

HR-XML Consortium

3.2.1 Savings Plans

Specification

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Savings Plan Specification Overview

HR-XML's Savings Plan Enrollment specification together with HR-XML's Payroll HR Master, and Indicative Data specifications can be used in various combinations to support savings plan integration. The term "savings plan" is used broadly to refer to a category of programs under which participants accrue money in accounts typically funded through a mix of employee payroll deferrals and employer contributions.

Employer-sponsored savings plans are a common employee benefit in many parts of the world. However, there is much variation in plan design, regulation, and taxation.

HR-XML's specifications related to savings plans are flexible and intended to be useful in a variety of contexts. However, the specifications include optional features designed around specific plan types (for example, 401(k) and certain "non-qualified" plans in the U.S. market).

Note: The HRPayrollMaster is not available in the current release.

The key savings plan schema is:

SavingsPlanEnrollment. Intended to support the communication of enrollment and election information for savings and defined contribution plans, such as 401(k) plans within the U.S. market.

Actors

The actors in the savings plan integration scenario are described below:

- **Payroll Service.** The service provider responsible for processing the payroll of the associated employer. Usually is an external, third-party service, but sometimes may be an internal service provider.
- **HRIS.** An HRIS or "core HR system" combines such functionality as: employee data management, reporting, compliance, benefits administration, recruitment and applicant tracking, talent management, manager and employee self-service modules, and integration services.
- **Benefits Plan Administrator.** A benefits plan administrator (or sometimes "third-party administrator" or "TPA") serves as recordkeeper for a benefits program, administers new enrollments and changes in plan elections, updates participant data to reflect business and life events, and administers legal compliance on behalf of an employer. The administrator also may provide on-line facilities for employees/participants to use in making elections, enrollments, and in gaining information with respect to their benefit programs.
- **Investment Company.** In the context of savings plans and similar employee benefits programs, an investment company is an organization that sets up and maintains accounts for plan participants. These companies typically sell and manage a range of investments options,

including mutual funds, a term with a specific statutory meaning in some countries, but which is used as a generic term for a variety of collective investment vehicles.

While not system actors in the integration depicted in the section called “Savings Plan: Supported Processes”, the other stakeholders are:

- **Plan Participant.** An individual, usually an employee of the Plan Sponsor but sometimes possibly an outside consultant, board member, independent contractor or a beneficiary - who stands to become an equity owner or otherwise benefit financially through plan participation.
- **Beneficiary.** A person or organization designated as the receiver of some allocation of the savings, retirement, or other employee benefits account proceeds in the event of the account holder's death.
- **Plan Sponsor.** The party that sets up health, welfare, retirement, or other programs for the benefit of employees or members. Typically, a sponsor is the employer, but in some cases it might be an organization such as a union. Plan sponsors frequently work with third-party administrators and plan providers to actually operate and fulfill plan obligations.

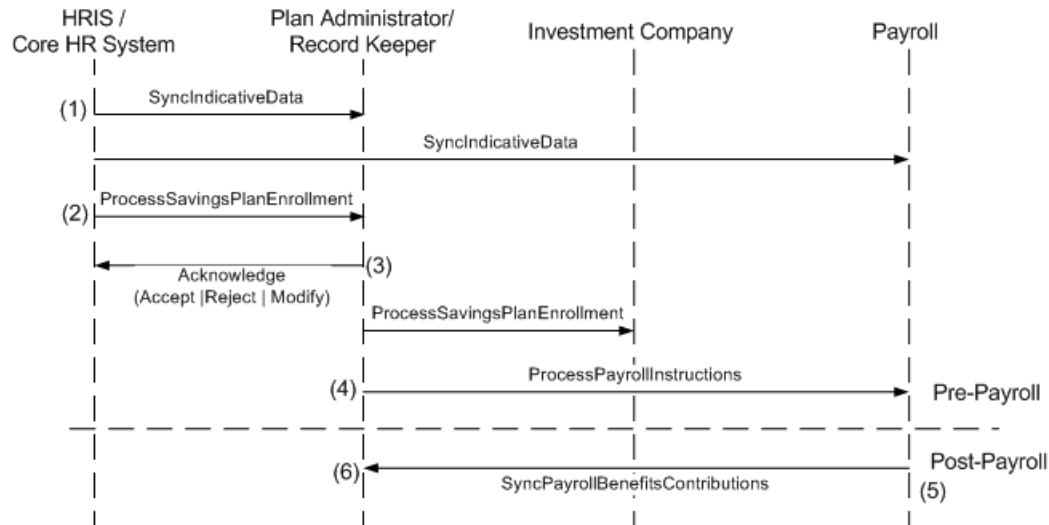
Trigger / Precondition

Examples of events that could trigger this message include:

- **Open Enrollment.** A period designated for plan participants to change plans and/or their elections of options under those plans. Typically, a period of a week or weeks occurring once a year.
- **New Hire.** The beginning of an individual's term of employment.
- **Pay and Benefit Election Changes.** A wide variety of financial and life events can in turn trigger the need for employers to make changes to benefit elections, payroll withholding, tax allowances claimed, beneficiaries change, benefit providers, changes in contribution/allocations, etc.

Supported Processes

There are many possible savings plan integration scenarios. The diagram below depicts one possible sequence of messages, followed by a step-by-step explanation.



Note: The schema/BOD's for pre-payroll and post-payroll transactions are not included in the current release.

1. The first step is to provision the plan administrator's system with detailed census information for the individuals participating or eligible to participate in the savings plan. This data would typically be sourced from an HRIS. For a large employer, this could involve many thousands of records. This initial population of the administrator's systems would likely be carried out using a series of `SyncIndicativeData` instances sent through messaging queuing or other reliable messaging mechanism. An employer also might use the `IndicativeData` schema in the same fashion to update the employee data hosted by a payroll service provider.
2. The next step is to communicate participant elections to the plan administrator. This is accomplished using the `SavingsPlanEnrollment` schema. The data communicated tells the plan administrator not just who is eligible to participate (communicated within `IndicativeData`), but who has actually enrolled in the plan and their choices thereunder. In the diagram above, the transfer of participant elections is depicted as occurring in two "hops" - one between the employer's core HR system and the plan record keeper and one between the plan record keeper and the investment.
3. The plan administrator receives the participant elections and processes them. Administrators oversee plan compliance. As mentioned in the section called "Other Considerations: Plan Data and Compliance Testing", the administrator may have a role in enforcing applicable contribution

limits. If contribution-limit checking were done synchronously when a `ProcessSavingsPlanEnrollment` was received and processed, a rejection of a deferral requests in excess of limits could be communicated back in an `AcknowledgeSavingPlanEnrollment`. This might also be handled with a `NotifySavingsPlanEnrollment` message pushed back to the employer system with either a notice that a deferral had been rejected or that it had been modified to be within applicable limits.

4. After such compliance and error processing is accomplished, the plan administrator prepares payroll instructions to communicate to the payroll service provider. These instructions tell payroll to reduce the employee's pay by the amount of the deferral or otherwise make adjustments in line with deferral elections. The payroll instructions typically include metadata such as a designated start date for the pay reductions, but might otherwise begin the first payroll after the instruction is received if no explicit start date is specified. These instructions are communicated using a payroll BOD and applicable data management instructions.
5. The payroll service provider receives the instructions from the plan administrator and applies them within its system. Payday comes. Each participant's pay is reduced or adjusted in accordance with any new deferral elections they submitted. The amount of pay applied to the savings plan deferral is reflected on the employee's pay check and recorded within the payroll service provider's system. Post-payroll reports of deferrals and deductions related to the savings plan are sent back to the plan administrator using a payroll BOD.
6. The Plan Administrator updates its records of the participant's actual deferrals so it has accurate information with which to administer contribution limits, etc.

Usually several days after the actual payroll, the plan sponsor deposits funds to cover employee deferrals with the investment company. The Plan Administrator usually is involved in calculating the amount of the plan sponsor's liability and in effecting the transfer of the required funding based on the amounts reported within post-payroll reports. These specifications do not address the actual transfer of funds.

Once in receipt of the plan sponsor's funds, the investment company makes deposits to participant's accounts and allocates amounts to investments according to the participant's elections.

Implementation Considerations

Participant Indicative Data

There are many possible variations to the above scenario. Here are a few:

- The above scenario relies on the Indicative Data schema for exchanges of participant census data and the Savings Plan Enrollment schema to communicate only participant plan elections. However, the Savings Plan Enrollment schema itself is capable of communicating a wide-range of participant indicative data.
 - A possible alternative to the pattern depicted above might be to dispense with using the Indicative Data schema and to maintain participant "on the fly" by relying on the indicative data components available within savings plan enrollment schema.
 - Implementers need to consider which approach makes sense for their situation. Some implementers may use a "thin" Savings Plan Enrollment message that references the participant only by an identifier and that is limited in scope to adding and updating savings plan elections (relying on Indicative Data for participant data maintenance). Other implementers may choose a "thick" Savings Plan Enrollment message that includes detailed participant indicative data.
- In the above diagram, savings plan elections are communicated in two hops using the Savings Plan Enrollment schema. Data goes from the employer to the record keeper and then from the record keeper to the investment company. In many cases, at least one of these hops would be eliminated by web-based enrollment hosted by the plan administrator (and/or web-based interfaces for participants hosted by the investment company).
- Depending on the type of plan, size of the employer, applicable statutory provisions, and the service offerings of providers, one or more of the above roles may be combined. For example, some payroll service providers offer recordkeeping and plan administration services.

Plan Data and Compliance Testing

The diagram above shows the HR-XML Indicative Data schema as the mechanism the employer uses to initially provision the record keeper's system. Thereafter, the employer also uses the Indicative Data schema as the basis for maintenance of the participant data (for example, changes to base employee data, such as address, dependents, etc.). The indicative data feeds include detailed census data for all current participants and eligible individuals who may or may not actually elect to participate within the plan.

This detailed feed of census data usually is important in supporting the plan administrator's compliance responsibilities. For example, within the United States and within certain other countries, tax preferences extended to savings plans may depend on the plan being available to, and used by, a broad cross-section of employees -- not just those employees who are highly compensated or who are top managers of the company. Plans may be required to pass so-called "non-discrimination tests," which



require complex calculations based on participant data. Thus details such as employee pay levels (whether they are "highly compensated" under applicable tax law), employee percentage ownership (if any), and whether the employees are officers or directors can be required for the non-discrimination test calculations.

Plan administrators also usually oversee and administer compliance with contribution limits. Applicable law may provide tax preferences only up to a given annual contribution limit. This may be an across-the-board limit and/or it may be a limit that applies to a class of participant, such as an owner or highly compensated employee. Thus, applying contribution limits often needs to be done in a way that is informed both by accurate census data and by accurate reporting of prior amounts contributed within the same plan year or applicable period.

Major Components

Implementers can use as many or as few of the HR-XML library components that pertain to their integration. The library components used in the scenario are described in the sections that follow.

Savings plan elections cover a variety of items such as:

Payroll deferrals

The HR-XML schema enables the capture of information about employees' payroll deferrals. Payroll deferrals are the most common contribution source available to participants to apply to saving plan investments.

A deferral is generally defined as an amount that an employee is able to receive as current pay, but that he or she elects to defer for later receipt as a distribution from a retirement plan or other tax-preferred account. Broadly speaking, employees that make deferrals reduce the amount of their pay that is currently subject to taxation and usually gain other tax benefits, such as the tax-free accrual of earnings on deferred amounts. Tax benefits depend on the type of plan and applicable tax law.

Regular pay can usually be deferred. Bonus amounts and other forms of pay also sometimes can be deferred.

Contribution sources

HR-XML's saving plans enrollment schema provides a means to capture information about contribution sources and "source groups." Contribution sources are what a participant applies when making allocations to specific investment options. Contribution sources include payroll deferrals, but can also include sources such as deferred bonuses and employer contributions. Different contribution sources sometimes are aggregated within groups for the purposes of making investment allocations as well as for specifying plan distributions. For example, a savings plan participant might combine all employee deferral sources (Base, Bonus) into a single contribution source group.

Note that while some plans organize contribution sources into groups, other plans may allow participants to make elections only with respect to individual contribution sources.



Investment choices and allocations

The HR-XML savings plan schema provides a means to capture participants' choices of investments and allocations of contributions to investments. Allocations typically are expressed as a percentage of a contribution source or source group.

Plan distribution choices

In the case of certain "non-qualified" savings plans offered within U.S. markets, participants may be required to make certain elections regarding plan distributions at the time they make investment allocations.

Designation of beneficiaries

The savings plan schema also includes a component to communicate beneficiary information. Beneficiaries are those individuals that a plan participant designates to receive some or all of the participant's account proceeds in the event of his or her death.

Appendix A: Examples

Examples for each of these components can be found in the Instances folder.

Process Savings Plan Enrollment

The following is an example of a simple "Add" of a new enrollment. In this example, the implementer has chosen the "thin" style of implementation. The detailed census data for this individual was communicated via IndicativeData and is maintained that way. The participant is only identified by a participant number. The participant is paid weekly and has elected to defer \$1,000 USD per pay period.

ProcessSavingsPlanEnrollment-Example-1.xml

AcknowledgeSavingsPlanEnrollment-Example-1.xml

Notify Savings Plan Enrollment

Time goes by and the participant's contributions begin to add up. So much so, the applicable contribution limits are reached. The following notification is returned indicating that the limit has been reached and the effective dates of this status (till the end of the current plan year). Note that this would call a web service hosted by the original requesting system.

NotifySavingsPlanEnrollment-Example-1.xml

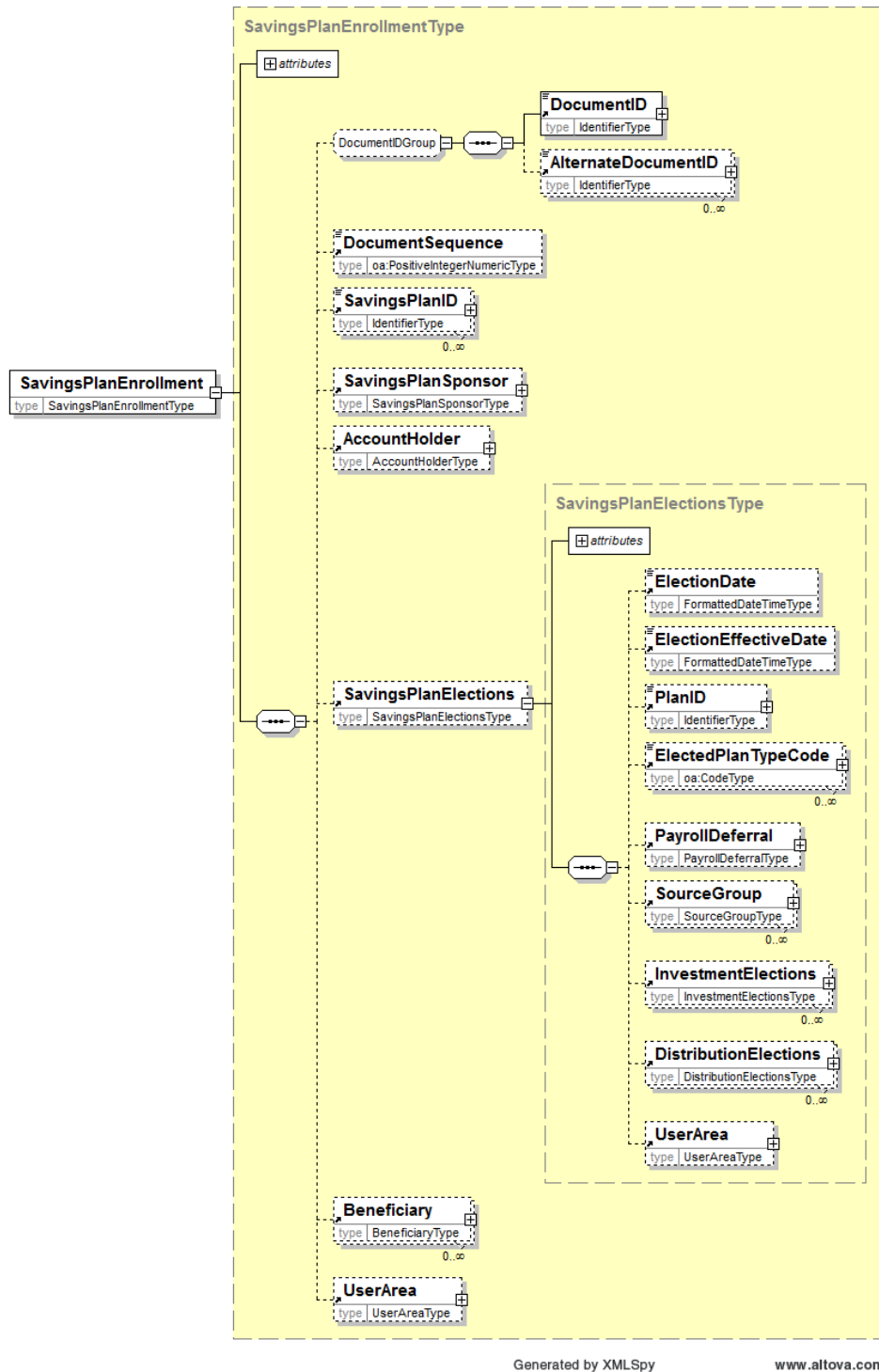
Additional Examples

ProcessSavingsPlanEnrollment-Example-2.xml

ProcessSavingsPlanEnrollment-Example-3.xml

Appendix B: Noun Layouts

Savings Plan Enrollment



Appendix C: Business Object Document Diagrams

This is a service that might be hosted by an investment company (or other firm managing savings plan accounts) to process and manage savings plan enrollments.

