.416-1, T-12 through T-21.
739 III.a.(vii)	Section _____ of the plan should be amended to properly define non-key employee. A non-key employee is any employee who is not a key employee. Non-key employees include employees who are former key employees. IRC section 416(i)(2), Regs. sections 1.416-1, T-1 and T-12.
740 III.b.	Section _____ of the plan should be amended to provide that the accrued benefits and account balances that are to be taken into account in determining top-heaviness relate to the proper determination date. IRC section 416(g), Regs. sections 1.416-1, T-22 through T-25.
741 III.c.	Section _____ of the plan should be amended to specify the actuarial assumptions used to determine the present value of accrued benefits for purposes of the top-heavy test. Regs. section 1.416-1, T-26.
742 III.d.	Section _____ of the plan should be amended to provide that if an aggregation group includes two or more defined benefit plans, the same actuarial assumptions must be used with respect to all such plans and must be specified in such plans. Regs. section 1.416-1, T-26, T-36.
743 III.e.	Section _____ of the plan should be amended to provide that proportional subsidies are ignored when testing for top-heaviness in a defined benefit plan. Regs. sections 1.416-1, T-26 and T-27.
744 III.f.	Section _____ of the plan should be amended to provide that non-proportional subsidies are considered when testing for top-heaviness in a defined benefit plan. Regs. sections 1.416-1, T-26 and T-27.
745 III.g.	Section _____ of the plan should be amended to provide that, for purposes of determining whether the plan is top-heavy, a participant's accrued benefit in a defined benefit plan will be determined under a uniform accrual method which applies in all defined benefit plans maintained by the employer or, where there is no such method, as if such benefit accrued not more rapidly than the slowest rate of accrual permitted under the fractional rule of section 411(b)(1)(C). IRC section 416(g)(4)(F).

746 IV.a.	Section _____ of the plan should be amended to provide the appropriate top-heavy minimums. If an employer maintains more than one plan, non-key employees covered under only a defined benefit plan must receive the defined benefit minimum. Non-key employees covered only by a defined contribution plan must receive the defined contribution minimum. Where all plans involved are defined contribution plans, only one plan need provide the minimum contribution for all participants of the required aggregation group. IRC section 416(f), Regs. sections 1.416-1, M-8 and M-12.
747, 748, 749 IV.b., c. and d.	<p>Section _____ of the plan should be amended to provide that if an employer maintains more than one plan covering non-key employees the top-heavy minimums must be properly coordinated by a specified approach. If both defined contribution and defined benefit plans exist, the top-heavy minimums may be coordinated by one of the approaches described below:</p> <ol style="list-style-type: none"> (1) Provide appropriate minimums in each plan, IRC section 416(f) and Regs. section 1.416-1, M-8; M-12; or (2) Provide a defined benefit minimum in the defined benefit plan, which is offset by the benefits provided under the defined contribution plan, Regs. section 1.416-1, M-12 and Rev. Rul. 76-259, 1976-2 C.B. 111; or (3) Make a comparability analysis to prove that the plans are providing benefits at least equal to the minimum defined benefit, Regs. section 1.416-1, M-12; or (4) Provide a safe harbor minimum defined contribution. If contributions and forfeitures under the defined contribution plan equal 5 percent of compensation for each year the plan is top-heavy, such minimum will be presumed satisfy the section 416 minimum. Regs. sections 1.416-1, M-12, M-13 and M-15.

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