

## 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	\$80,000	\$96,000
Employees	\$10,400	\$2,600
Total	\$90,400	\$98,600
Percent to Owner/Spouse	88%	97%

### 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	\$72,000	\$61,000	\$133,000
Employees	\$2,600	—	\$2,600
Employer Contribution	\$74,600		
Percent to Owner/Spouse	98%		

Contributions are for illustration purposes only, and actual contributions may vary. Contributions are calculated based upon individual census data. Values as of 1/1/2024.

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