

Advanced Plan Design – 401(k) Profit Sharing-Defined Benefit Plan

The key to achieving the tax advantages of a qualified plan is to follow the non-discrimination rules that are contained in the Internal Revenue Code. A plan may prove non-discrimination on the basis of either current contribution levels, or on the benefits to be received at retirement.

Three Examples

Each of the three examples on the back meets the non-discrimination rules for qualified plans. You can see how good plan design can provide significant benefits to the owners, while keeping the overall costs within a reasonable budget.

◆ Traditional Flat Percentage Allocation

In this scenario the non-discrimination tests are met by providing an equal contribution percentage to all eligible participants without exceeding the individual allocation limits. In order to maximize the owner's contributions, a 25% contribution would have to be made for each eligible participant.

◆ Group Allocation

The demographics for this sample show a 20 year difference in the average age of the owners versus the staff. This allows the plan to prove the benefits provided at retirement by a 5% allocation to the non-owner employees is on par with the benefits

provided by the same \$106,000 to the owners as in the first scenario. This is a savings of \$83,000.

◆ Combining a 401(k) Profit Sharing plan with a Defined Benefit Plan

With the same set of employees, the benefit of the owners can be substantially increased with the addition of both 401(k) features and a Defined Benefit plan. A Defined Benefit plan is extremely age sensitive and can have funding requirements that would result in very high "allocations" for older employees.

◆ In this case a 50% increase in employee costs - from 5.0% to 7.5% of compensation will support benefit increases to the older owners of \$310,500.

◆ Through the use of two very specific plans, the employee costs have been reduced significantly from the traditional flat percentage allocation, while the owner benefits have almost quadrupled.

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Why Primark Benefits

- ◆ **EXPERIENCE:** We've been in business since 1971
- ◆ **EXPERTISE:** Our credentialed staff are experts and leaders in the field
- ◆ **ACCURACY:** We have rigorous quality control and a compliance dept
- ◆ **ATTENTION:** Your satisfaction is our priority

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	Age	Compensation	Traditional Flat Percentage allocation	Percent of Comp	Group Allocation	Percent of Comp	QSERP (Combination 401(k) and Defined Benefit)	Percent of Comp
Owner A	60	\$305,000	\$61,000	20.00%	\$61,000	20.00%	\$287,500	94.26%
Owner B	55	180,000	45,000	25.00%	45,000	25.00%	129,000	71.67%
Average	58		Subtotal	Percent of total	Subtotal	Percent of total	Subtotal	Percent of total
			106,000	50.54%	106,000	83.63%	416,500	93.05%
Manager C	46	85,000	21,250	25.00%	4,250	5.00%	6,375	7.50%
Staff D	62	62,000	15,500	25.00%	3,100	5.00%	4,650	7.50%
Staff E	21	26,000	6,500	25.00%	1,300	5.00%	1,950	7.50%
Staff F	51	50,000	12,500	25.00%	2,500	5.00%	3,750	7.50%
Staff G	42	40,000	10,000	25.00%	2,000	5.00%	3,000	7.50%
Staff H	30	37,000	9,250	25.00%	1,850	5.00%	2,775	7.50%
Staff I	35	37,000	9,250	25.00%	1,850	5.00%	2,775	7.50%
Staff J	27	40,000	10,000	25.00%	2,000	5.00%	3,000	7.50%
Staff J	26	38,000	9,500	25.00%	1,900	5.00%	2,850	7.50%
Average	38		Subtotal	Percent of total	Subtotal	Percent of total	Subtotal	Percent of total
			103,750	49.46%	20,750	16.37%	31,125	6.95%
		900,000.00	209,750		126,750		447,625	
			Owners 106,000		Owners 106,000		Owners 416,500	
			Staff 103,750		Staff 20,750		Staff 31,125	
					savings 83,000		additional 310,500	

