

COMPARING RETIREMENT PLAN DESIGNS

Here is an example showing the results of comparing seven plans for a small business. The owner was willing to spend on staff an amount equal to 5.0% of their total combined payroll. In this case, a cross-tested plan with 401(k) safe-harbor features was the best design. The results show the differences that can be obtained from various plan designs. The best design for any given situation will vary depending on employee ages and salaries, as well as company objectives.

Plan:		A	B	C	D	E	F	G
Description:			Using		401(k)		Age	Cross-
		Pro Rata	Permitted	Age-	Safe-	Cross-	Weighted	Testing
		Comp	Disparity	Weighted	Harbor	Testing	with	with
		without	without	without	with	without	401(k)	401(k)
<u>Employee</u>		<u>401(k)</u>	<u>401(k)</u>	<u>401(k)</u>	<u>Permitted</u>	<u>401(k)</u>	<u>Safe-</u>	<u>Safe-</u>
<u>Pay</u>	<u>Age</u>				<u>Disparity</u>		<u>Harbor</u>	<u>Harbor</u>
-1	-2	-3	-4	-5	-6	-7	-8	-9
275,000	50	13,750	21,065	28,146	41,176	43,065	52,646	61,000
60,000	42	3,000	3,000	3,197	3,000	3,000	3,197	3,000
60,000	40	3,000	3,000	2,716	3,000	3,000	2,716	3,000
55,000	42	2,750	2,750	2,931	2,750	2,750	2,931	2,750
50,000	36	2,500	2,500	1,633	2,500	2,500	1,633	2,500
49,000	30	2,450	2,450	1,470	2,450	2,450	1,470	2,450
47,000	38	2,350	2,350	1,807	2,350	2,350	1,807	2,350
46,000	51	2,300	2,300	5,108	2,300	2,300	5,108	2,300
25,000	26	1,250	1,250	750	1,250	1,250	750	1,250
15,000	41	750	750	737	750	750	737	750
Grand totals		34,100	41,415	48,496	61,526	63,415	72,996	81,350
Percent of total to Owner		40%	51%	58%	67%	68%	72%	75%
Average contribution to non-owners as a percent of pay		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Assumptions:

- 1 Illustration uses the 2018 comp cap of \$275,000, the contribution cap of \$55,000, and the catch-up contribution cap of \$6,000.
- 2 Plans B and D assume the integration level is the 2018 Social Security taxable wage base of \$128,400.
- 3 Illustrations conservatively assume non-owners contribute nothing to any plan with a 401(k) provision.
- 4 The plan is top-heavy, meaning over 60% of the assets are attributed to Key Employees. Consequently, there is a 3% top-heavy minimum contribution for each non-key employee.
- 5 The safe-harbor contribution is the 3% non-elective contribution in Plans D, F, and G.