

# Qualified 401(k) Administrator (QKA) 1 Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What is the role of the plan sponsor in a 401(k) plan?**
  - A. To advise employees on personal finances**
  - B. To manage plan assets and ensure compliance**
  - C. To market the plan to potential participants**
  - D. To determine employee salaries**
- 2. Why might employers decide to implement a matching contribution formula?**
  - A. To reduce administrative work and responsibilities**
  - B. To attract and retain employees through added incentives**
  - C. To simplify the employee contribution process**
  - D. To comply with legislative requirements without costs**
- 3. Is it true that a rate of replacement loan is used when refinancing a participant loan?**
  - A. True**
  - B. False**
  - C. Only sometimes**
  - D. It depends on the plan**
- 4. Which factor could disqualify a profit-sharing plan from being exempt from QSJA rules?**
  - A. Offering an annuity form of payment**
  - B. Having multiple participants**
  - C. Choosing a non-consent beneficiary**
  - D. Not meeting annual contribution limits**
- 5. What is a critical aspect of fulfilling fiduciary duties in a 401(k) plan?**
  - A. Maximizing profits for the plan**
  - B. Following participant investment choices**
  - C. Ensuring compliance with ERISA requirements**
  - D. Limiting communication with participants**

- 6. What is one potential benefit of implementing automatic escalation for employees?**
- A. Decreased overall retirement savings**
  - B. Enhanced ability to save for retirement over time**
  - C. Immediate tax benefits from higher contributions**
  - D. Reduction in employer matching contributions**
- 7. How is permitted disparity calculated?**
- A. By estimating future compensation increases**
  - B. Based on salary percentage of original salary**
  - C. By averaging total compensation across all employees**
  - D. According to regulatory standards of tax benefits**
- 8. In what scenario can you amend a safe harbor provision?**
- A. With immediate effect without notifying participants**
  - B. Only during the annual review period**
  - C. By providing notice at least 30 days prior to the amendment**
  - D. Once every 5 years**
- 9. What defines the "Annual Contribution Limitation" for a 401(k) plan?**
- A. The minimum amount that must be contributed annually**
  - B. The total contributions permissible in a calendar year**
  - C. The cap on employer contributions only**
  - D. The amount allowed for distributions each year**
- 10. When must the Form 1099-R be distributed by?**
- A. No later than January 1 of the calendar year**
  - B. May 15 of the calendar year**
  - C. January 31 of the calendar year following the year of distribution**
  - D. March 31 of the calendar year**

## **Answers**

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1. B
2. B
3. A
4. A
5. C
6. B
7. B
8. C
9. B
10. C

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## **Explanations**

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## 1. What is the role of the plan sponsor in a 401(k) plan?

- A. To advise employees on personal finances
- B. To manage plan assets and ensure compliance**
- C. To market the plan to potential participants
- D. To determine employee salaries

The role of the plan sponsor in a 401(k) plan primarily involves managing the plan assets and ensuring compliance with applicable laws and regulations. This responsibility includes selecting and monitoring investment options, ensuring that the plan adheres to the Employee Retirement Income Security Act (ERISA) requirements, and fulfilling fiduciary duties to act in the best interest of the participants. Plan sponsors, which are typically employers, must also ensure that the plan operates according to its terms and meets reporting and disclosure obligations. This entails coordinating with service providers, ensuring proper plan administration, and maintaining records that are required by law. The proper management and compliance oversight are crucial to protect the interests of participants and to avoid potential legal and financial liabilities. The other options reflect responsibilities that do not align with the primary functions of a plan sponsor. Advising employees on personal finances is not a typical role of the sponsor, as it falls more within individual financial advising rather than the plan's management. Marketing the plan to potential participants might be a consideration for recruitment, but it's not the core function of the sponsor. Determining employee salaries is a separate function of human resources or management, not directly linked to the responsibilities of managing a 401(k) plan.

## 2. Why might employers decide to implement a matching contribution formula?

- A. To reduce administrative work and responsibilities
- B. To attract and retain employees through added incentives**
- C. To simplify the employee contribution process
- D. To comply with legislative requirements without costs

Employers may choose to implement a matching contribution formula primarily to attract and retain employees through added incentives. A matching contribution serves as a powerful tool for employee engagement and loyalty, as it enhances the overall value of the employee's compensation package. By providing a matching contribution, employers demonstrate a commitment to their employees' financial well-being and retirement planning, making the overall benefits offering more attractive. This incentive can lead to increased employee satisfaction and reduce turnover, as employees are more likely to stay with a company that actively supports their long-term financial goals. Additionally, a well-designed matching contribution plan can promote higher participation rates among employees, encouraging them to save more for retirement. This creates a win-win situation where employees feel valued and the employer benefits from a more stable workforce.

**3. Is it true that a rate of replacement loan is used when refinancing a participant loan?**

**A. True**

**B. False**

**C. Only sometimes**

**D. It depends on the plan**

When refinancing a participant loan in a 401(k) plan, it is indeed true that a rate of replacement loan may be utilized. This practice aligns with the typical procedures surrounding participant loans, which often allow for new loans to be issued under specific terms that can include a rate of replacement loan. A rate of replacement loan typically refers to the interest rate that is applied to the new loan when it replaces an existing one. This can be especially relevant if the existing loan is being modified or if a new loan is sought to pay off the old loan. Using a rate that reflects current market conditions can ensure that the terms remain attractive to the participant while also adhering to plan provisions. The correct choice indicates an understanding that refinancing options can involve specific financial metrics and conditions related to the interest rate, ensuring both compliance with IRS regulations governing loans from qualified plans and protecting the financial interests of the borrower within the plan framework.

**4. Which factor could disqualify a profit-sharing plan from being exempt from QSJA rules?**

**A. Offering an annuity form of payment**

**B. Having multiple participants**

**C. Choosing a non-consent beneficiary**

**D. Not meeting annual contribution limits**

A profit-sharing plan can be disqualified from being exempt from Qualified Joint and Survivor Annuity (QSJA) rules if it offers an annuity form of payment. QSJA rules are specifically designed to protect the surviving spouse in the event of a participant's death, ensuring that they receive survivor benefits from their spouse's retirement plan. When a plan offers an annuity as a payment option, it inherently implies that certain joint and survivor benefit provisions may apply, which are typically meant to provide guarantees for the spouse's benefit after the participant's death. If the plan includes this type of payment structure, it does not qualify for the exemption from QSJA rules, which are intended for plans that do not provide such guarantees. Other options such as having multiple participants, selecting a non-consent beneficiary, or not meeting annual contribution limits do not directly relate to the exemption status regarding QSJA. These factors do not impact whether a plan must comply with QSJA regulations, which are centered around the types of payment options offered and the survivor benefits connected to them.

**5. What is a critical aspect of fulfilling fiduciary duties in a 401(k) plan?**

- A. Maximizing profits for the plan**
- B. Following participant investment choices**
- C. Ensuring compliance with ERISA requirements**
- D. Limiting communication with participants**

Fulfilling fiduciary duties in a 401(k) plan is heavily reliant on ensuring compliance with the Employee Retirement Income Security Act (ERISA) requirements. ERISA establishes standards for the management of retirement plans, including fiduciary responsibilities which require fiduciaries to act prudently and in the best interests of the plan participants. This encompasses a wide range of responsibilities, such as providing accurate information about the plan, managing plan assets wisely, and ensuring that all actions taken are consistent with the law. By adhering to these requirements, fiduciaries can protect the assets of the plan and the rights of the participants, thereby minimizing the risk of legal issues and ensuring the plan operates effectively and fairly. Maximizing profits for the plan, while important, is not the primary fiduciary duty. Similarly, while following participant investment choices is necessary for honoring their preferences, it must be done within the framework of ERISA compliance. Limiting communication with participants would counteract transparency and ultimately could result in non-compliance with ERISA's requirements regarding disclosures and participant rights. Therefore, compliance with ERISA is fundamental to fulfilling fiduciary duties in a 401(k) plan.

**6. What is one potential benefit of implementing automatic escalation for employees?**

- A. Decreased overall retirement savings**
- B. Enhanced ability to save for retirement over time**
- C. Immediate tax benefits from higher contributions**
- D. Reduction in employer matching contributions**

Implementing automatic escalation for employees primarily increases their potential to save for retirement over time. This feature typically allows contributions to a retirement account, such as a 401(k), to automatically increase at set intervals, often aligned with an annual salary increase or a specified timeline. As employees become accustomed to this incrementally higher contribution, it enhances their savings without requiring active decisions each pay period. Automatic escalation can significantly improve retirement savings outcomes by making it easier for employees to grow their savings rates organically. This systematic increase takes advantage of behavioral economics, where individuals often do not notice small changes in their paycheck, allowing them to adapt to higher contributions more comfortably. Additionally, this mechanism addresses a common issue where employees might otherwise stick with the default contribution rate and fail to increase their savings over time. By implementing automatic escalation, employers help employees build a more substantial retirement fund, thereby promoting better financial security in their later years.

## 7. How is permitted disparity calculated?

- A. By estimating future compensation increases
- B. Based on salary percentage of original salary**
- C. By averaging total compensation across all employees
- D. According to regulatory standards of tax benefits

Permitted disparity in a pension plan context, particularly with regards to 401(k) plans, involves determining a difference in contribution limits between highly compensated employees and non-highly compensated employees. This is essential to maintaining compliance with nondiscrimination rules set forth by the IRS. The calculation of permitted disparity focuses specifically on the salary percentage of the original salary. This means that it looks at how much more in contributions can be made for higher-paid employees in comparison to their lower-paid counterparts. In this regard, the correct answer reflects the method by which the disparity is calculated, allowing for a higher contribution rate for those earning above the Social Security wage base. By considering the salary percentage of the original salary, the plan administrators can ensure that the plan remains compliant with regulations, thus protecting the tax-qualified status of the plan and ensuring equitable benefits distribution among different salary tiers within the company. Other options, while related to the administration of pension plans, do not accurately describe how permitted disparity itself is calculated. For example, estimating future compensation increases does not provide a basis for disparity calculation; averaging total compensation across employees does not focus on the necessary differences between salary tiers, and regulatory standards are guidelines rather than a direct calculation method for permitted disparity.

## 8. In what scenario can you amend a safe harbor provision?

- A. With immediate effect without notifying participants
- B. Only during the annual review period
- C. By providing notice at least 30 days prior to the amendment**
- D. Once every 5 years

Amending a safe harbor provision in a 401(k) plan requires that specific procedures be followed to ensure compliance with regulatory requirements and to maintain the trust of plan participants. Providing notice at least 30 days prior to the amendment aligns with the requirement for transparency and communication in retirement plan administration. When amending a safe harbor provision, the plan sponsor is obligated to inform participants of significant changes that may impact their benefits or contributions. This 30-day notice period allows participants to understand how the amendment might affect their retirement savings and gives them ample time to adjust if necessary. Such a requirement is designed to protect participants and ensure that they are adequately informed and prepared for any alterations in the plan's provisions. This process emphasizes the importance of participant awareness and engagement, which is crucial in maintaining trust in retirement plans. Thus, the correct approach involves advance notice to participants, ensuring that they are well-informed about any changes to the safe harbor provisions.

**9. What defines the "Annual Contribution Limitation" for a 401(k) plan?**

- A. The minimum amount that must be contributed annually**
- B. The total contributions permissible in a calendar year**
- C. The cap on employer contributions only**
- D. The amount allowed for distributions each year**

The term "Annual Contribution Limitation" for a 401(k) plan specifically refers to the total contributions permissible in a calendar year. This limitation encompasses all types of contributions made to an individual's 401(k) account, including employee elective deferrals, employer matching contributions, and any other employer contributions. The IRS sets these limits each year to ensure that contributions do not exceed a specified amount, which helps maintain the tax-advantaged status of the 401(k) plans.

Understanding this definition is crucial because it affects how individuals save for retirement and how employers structure their contributions. The annual contribution limitation is designed to encourage savings while preventing excessively large contributions that could distort the tax benefits associated with these retirement accounts. For example, while employees may wish to contribute as much as possible to maximize their retirement savings, the annual limit ensures that contributions remain within an acceptable range set by regulatory authorities. In contrast, the other options do not accurately capture the essence of the "Annual Contribution Limitation." For instance, the minimum amount that must be contributed annually does not exist for 401(k) plans; individuals may choose to contribute nothing in a given year. Likewise, a cap on employer contributions only would not reflect the total allowable contributions from both employers and employees.

**10. When must the Form 1099-R be distributed by?**

- A. No later than January 1 of the calendar year**
- B. May 15 of the calendar year**
- C. January 31 of the calendar year following the year of distribution**
- D. March 31 of the calendar year**

The correct timing for distributing Form 1099-R is critical for compliance with tax regulations. This form is used to report distributions from retirement accounts, including pensions, IRAs, and 401(k) plans. The requirement states that Form 1099-R must be provided to recipients by January 31 of the year following the year in which the distribution occurred. This allows recipients sufficient time to incorporate the information into their tax filings for that year. Distributing this form accurately and on time ensures that individuals can report their taxable income correctly and avoid any potential issues with the IRS regarding late reporting. Therefore, understanding the timing of Form 1099-R distribution is essential for both plan administrators and participants in a retirement plan.