



Prospecting tool for owner-dominant plans

1. Intended solely for use in prospecting for plans where the prime motivation is optimization of benefits for employee owners.
2. Wherever the term "compensation" is used, it is limited to a maximum of \$200,000 per participant (for 2003).
3. The term "HCE" means highly compensated employee. HCEs are those who either own (directly or by attribution) more than 5% of the employer, or received more than \$90,000 compensation from the employer in the previous year.

Technique Name	Description	Why do it?	Factors in favor	Factors against
Defined benefit plan	A benefit formula is expressed in the plan document promising a monthly benefit beginning at retirement. The contribution for each year is determined by an actuary, based on age, compensation and predicted investment return. Investments are pooled.	To achieve greater contribution levels than could be had in a defined contribution plan.	<p>Average owner age at least 10 years more than average for others</p> <p>Owners want greater contributions than \$40,000 apiece</p> <p>Owners have spouses (of similar age) who could be employed in the business</p>	<p>Owners are less than age 45</p> <p>Multiple owners cannot agree to have pooled investments</p> <p>Owners cannot be persuaded to become comfortable with a recurring contribution obligation</p>
Cash balance defined benefit plan	Same as defined benefit plan except that the pre-retirement accrued benefit is expressed as an account balance. Investments are still pooled.	Same as for defined benefit plan, but there is a perceived need to express accrued benefits as account balances.	<p>Same as for defined benefit plan</p> <p>Multiple owners want to make sure that they are being treated fairly in relation to their current compensation.</p> <p>Often appropriate for large group medical practices.</p>	<p>Same as for defined benefit plan</p> <p>More administrative cost than defined benefit plan</p>



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Technique Name	Description	Why do it?	Factors in favor	Factors against
<p>New comparability profit sharing plan</p>	<p>As with all profit sharing plans, this is a defined contribution plan. That is, the contribution allocated to a participant's account for a given year grows (or shrinks) with investment performance. The only promise is that the participant will receive whatever is in his/her account.</p> <p>The "new comparability" aspect is that the employee population is divided into separate allocation groups (<i>e.g.</i>, owners in one group and everybody else in another). Nondiscrimination is proven on the basis of the amount of periodic benefits beginning at retirement purchasable with the current year's contribution. Thus, both age and compensation are major factors.</p>	<p>To get a greater percentage for owners than could be obtained in an integrated profit sharing allocation.</p>	<p>Average owner age at least 10 years more than average for others</p> <p>Owners are satisfied with contributions of \$40,000 apiece</p> <p>Owners have spouses (of similar age) who could be employed in the business</p>	<p>Owners want more than \$40,000 apiece.</p> <p>Owners are generally not older than other employees.</p>



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Technique Name	Description	Why do it?	Factors in favor	Factors against
Integrated profit sharing	Allocation is in a uniform relationship to compensation, but compensation in excess of the FICA wage base is counted double (for the first 5.7% allocated to compensation).	Gives owners a slightly better result than a straight profit sharing allocation.	<p>Owners are satisfied with contributions of \$40,000 apiece</p> <p>Owners have spouses (of similar age) who could be employed in the business</p> <p>Very few non-owner employees</p>	If there are other employees, they will likely get a greater percentage of the contribution than under a new comparability approach.
Straight profit sharing	Allocation is in a uniform relationship to compensation.		<p>Owners are satisfied with contributions of \$40,000 apiece</p> <p>Owners have spouses (of similar age) who could be employed in the business</p> <p>Owners and family are the only employees.</p>	If there are other employees, they will likely get a greater percentage of the contribution than under an integrated allocation.



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Technique Name	Description	Why do it?	Factors in favor	Factors against
401(k) profitsharing plan	<p>Participants may direct a portion of compensation they would otherwise receive in cash into a plan. The plan may also provide for employer matching or profit sharing contributions.</p> <p>Participant contributions and matching are subject to special discrimination tests.</p>	<p>There is a desire for each participant to have flexibility in determining the portion of his/her compensation put into the plan <i>versus</i> paid in cash.</p>	<p>More than just a few employees.</p>	<p>FICA (both employer and employee portions) applies to any amount designated by the participant for contribution to the plan.</p>
Safe harbor 401(k) profit sharing plan	<p>Same as above, but certain nonforfeitable employer contributions are promised as payment for automatic passage of the discrimination tests.</p> <p>There are two basic contribution alternatives:</p> <ol style="list-style-type: none"> 1. Nonelective - a contribution to the account of each eligible employee of 3% of compensation. 2. Matching - generally, 100% of the first 3% of compensation contributed by the employee, plus 50% of the next 2% of compensation contributed by the employee. 	<p>To guarantee at the outset of the year that there will be automatic passage of the special 401(k) discrimination tests, and thus, no taxable refunds to HCEs.</p>	<p>The number of HCEs is large in comparison to the number of others.</p>	<p>There are only a couple of HCEs and many others.</p>



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Technique Name	Description	Why do it?	Factors in favor	Factors against
Safe harbor 401(k) profit sharing plan with new comparability	<p>See the discussion of new comparability profit sharing and safe harbor 401(k) above.</p> <p>In this design, the “nonelective” safe harbor is used.</p>	To get owners the maximum \$40,000 of allocated contributions apiece with the least possible employer outlay for other employees.	<p>Average owner age at least 10 years more than average for others</p> <p>Owners are satisfied with contributions of \$40,000 apiece</p> <p>Multiple owners want some contribution flexibility at the individual level. Most common design for large group medical practices.</p>	<p>\$40,000 not enough</p> <p>Average owner age not significantly higher than average age of others.</p>
Safe harbor 401(k) profit sharing plan with layered match	<p>See the discussion of safe harbor 401(k) above.</p> <p>In this design, the “matching” safe harbor is used.</p> <p>Additionally, other matches are layered on the same contribution dollars as the safe harbor match.</p>	To get owners the maximum \$40,000 of allocated contributions apiece with the least possible employer outlay for other employees when safe harbor 401(k) with new comparability will not work.	<p>Owners are satisfied with contributions of \$40,000 apiece</p> <p>Multiple owners want some contribution flexibility at the individual level.</p> <p>Owners are not generally older than other employees.</p>	Can be costly because the match is so great as to induce eligible employees to contribute more than they might otherwise contribute.