

Innovative Retirement Plans for Small Businesses

Cross-Tested and 401(k) Safe Harbor Profit Sharing

Profit Sharing Plans: Cross-Tested Formula

In a cross-tested formula, employees are assigned to classification groups based upon ownership or job title. Each group receives a different percentage of the contribution, subject to nondiscrimination testing.



Advantages

- Allocation percentages favor the owner.
- Discretionary, tax-deductible contributions.
- Availability of life insurance with tax-deductible premiums.

Considerations

- Owner allocations impacted by employee demographics.

Profit Sharing Formula Comparison

Salary Proportion and Cross-Tested

- Business owner age 55, Spouse 52.
- Two employees age 24, 33.

	Salary Proportion Formula	Cross-Tested Formula
Owner & Spouse	\$68,000	\$82,250
Employees	\$10,400	\$2,600
Total	\$78,400	\$84,850
Percent to Owner/Spouse	87%	97%

Contributions are for illustration purposes only, and actual contributions may vary. Contributions are calculated based upon individual census data. Values as of 01/01/2020.

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401(k) Safe Harbor with Cross-Tested Profit Sharing

Combining a cross-tested profit sharing with a safe harbor 401(k) is a powerful formula.

Advantages

- Owners can defer the maximum amount.
- Profit Sharing allocations favor the owner.
- Tax-deferred retirement savings.
- Availability of life insurance with tax-deductible premiums.

Considerations

- Safe harbor contributions are required.
- Owner profit sharing allocations impacted by employee demographics.

Sample Contribution Analysis

- Business owner age 55, Spouse 52.
- Two employees age 24, 33.

	Profit Sharing + Safe Harbor	401(k)	Total Annual Contribution
Owner & Spouse	\$64,400	\$52,000	\$116,400
Employees	\$2,600		\$2,600
Employer Contribution	\$67,000		
Percent to Owner/Spouse	98%		



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