

# Affiliated Service Groups

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## *Part 2 of our series on Understanding Employer Structures*

Understanding employer structures is crucial in qualified plan administration. If a company establishes a qualified plan and has controlling interest in another company, the Plan may be required to consider the employees of that company for plan limits, coverage, and testing. Controlling interest may result from ownership interest or a service relationship.

To properly determine controlling interest, consider the following questions.

1. Do the owners of the employer adopting the plan have ownership interest in any other companies?
2. Do the owners have any family members that work at a company in which they have ownership interest in?
3. Does the company provide significant services during the year for any other company?

*The Understanding Employer Structures series explains how employer structures can affect qualified retirement plans. Part One tackled the topic of [Controlled Groups](#). Future series topics include Multiple Employer vs. Multiemployer Plans & the Attribution Rules.*

## **Affiliated Service Groups**

*Two or more companies with a service relationship that are treated as a single employer.*

Affiliated service groups form when two or more companies have a standing service relationship. All employers in an affiliated service group are treated as a single employer for eligibility, accruals, testing, & limits. The affiliated service group rules, which dictate ownership attribution, were designed to prevent professional service organizations from avoiding controlled groups by shifting ownership interest to a family member. In an affiliated service group, lineal relatives are deemed to hold the same ownership interest in a company as the original owner. These rules are nearly identical to the attribution rules for controlled groups with a few specific distinctions.

- There are no spousal exceptions.
- Ownership by a parent will always be attributed to the child, regardless of age.
- There is no attribution between grandparents and grandchildren.

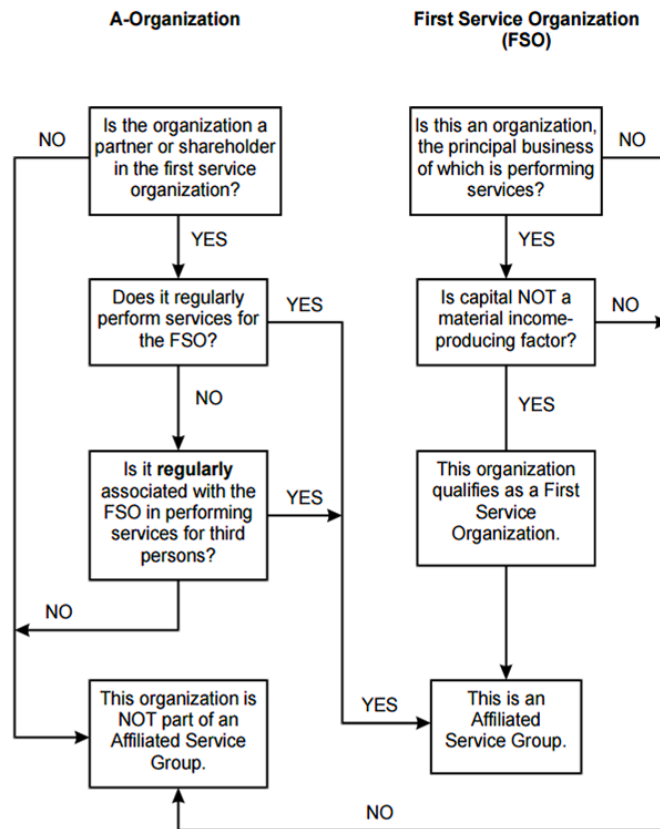
## **Types of Affiliated Service Groups**

Affiliated Service Groups are categorized as A-Organizations, B-Organizations, or Management groups, depending on the structure of the service relationship. As with controlled groups, all employers in an affiliated service group are treated as a single employer for qualified plan purposes.

### A-Organizations

An A-Organization group, or A-Org, consists of a professional service organization, called a “First Service Organization” or FSO, and one A-Organization which has ownership interest in the FSO and either regularly performs service for the FSO or together with the FSO regularly performs services for third parties.

The following diagram depicts the requirements of an A-Org Affiliated Service Group.



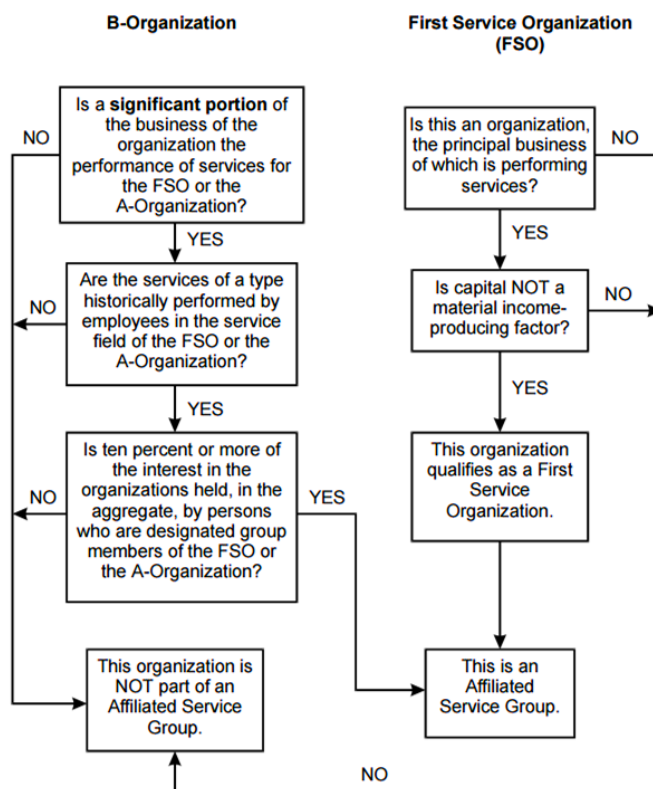
Source: Internal Revenue Service

### B-Organizations

A B-Organization group, or B-Org, consists of an First Service Organization and at least one B-Organization. Unlike in A-Orgs, the FSO for a B-Org group does not need to be a professional service entity, but must be a service organization. The B-Org does not need to be a service organization but must meet the following criteria:

- A significant portion of the B-Orgs business must be derived from services provided by the FSO or an affiliated A-Org.
- The B-Org must perform services for the FSO or affiliated A-Org that are historically performed by employees.
- Highly compensated employees of either the FSO or A-Org must own at least 10% of the B-Org.

The following diagram depicts the requirements of a B-Org Affiliated Service Group.



Source: Internal Revenue Service

### Management Groups

A Management Group consists of a management organization and a recipient organization. As its principal business, the management organization provides management services to the recipient organization either with or without ownership interest.

Typically, management organizations are smaller firms with only a few employees. Because of their size, these firms may make high contributions to their employees' accounts. If deemed part of a management affiliated service group, the management organization may be required to make similar contributions for the recipient organization's employees.

### Conclusion

Affiliated service groups are formed when two or more companies have a professional service relationship. These groups are categorized as A-Organizations, B-Organizations, or Management groups, depending on the structure of the service relationship. As with controlled groups, all employers in an affiliated service group are treated as a single employer for qualified plan purposes. For this reason, it is crucial to disclose all service relationships.

Simoneaux, Sarah E. Retirement Plan Consulting for Financial Professionals, 2<sup>nd</sup> Edition. The American Society of Pension Professionals and Actuaries. © 2009. Pages 3-19 through 3-23.