



RETIREMENT PLANS — DESIGN OPTIONS

The Age-Weighted Profit Sharing Option

A profit-sharing agreement is the agreement that establishes a pension plan maintained by the employer to share its profits with its employees, generally based on a discretionary contribution. That is, as the employee, you do not have a minimum dollar requirement that must be made each year.

PROFIT SHARING PLAN KEY FACTS

- Profit sharing with employees: Flexible contributions; benefits payable immediately.
- Must be a profit-sharing plan, as opposed to a pension plan, with employees who contribute by withholding a portion of a qualified retirement plan. Each year, the amount contributed can be determined by the Board of Directors or similar entity.
- Each participant must be at least 21 years of age, have completed one year of service, and have earned a minimum of \$5,000 per year.
- Profit sharing plans require contributions, which can be determined by the Board of Directors or similar entity.
- Profit sharing plans can be used to provide a larger share of allocated contributions to older employees.
- Profit sharing plans can be used to provide a larger share of allocated contributions to higher compensated employees.
- Profit sharing plans can be used to provide a larger share of allocated contributions to employees who have been with the company for a longer period of time.

AGE-BASED AND CROSS-TESTED PROFIT SHARING PLAN KEY FACTS

Profit sharing with employees: Flexible contributions; benefits payable immediately.

If a profit-sharing plan is weighted by age and compensation, an older employee can obtain a larger share of allocated contributions. These plans must meet nondiscrimination tests, and contributions cannot exceed 25% of the employee's compensation. The amount contributed can be determined by the Board of Directors or similar entity.

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The Age-Weighted Profit Sharing Option

Profits shared with employees | Benefits highly compensated and older employees

If a profit sharing plan is weighted by age and compensation, an older employee can obtain a larger share of allocated contributions. Each year, the amount can be determined by formula, Board of Directors, or similar entity.

The New Comparability Option

A new comparability plan can provide different benefit levels to different groups of your employees—employee groups that you define as the plan sponsor.

By adding a new comparability plan or adding a new comparability formula to an existing profit-sharing plan, you can provide a greater benefit to a preferred group of employees. Your new comparability plan can be set up as a nondiscrimination profit-sharing plan or a profit-sharing plan under a 401(k), 403(b), etc., plan.

ANNUAL CONTRIBUTIONS

- Up to 100% of compensation or \$50,000 per employee, the reduced, whichever is less. Total annual contributions cannot exceed 25% of the employee's compensation. This amount cannot be more than \$50,000.
- Maximum employee contribution: \$19,000 (2016 limit).

PLAN HIGHLIGHTS

- Each participant must be at least 21 years of age, have completed one year of service, and have earned a minimum of \$5,000 per year.
- Each employee must be at least 21 years of age, have completed one year of service, and have earned a minimum of \$5,000 per year.

ELIGIBILITY

- Employees
- Partners
- Non-profit organizations
- Government
- Trustees

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The New Comparability Option

Profits shared with employees | Benefits a preferred group of employees

A new comparability plan can provide different benefit levels to different groups of employees — employee groups that are defined by the plan sponsor. By adopting a new comparability plan or adding a new comparability formula to an existing 401(k), 403(b), etc., the company provides greater benefits to a specified group of employees.

The Permitted Disparity Option

Permitted Disparity, or compliance with Social Security, takes into consideration the employer's contribution with Social Security withholdings on behalf of the participant when allocating nonelective contributions.

PERMITTED DISPARITY VS. NEW COMPARABILITY

- Age of large employee
- No nondiscrimination testing
- No annual limit
- Not subject to age of disparity
- Can be used for nondiscrimination testing
- Alternative to larger (over age) profit-sharing plan

THE FACTS

- It enables a greater gross contribution for higher-income workers than does the Social Security wage base.
- It allows the maximum difference under the Internal Revenue Code Section 401(a)(17) testing.
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For more information, or to discuss automatic plan options, call today: 800.279.9916 ext. 765

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Permitted Disparity Option

Greater gross contribution for higher-income workers

Permitted disparity takes into consideration the employer's contributions with Social Security withholdings on behalf of the participant when allocating a nonelective contribution. It enables a greater gross contribution for higher-income workers that earn well above the Social Security wage base as well as allow the maximum difference under the Internal Revenue Code Section 401(1).

The Safe Harbor Option

The idea of a safe harbor plan is that it is exempt from the ADP and ACP tests which are non-discrimination tests for 401(k) plans made every year.

The ADP and ACP tests are designed to make sure that employees and their contributions do not have more than their fair share of the plan's assets. They do this by comparing the average deferral rate of all employees to the average deferral rate of high-income employees. If the average deferral rate of high-income employees is higher than the average deferral rate of all employees, the plan fails the ADP test. The average deferral rate of high-income employees is calculated by taking the average of the average deferral rates of the top 10% of employees.

SAFE HARBOR PLAN OPTIONS

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The Features of Automatic Enrollment Safe Harbor

An automatic enrollment feature in a plan provides the automatic credit of all eligible employees a minimum deferral percentage on the plan (e.g., 401(k), 403(b), or 457(b) plan).

Participants can opt out or change their automatic enrollment feature at any time by making an election on the plan for the plan year. By electing an automatic deferral percentage, the employee agrees to be enrolled in the automatic enrollment feature. Employees who do not elect an automatic deferral percentage will not be enrolled in the automatic enrollment feature. The automatic enrollment feature is subject to the plan's nondiscrimination tests.

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Safe Harbor and Automatic Enrollment

The allure of a safe harbor plan is that it is exempt from the ADP and ACP tests which are two nondiscrimination tests that 401(k) plans must satisfy every year. Employers can avoid those unpalatable adjustments and refunds to the plan. In return, employers must make a minimum contribution to employees' accounts. Even if a plan sponsor does not take advantage of safe harbor status for testing purposes, it may make sense to add just the automatic enrollment feature to the plan and take advantage of the extension of time for ADP/ACP testing and refunds.

To order a supply of any of our materials, contact us today at 800.279.9916 ext. 765.

