



Profit Sharing and Money Purchase Programs Your 401a Solution

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 employer, you do not have a set minimum dollar requirement that must be made each year. Money purchase plans, however, are also covered in this article and have required contributions vs. “discretionary” contributions.

PROFIT SHARING PLAN KEY FACTS

[Profits shared with employees](#) | [Elective contributions](#) | [Benefits younger employees](#)

With a profit sharing plan, an employer offers to share profits with employees by contributing a portion to a qualified retirement plan.

- ▲ Each year, the amount contributed can be determined by formula, Board of Directors, or similar entity.
- ▲ Funds contributed are allocated to the employee’s account and invested. Like the money purchase pension plan, amounts are accumulated tax-free until retirement, providing a greater benefit to younger employees. The employee will receive the value of his/her account at retirement.
- ▲ Profit sharing plan contributions cannot exceed 25% of the payroll and the limited amount allocated to a participant’s account is \$50,000 per year (as indexed).
- ▲ Profit sharing and money purchase pension plans stipulate contributions under plan terms and benefits are not determinable until the retirement of the participant.

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

[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. These plans include limitations such as: plan contributions cannot exceed 25% of the payroll and the limited amount allocated to a participant’s account is \$50,000 per year (as indexed).

- ▲ Each year, the amount can be determined by formula, Board of Directors, or similar entity. Funds contributed are allocated to the employee’s account and invested.
- ▲ Such allocation can result in a formula that suits the needs of a company enabling it to have flexible contributions that favor older employees. The employee will receive the value of his/her account at retirement.

MONEY PURCHASE PENSION PLAN KEY FACTS

Benefits younger employees

A money purchase pension plan is designed to benefit younger employees. Generally, contributions are allocated to the participant's account based upon his/her compensation, i.e. a contribution equal to 10% of compensation. Both younger and older employees with the same level of compensation will receive the same allocation; however, the plan will benefit younger employees due to the long-term accumulation of tax-sheltered funds.

Formula-fixed contributions can be set at any amount from a minimal level, i.e. 3% of compensation, to a maximum level of 25% of compensation or if less, \$50,000 (as indexed). A participant's benefit is equal to the then value of investments held in his/her behalf at retirement.

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a retirement plan opportunity with
one of our consultants, call today.

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 **CPI** Qualified Plan Consultants, Inc.

1809 24th Street | PO Box 1167
Great Bend, KS 67530-1167
www.cpiqpc.com[®]
800.491.7859 or 800.279.9916 ext. 765



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