



A 2023 Plan Example

Goal: Maximize owner at \$66,000 + \$7,500 catch-up contribution
Illustrates various employer contribution costs by allocation formulas

Name	Class	Income	Age	Deferral\$	Catchup	PS		PS Integrated	% of Pay	PS		PS	
						Pro Rata	% of Pay			Age Weighted	% of Pay	New Comp	% of Pay
Owner	A	\$330,000.00	50	\$22,500.00	\$7,500.00	\$43,500.00	13.18%	\$43,500.00	13.18%	\$43,500.00	13.18%	\$43,500.00	13.18%
Subtotal		\$330,000.00		\$22,500.00	\$7,500.00	\$43,500.00		\$43,500.00		\$43,500.00		\$43,500.00	
Employee #2	B	\$150,000.00	40	\$7,500.00	\$0.00	\$19,770.00	13.18%	\$15,313.80	10.21%	\$13,012.02	8.67%	\$0.00	0.00%
Subtotal		\$150,000.00		\$7,500.00	\$0.00	\$19,770.00		\$15,313.80		\$13,012.02		\$0.00	
Employee #3	C	\$50,000.00	40	\$1,800.00	\$0.00	\$6,590.00	13.18%	\$4,975.00	9.95%	\$4,337.34	8.67%	\$2,200.00	4.40%
Employee #4	C	\$40,000.00	35	\$1,440.00	\$0.00	\$5,272.00	13.18%	\$3,980.00	9.95%	\$2,416.97	6.04%	\$1,760.00	4.40%
Employee #5	C	\$30,000.00	30	\$1,160.00	\$0.00	\$3,954.00	13.18%	\$2,985.00	9.95%	\$1,262.67	4.21%	\$1,320.00	4.40%
Employee #6	C	\$26,000.00	20	\$1,040.00	\$0.00	\$3,426.80	13.18%	\$2,587.00	9.95%	\$530.95	2.04%	\$1,144.00	4.40%
Subtotal		\$136,000.00		\$5,440.00	\$0.00	\$19,242.80		\$14,527.00		\$8,547.93		\$6,424.00	
Total		\$616,000.00		\$35,440.00	\$7,500.00	\$82,512.80		\$73,340.80		\$65,059.95		\$49,924.00	

Total Contribution (Owner)	22,500.00	7,500.00	43,500.00	43,500.00	43,500.00	43,500.00
Total Contribution (Non-key)	12,940.00	0.00	39,012.80	29,840.80	21,559.95	6,424.00
Total	35,440.00	7,500.00	82,512.80	73,340.80	65,059.95	49,924.00

% of Contribution (Owner)	53%	59%	67%	87%
% of Contribution (Non-Key)	47%	41%	33%	13%
Total	100%	100%	100%	100%

Profit Sharing Allocation Options

- Pro Rata
 - Provides a uniform allocation to all participants
- Integrated Profit Sharing
 - Provides greater benefit to employees that max out at the SS limit (indexed)
 - A plan integrated with social security benefits can provide for contributions and benefits which favor highly paid employees as long as the plan complies with rules which limit the disparity above and below a specified level and provides some minimum benefit for all employees.
 - Favors higher paid employees by providing an additional share of the contribution to be based on compensation that would accrue minimal Social Security benefits or none at all.
- Age Weighted Profit Sharing
 - Provides greater benefit to employees closer to retirement age
 - The age-weighted method allocates contributions based on both the age and compensation of eligible employees. It is similar to a defined benefit pension plan, only with discretionary contributions. Since the participants' age, or length of time until retirement, is factored into the allocation formula, older participants receive a larger proportionate share of the contribution. This can be advantageous in a situation where the key employees are significantly older than the other employees. In certain situations, an age-weighted plan design works extremely well, but a possible drawback could be employees with the same salaries receiving different allocations, based on age. Also, an older nonprincipal employee may receive a larger share than a younger principal.
- New Comparability Profit Sharing
 - Provides greater benefit to employees that you wish to target
 - The comparability, or cross-tested, allocation method allows the employer to divide the employees into different classifications for purposes of allocating the contribution. If non-discrimination requirements are met, a larger share of the company's contribution may be made on behalf of those employees to whom the employer wishes to provide a more significant benefit.
 - The non-discrimination testing is based on projected benefits at retirement, similar to a defined benefit plan. If the aggregated age of the preferred class is higher than the other classes, the allocation of current dollars can be skewed proportionately toward the older group. The Employer can potentially maximize contributions to key employees and owners while minimizing contributions to other employees.

Safe Harbor 401(k) Formulas

- Safe Harbor Match
 - At least \$1 on deferrals up to 3% of comp and \$0.50 on deferrals on next 2% of comp
- Safe Harbor Profit Sharing
 - At least 3% to all NHCE's (& HCE's) on all eligible wages
- Benefits of Safe Harbor
 - Owners and HCE's can defer the maximum (index limits per above) without failing ADP/ACP discrimination test
 - Satisfies minimum Top-Heavy requirements, as long as no other Employer contributions are deposited
- Conditions of Safe Harbor
 - Must be 100% vested
 - Cannot have 1000 hours or last day requirement
 - Annual advanced notice requirement