SLAVIC401K

Employer Contributions: Matching and Profit Sharing

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Meet Our Team

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Agenda

- Core Plan Design Considerations
- Required Testing for 401k Plans
- Contribution Differences, Vesting, and Eligibility
- Matching and Profit Sharing Distinctions
- Strategic Adoption of Safe Harbor Provisions
- Contribution Allocation Strategies
- Minimum Gateway Explained
- Real-World Scenarios
- Critical Tax Return Deadlines and Guidance
- How to Contact the Plan Analytics Department

The National Average for 401(k) Employer Contributions is Between 4–6%

Adhering to industry standards for 401(k) employer contributions not only helps a company stay competitive within its sector but also offers significant financial benefits

Source: https://www.nerdwallet.com/article/investing/retirement-statistic

Plan Design Factors to Consider

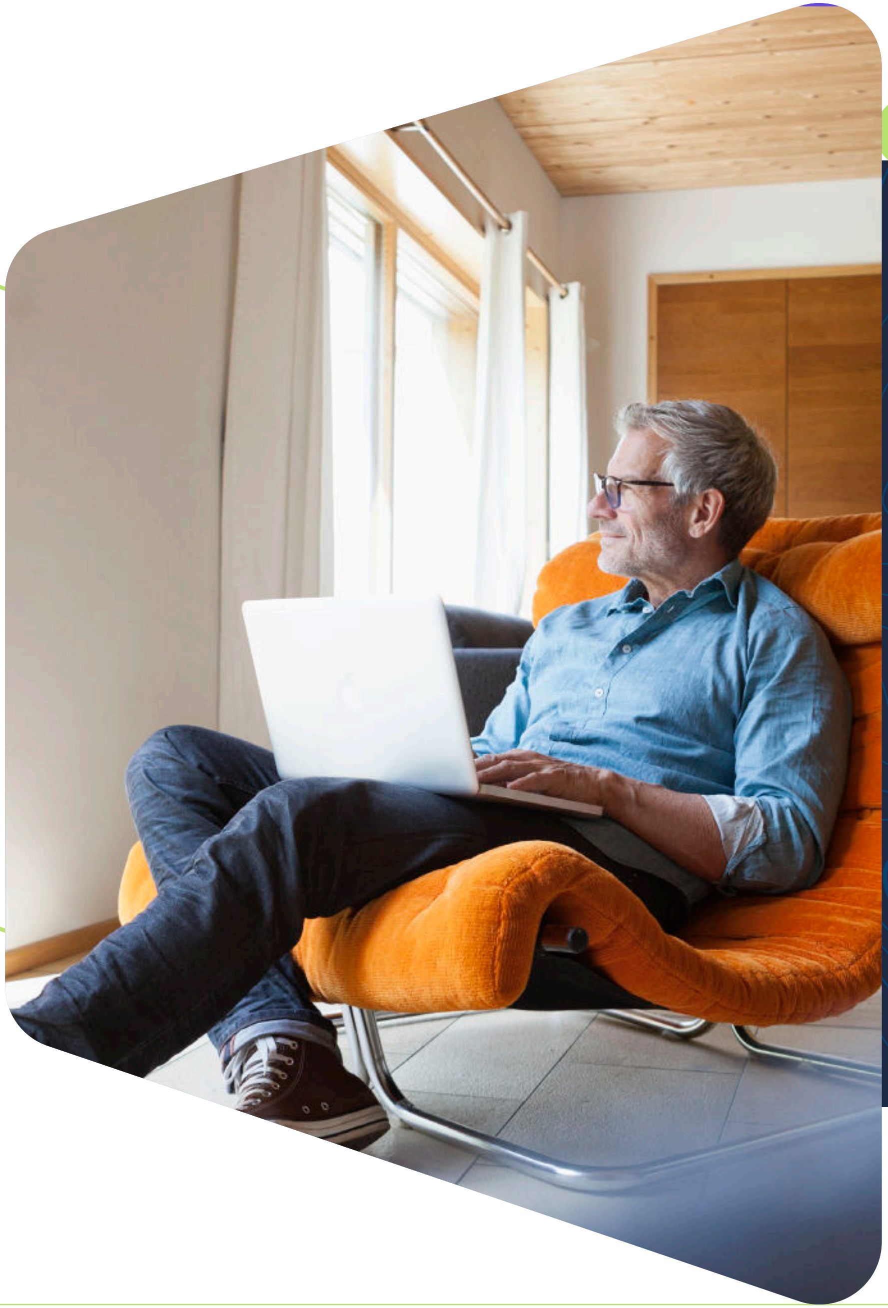
Objectives of the owner/company

- Incentive benefit for employees
- Maximize owner's benefit efficiently

Demographics of employees

- Ages
- Turnover
- Size of company

Any family members working for company



Required IRS Testing

ADP Testing (Actual Deferral Percentage):
ACP Testing (Actual Contribution Percentage):

Tests the assets in the plan and ensures the plan deferrals don't favor Highly Compensated Employees (HCEs) over Non-Highly Compensated Employees (NHCEs).

Top Heavy Testing:

Tests the assets in the plan and determines if key employees hold more than 60% of plan assets; if so, employers must contribute to non-key employees' accounts.

Contribution Differences, Vesting, and Eligibility

Contribution Differences

Traditional – Discretionary subject to ADP/ACP & Top-Heavy Testing.

Safe Harbor – Required to make a Match or Non-Elective to be exempt from ADP/ACP & Top-Heavy Testing.

Automatic Enrollment – Employees are automatically enrolled into the plan which is exempt from the ADP/ACP & Top-Heavy Testing.

Vesting

Traditional – based on employers' selection on the Adoption Agreement.

Safe Harbor – 100% immediate vesting

Eligibility Criteria: Employee who meets the minimum age and service requirements until section 410(a)(1).

Benefits

Talent Without Raising Salaries

Tax-Deductible Contributions

Cuts Turnover Costs

Helps Pass IRS Nondiscrimination Testing

Employer Match Plan:

A retirement benefit where a company matches a portion of the employee's contributions to their retirement account.

It can take various forms, such as a dollar-for-dollar match on employee contributions, or a percentage match.

Safe Harbor 401(k) Plan

A specific type of 401(k) plan designed to make it easier for employers to meet certain IRS requirements, particularly those related to nondiscrimination testing.

Employer Match vs. Safe Harbor:

Safe Harbor requires fixed contributions (matching or non-elective), while Employer Match is discretionary.

Compliance Simplification:

Safe Harbor plans are exempt from ADP and ACP nondiscrimination tests.

Safe Harbor Formula

Safe Harbor Match

QACA Formula:

- 100% match of the first 1% contributed
- 50% match of the next 5% contributed

Basic Formula:

- 100% match of the first 3% contributed
- 50% match of the next 2% contributed

Enhanced Formula:

- 100% match of the first 4% contributed
- (100% up to the first 6%)

Safe Harbor Non-Elective

- 3% on eligible pay

Did you know?

50% of plans use Safe Harbor! January 1st is your next opportunity.

Benefits

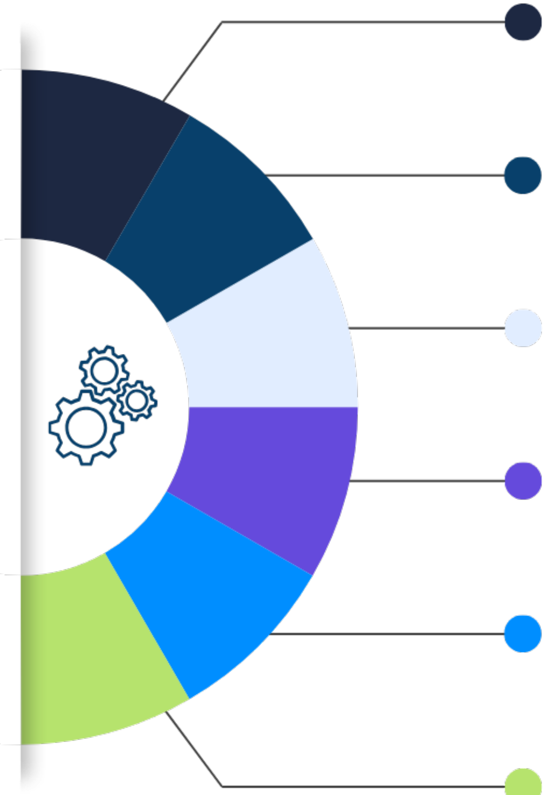
- Lower Fixed Costs
- Tax Deductions
- Reduced Turnover Costs
- Avoids the Cost of Raises
- Boosts Productivity Without Extra Cost

Profit Sharing Plan:

A deferred profit sharing plan (DPSP) is a retirement benefit where employees receive a percentage of their company's profits, usually based on earnings.

It can be offered alongside a 401(k) plan.

Why 401(k) Plans?



- Helps attract and keep talented employees.
- Allows participants to decide how much to contribute to their accounts.
- Benefits a mix of rank-and-file employees and owners/managers.
- Helps money grow through stocks, bonds, mutual funds, money market funds, savings accounts, and other investment vehicles.
- Significant tax advantages (deduction of employer contributions and deferred taxation on contributions and earnings).
- Allows participants to take their benefits with them when they leave the company, easing administrative responsibilities.

Contribution Allocation Methods

45% of companies are considered Top Heavy

26% of companies fail the ADP test

Source: employeefiduciary.com/blog/401k-nondiscrimination-testing-study

Contribution Methods

Employer Match	Profit Sharing Employer Match	Profit Sharing	Profit Sharing	Profit Sharing
Formula	**Pro-rata**	**Flat Dollar**	**Integrated**	**New Comparability**
A formula for employer contributions based on employee contributions.	Allocates employer contributions to all participants on a uniform basis.	Each eligible employee receives the same fixed dollar amount, regardless of their salary.	Integrates Social Security payments into the formula that the employer makes for participants.	Most flexible but has the most requirements. Allows you to divide employees into different classifications for purposes of allocating the contribution. “Last Day Rule” is not always an option.

Cross Testing Requirements

401(a)(4) Test:

Ensures contributions or benefits do not favor Highly Compensated Employees (HCEs) over Non-Highly Compensated Employees (NHCEs).

What is Minimum Gateway?

The Minimum Gateway for New Comparability Testing is the least amount a Non-Highly Compensated Employee needs to receive and based on the lesser of:

- 1/3 of the Highest Profit Share % of the Highly Compensated Employees
- OR 5% for any Profit Share percentage 15% or more.

Comparison Of Different Allocation Methods

Name	Age	Income	(A) Pro Rata	PS %	(B) Integrated	PS %	(C) Age Weighted	PS %	(D) New Comp	PS %
Dr. Petty	63	$345,000.00	$69,000.00	20.00%	$69,000.00	20.00%	$69,000.00	20.00%	$69,000.00	20.00%
Dr. Parsons	54	$180,000.00	$50,176.62	27.88%	$50,631.56	28.13%	$69,000.00	38.33%	$69,000.00	38.33%
HC Total		**$525,000.00**	**$119,176.62**		**$119,631.56**		**$138,000.00**		**$138,000.00**	
Stewart	42	$38,532.00	$10,741.14	27.88%	$10,699.39	27.77%	$5,549.29	14.40%	$1,926.60	5.00%
Wallace	51	$54,210.00	$15,111.52	27.88%	$15,052.78	27.77%	$16,269.22	30.01%	$2,710.50	5.00%
Martin	46	$31,200.00	$8,697.28	27.88%	$8,663.48	27.77%	$6,227.13	19.96%	$1,560.00	5.00%
Jarret	37	$49,998.00	$13,937.40	27.88%	$13,883.21	27.77%	$4,788.96	9.58%	$2,499.90	5.00%
Marlin	53	$62,166.00	$17,329.33	27.88%	$17,261.96	27.77%	$21,963.65	35.33%	$3,108.30	5.00%
Gordon	29	$20,000.00	$5,575.18	27.88%	$5,553.50	27.77%	$997.35	4.99%	$1,000.00	5.00%
Benson	30	$30,420.00	$8,479.85	27.88%	$8,446.89	27.77%	$1,646.17	5.41%	$1,521.00	5.00%
Little	48	$79,196.00	$22,076.60	27.88%	$21,990.77	27.77%	$18,608.04	23.50%	$3,959.80	5.00%
Nemechek	27	$25,132.00	$7,005.77	27.88%	$6,978.53	27.77%	$1,064.75	4.24%	$1,256.60	5.00%
Schraeder	32	$28,965.00	$8,074.25	27.88%	$8,042.86	27.77%	$1,845.00	6.37%	$1,448.25	5.00%
Non HCE Total		**$419,819.00**	**$117,028.32**		**$116,573.38**		**$78,959.56**		**$20,990.95**	
Total		**$944,819.00**	**$236,204.94**		**$236,204.94**		**$216,959.56**		**$158,990.95**	
Highly Comp %		**55.57%**	**50.45%**		**50.65%**		**63.61%**		**86.80%**	
Non Highly Comp %		**44.43%**	**49.55%**		**49.35%**		**36.39%**		**13.20%**	
Additional Admin Fees			***$0***		***$500***		***$950***		***$950***	

1/3 Minimum Gateway With 3% Safe Harbor

Name	Eligible Pay	Deferrals	%	3% Safe Harbor NEC	New Comparability NEC	%	Total Profit NEC	Total NEC %	Total Benefits
Owner 1	$345,000	$30,000	8.70%	$10,350	$20,700	6.00%	$31,050	9.00%	$61,050
Owner 2	$250,000	$30,000	12.00%	$7,500	$15,000	6.00%	$22,500	9.00%	$52,500
Owners Total	**$595,000**	**$60,000.00**		**$17,850**	**$35,700**		**$53,550**		**$113,550**
Staff 1	$200,000	$10,000	5.00%	$6,000	$0	0.00%	$6,000	3.00%	$16,000
Staff 2	$210,000	$18,900	9.00%	$6,300	$0	0.00%	$6,300	3.00%	$25,200
Staff 3	$345,000	$0	0.00%	$10,350	$0	0.00%	$10,350	3.00%	$10,350
Staff 4	$150,000	$30,500	20.33%	$4,500	$0	0.00%	$4,500	3.00%	$35,000
Staff 5	$100,000	$0	0.00%	$3,000	$0	0.00%	$3,000	3.00%	$3,000
Staff 6	$125,000	$3,750	3.00%	$3,750	$0	0.00%	$3,750	3.00%	$7,500
Staff 7	$110,000	$16,500	15.00%	$3,300	$0	0.00%	$3,300	3.00%	$19,800
Staff 8	$50,000	$2,000	4.00%	$1,500	$0	0.00%	$1,500	3.00%	$3,500
Staff 9	$45,000	$450	1.00%	$1,350	$0	0.00%	$1,350	3.00%	$1,800
All Other EEs Total	**$1,335,000**	**$82,100**		**$40,050**	**$0**		**$40,050**		**$122,150**
Total	**$1,930,000**	**$142,100**		**$57,900**	**$35,700**		**$93,600**		**$235,700**
Owners%	**30.83%**	**42.22%**		**30.83%**	**100%**		**57.21%**		**48.18%**
All Other EEs %	**69.17%**	**57.78%**		**69.17%**	**0%**		**42.79%**		**51.82%**

$950 annual admin fee for New Comparability Profit Sharing

Example #1

5% Minimum Gateway With 3% Safe Harbor

Name	Eligible Pay	Deferrals	%	3% Safe Harbor NEC	New Comparability NEC	%	Total Profit NEC	Total NEC %	Total Benefits
Owner 1	$345,000	$30,000	8.70%	$10,350	$36,150	10.48%	$46,500	13.48%	$76,500
Owner 2	$250,000	$30,000	12%	$7,500	$39,000	15.60%	$46,500	18.60%	$76,500
Owners Total	**$595,000**	**$60,000**		**$17,850**	**$75,150**		**$93,000**		**$153,000**
HCE 1	$200,000	$10,000	5%	$6,000	$0	0.00%	$6,000	3%	$16,000
HCE 2	$210,000	$18,900	9%	$6,300	$0	0.00%	$6,300	3%	$25,200
HCE 3	$345,000	$0	0%	$10,350	$0	0.00%	$10,350	3%	$10,350
Staff 4	$150,000	$30,500	20.33%	$4,500	$3,000	2.00%	$7,500	5%	$38,000
Staff 5	$100,000	$0	0%	$3,000	$2,000	2.00%	$5,000	5%	$5,000
Staff 6	$125,000	$3,750	3%	$3,750	$2,500	2.00%	$6,250	5%	$10,000
Staff 7	$110,000	$16,500	15%	$3,300	$2,200	2.00%	$5,500	5%	$22,000
Staff 8	$50,000	$2,000	4%	$1,500	$1,000	2.00%	$2,500	5%	$4,500
Staff 9	$45,000	$450	1%	$1,350	$900	2.00%	$2,250	5%	$2,700
All Other EEs Total	**$1,335,000**	**$82,100**		**$40,050**	**$11,600**		**$51,650**		**$133,750**
Total	**$1,930,000**	**$142,100**		**$57,900**	**$86,750**		**$144,650**		**$286,750**
Owners%	**30.83%**	**42.22%**		**30.83%**	**86.63%**		**64.29%**		**53.36%**
All Other EEs %	**69.17%**	**57.78%**		**69.17%**	**13.37%**		**35.71%**		**46.64%**

$950 annual admin fee for New Comparability Profit Sharing

PS Contribution: $86,750
Safe Harbor: $57,900
Total:$ 144,650

Example #2

Gateway With 4% Safe Harbor Match

Name	Eligible Pay	Deferrals	%	4% Safe Harbor Match	%	New Comparability NEC	%	Total Benefits
Owner 1	$345,000	$30,000	8.70%	$13,800	4%	$32,700	9.48%	$76,500
Owner 2	$250,000	$30,000	12%	$10,000	4%	$36,500	14.60%	$76,500
Owners Total	**$595,000**	**$60,000**		**$23,800**		**$69,200**		**$153,000**
HCE 1	$200,000	$10,000	5%	$8,000	4%	$0	0%	$18,000
HCE 2	$210,000	$18,900	9%	$8,400	4%	$0	0%	$27,300
HCE 3	$345,000	$0	0%	$0	0%	$0	0%	$0
Staff 4	$150,000	$30,500	20.33%	$6,000	4%	$7,300	4.87%	$43,800
Staff 5	$100,000	$0	0%	$3,000	3%	$4,866.67	4.87%	$7,866.67
Staff 6	$125,000	$3,750	3%	$3,750	3%	$6,083.33	4.87%	$13,583.33
Staff 7	$110,000	$16,500	15%	$4,400	4%	$5,353.33	4.87%	$26,253.33
Staff 8	$50,000	$2,000	4%	$2,000	4%	$2,433.33	4.87%	$6,433.33
Staff 9	$45,000	$450	1%	$450	1%	$2,190	4.87%	$3,090
All Other EEs Total	**$1,335,000**	**$82,100**		**$36,000**		**$28,226.67**		**$146,326.67**
Total	**$1,930,000**	**$142,100**		**$59,800**		**$97,426.67**		**$299,326.67**
Owners%	**30.83%**	**42.22%**		**39.80%**		**71.03%**		**51.11%**
All Other EEs %	**69.17%**	**57.78%**		**60.20%**		**28.97%**		**48.89%**

$950 annual admin fee for New Comparability Profit Sharing

PS Contribution: $97,426.67
Safe Harbor: $59,800
Total:$ 157,226.67

Example #3

Tax Return Deadlines

March 15: Partnerships & S Corps
April 15: C Corporations & Sole Proprietors
May 15: Nonprofits
September 15: Partnership & S Corps Extension tax deadline
October 15: C Corporations & Sole Proprietors Extension deadline
November 15: Nonprofits Extension tax deadline
November 15: Projection Request Deadline

General Rule: Employer contributions are due prior to the date of their company tax return filing, including extensions.

Core Takeaways

1. **Set clear objectives:** Define both near-term and long-term goals.

2. **Optimize plan design:** Ensure your retirement plan is efficient and effective.

3. **Adopt Safe Harbor:** Avoid high risks and potential costs by using Safe Harbor provisions.

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Contact Information
Plan Analytics Department:

For Projections Please Email:
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Thank you!

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