401(k) & EDCP Participation Journey Map

Dorelle is a 62-year-old Senior Marketing Director hired on December 4, 2020. She is eligible for the 401(k) plan and the Albertsons Companies Executive Deferred Compensation Plan (EDCP). With an annual base salary of $180,000 plus a $35,000 bonus in 2021 and 2022, Dorelle is considered a Highly Compensated Employee (HCE) by the IRS for 401(k) plan nondiscrimination testing. **Note**: Throughout this example, Dorelle remains actively employed as a 401(k) Plan and EDCP-eligible associate.

2020

Dec 4, 2020

Dorelle's first day of work. She elects to contribute 6% of her base annual salary ($10,800) to her 401(k).

The Plan is required to conduct annual IRS testing to make sure the benefits don't favor HCEs over non-HCEs. Historically, the Plan has failed the test.*

2021

Nov 2021

After discussing the options with her financial advisor, Dorelle enrolls in the EDCP for 2022 during the annual enrollment period. She elects to defer 50% of her eligible bonus for distribution as a lump sum in 2033.

Dorelle would receive the benefits described in this example by deferring as little as 1% of her base salary or 1% of her bonus.

Dec 4, 2021

Dorelle works 1,000 hours before her first anniversary, making her 401(k) Plan contributions after Dec 4, 2021, eligible for a discretionary match.

There are 3 weeks remaining in 2021 that are eligible for a Company match. The discretionary match contribution is based on Dorelle's earnings and 401(k) contributions after meeting the match eligibility requirement.[1]

1 Dorelle's contributions after December 4, 2021, are eligible for the Company match:

- $180,000 ÷ 52 = $3,461.54 × 3 weeks = $10,384.62 (Dorelle's eligible earnings)
- $10,384.62 × 6% = $623.08 × 50% = $311.54 (Company match contribution)

Dorelle's total contributions to the 401(k) in 2021:

- $10,800.00 + $311.54 = $11,111.54

2022

Jan 1, 2022

Dorelle increases her 401(k) contribution to 10% of her base annual salary ($18,000).

Mar-Apr 2022

Dorelle receives a discretionary Company match contribution in her 401(k) for the 2021 plan year.

The contributions Dorelle made after December 4, 2021, are eligible for the Company match.

Oct 2022

Dorelle receives a letter regarding the likelihood that the 401(k) Plan will need to return "excess contributions" made by HCEs. Dorelle is happy she decided to enroll in the EDCP for 2022. She does not have to worry about 401(k) excess contributions being returned to her.

Nov 2022

Dorelle enrolls in the EDCP for 2023 during the annual enrollment period. Even though Dorelle enrolled in 2022, **she needs to enroll again if she wants to participate in 2023.**

2 Dorelle's 2022 contributions ($18,000) will be eligible for the Company match:

- $180,000 × 7% = $12,600 × 50% = $6,300 (Company match contribution)

Dorelle's total contributions to the 401(k) in 2022 before discrimination testing:

- $18,000 + $6,300 = $24,300

Dorelle's total contributions to the 401(k) in 2022 after discrimination testing:

- $12,000 + $4,200 = $16,200

2023

Mar-Apr 2023

Dorelle receives a $6,300 discretionary Company match contribution in her 401(k) for the 2022 plan year.[2]

Dorelle receives a letter indicating the 401(k) Plan has failed nondiscrimination testing in 2022 and that contributions above $12,000 would be returned to HCEs or deposited into the EDCP.

Because Dorelle enrolled in the EDCP for 2022, $6,000 of her 2022 401(k) contributions are transferred into the EDCP along with $2,100 for the portion of the Company match attributable to the $6,000 excess 401(k) contribution).[3]

2033

Distribution date for Dorelle's 2022 EDCP

Dorelle receives a lump-sum payment on the distribution date she elected during the 2022 EDCP annual enrollment.

When Dorelle retires, her annual income decreases, reducing the amount of federal, state and local taxes she pays for the deferred compensation.

* The Albertsons Companies 401(k) Plan is a "tax-qualified" retirement plan. In addition to imposing annual contribution limits, federal income tax law requires that the Plan complies with "nondiscrimination rules" that restrict the amount of contributions that may be contributed to the Plan. To ensure the Plan complies with IRS regulations, contributions paid into the Plan are reviewed each year by retirement Plan experts and legal counsel.

3 Dorelle's 2022 Contributions to the EDCP:

- 50% of her 2022 bonus: $35,000 X 50% = $17,500
- $6,000 from her 401(k) excess contribution + $2,100 (Company match from her excess 401(k) contribution) = $8,100
- EDCP Company match is $15,050 ($215,000 X 7%) - $2,100 (401(k) match from excess contributions) = $12,950
- 2022 EDCP total contribution: $17,500 + $8,100 + $12,950 = $38,550

401(k) Participation Journey Map

Paola is a 42-year-old Assistant Grocery Sales Manager hired on March 1, 2020. She is eligible for the 401(k) Plan, but not for the Albertsons Companies Executive Deferred Compensation Plan (EDCP). With an annual base salary of $120,000 plus a $35,000 bonus in 2020, Paula is considered a Highly Compensated Employee (HCE) for 2021 by the IRS for 401(k) plan nondiscrimination testing. **Note**: Throughout this example, Paola remains actively employed as a 401(k) Plan-eligible associate.

2020

March 1, 2020

Paola's first day of work. She elects to contribute 12% of her weekly earnings ($276.92) to her 401(k).[1]

1
- $120,000 ÷ 52 = $2,307.69
- $2,307.69 × 12% = $276.92

2021

March 1, 2021

Paola works 1,000 hours before her first anniversary, making her 401(k) Plan contributions after March 1, 2021, eligible for a discretionary match.

There are 44 weeks remaining in 2021 that are eligible for a Company match. The discretionary match contribution is based on Paola's earnings and 401(k) contributions after meeting the match eligibility requirement.[2]

Oct 2021

Paola receives a letter regarding the likelihood that the 401(k) Plan will need to return "excess contributions" made by HCEs. The letter suggests she limit her contributions to approximately $12,000 for 2021 to avoid an excess and potential refund.

Paola chooses not to make any adjustments to her contribution percentage (12%).

2

Paola's contributions after March 1, 2021, are eligible for the Company match:
- $120,000 ÷ 52 = $2,307.69 × 44 weeks = $101,538.36 (Paola's eligible earnings)
- $101,538.36 × 7% = $7,107.69 × 50% = $3,553.85 (Company match contribution)

Paola's total contributions to the 401(k) in 2021:
- $276.92 × 52 = $14,399.84
- $14,399.84 + $3,553.85 = $17,953.69

2022

Mar-Apr 2022

Paola receives a discretionary Company match contribution in her 401(k) for the 2021 plan year.

The Plan is required to conduct annual IRS testing to make sure the benefits do not favor HCEs over non-HCEs. Historically, the Plan has failed the test.*

Paola's contributions after March 1, 2021, are eligible for the Company match, less matching funds attributable to her "excess contributions."

Paola receives a letter indicating the Plan has failed nondiscrimination testing. As a result, $2,399.84 ($14,399.84 – $12,000) of her 2021 401(k) Plan contributions are being returned to her as taxable income. She also must forfeit $84.00 (the portion of the Company match attributable to that $2,399.84).[3]

3

$2,399.84 × 7% = $167.99 × 50% = $84.00

May 2022

Paola meets with her financial advisor to maximize all the benefits of the 401(k) Plan while preventing a potential excess of contributions. Paola reduces her 401(k) deferral percentage so that by the end of 2022, she will contribute $12,000.

The Plan historically has not satisfied the IRS nondiscrimination rules related to contributions and will likely not satisfy the rules for the 2022 calendar year.

Oct 2022

Paola receives a letter regarding the likelihood the 401(k) Plan will need to return "excess contributions" made by HCEs. The letter suggests she limit her contributions to approximately $12,000 for 2022.

Paola is happy she has already adjusted her weekly contributions after meeting with her financial advisor in May 2022. The full amount of her contributions will be eligible for the Company match.[4]

4

Paola's 2022 contributions ($12,000) will be eligible for the Company match:
- $120,000 × 7% = $8,400 × 50% = $4,200 (Company match contribution)

Paola's total projected contributions to the 401(k) in 2021:
- $12,000 + $4,200 = $16,200

2023

Jan 2023

Paola receives Form 1099-R for the $2,399.84 refund she received in March 2022 for "excess contributions" and any income taxes withheld attributable to plan year 2021. The full amount is taxable on her 2022 tax return.

Ongoing

Paola avoids potential "excess contributions" and stays on top of her 401(k) with Fidelity and the Albertsons 401(k) team. She regularly accesses her Plan account online at netbenefits.com and downloads the NetBenefits app to access her account on her phone.

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