CREATING A COMPELLING RETIREMENT PLAN

Boost Your Profit Sharing Plan With a Customized 401(k) Benefit

Your company is unique. We believe your retirement plan should reflect your company's business needs and offer your employees a way to achieve their retirement goals. If you have a profit sharing plan, we can help you tailor a profit sharing with a 401(k) plan that offers varying levels of flexibility for your company and ways for your employees to save.

How do you know what type of plan is best for your company? And what are your options? Following are five combinations of varying complexity to consider, and some pros and cons of each.

Profit Sharing Plan Only

This type of retirement plan provides employers flexibility when designing key features. With a profit sharing plan, the employer decides how much to contribute to the plan each year—including no contribution if so desired. However, unlike a 401(k) plan, employees in a profit sharing plan are not allowed to make elective deferral contributions. A profit sharing plan provides a tangible retirement benefit to employees. An employer may contribute 100% of the employee's compensation or $58,000 (for 2021) per participant, whichever is less. Further, an employer may deduct up to 25% of compensation paid to all eligible participants for tax purposes.* While a profit sharing plan is not subject to the same nondiscrimination testing as a 401(k), the plan is still subject to annual top-heavy testing and nondiscrimination testing when the employer makes annual profit sharing contributions.

*Fisher Investments is not a tax adviser and does not provide tax advice.

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Profit Sharing with 401(k) Plan

The addition of a 401(k) provision includes the benefits of a profit sharing plan and allows participating employees the benefit of elective deferral contributions. A 401(k) plan permits employees to contribute a portion of their pre-tax compensationre into the plan. The IRS defined contribution limit including any employer contribution and total elective deferral contributions cannot exceed the lesser of either 100% of participant compensation or $58,000 (for 2021). Unlike a profit sharing plan, an employer is usually not required to contribute any additional funds to a 401(k) plan, and such contributions are at the sole discretion of the employer. However, the addition of a 401(k) provision subjects the plan to annual nondiscrimination testing such as Actual Deferral Percentage (ADP) and possibly Actual Contribution Percentage (ACP) under Internal Revenue Code Sections 401(k)(12) and 401(m)(11). Under these provisions, a 401(k) plan is required to perform annual testing to demonstrate that benefits are provided in a manner that does not discriminate unlawfully against lower-paid employees and in favor of highly compensated employees. If a plan fails its nondiscrimination testing, timely correction in accordance with IRS guidelines is required; otherwise, the employer may incur additional cost and fines as a result its failure to maintain the plan's qualified status.

Profit Sharing with 401(k) & Discretionary Match

A discretionary match is a type of employer contribution where the employer has the option to match some or all of an employee's deferrals to the 401(k) plan. Adding a discretionary match to a 401(k) plan can be a significant incentive for employee participation to take advantage of the additional funding. Unlike a safe harbor provision (discussed in the following sections), the employer has discretion to determine which formula to use for the match. For example, Company A may match 50% of employee contributions up to a maximum of 6% of compensation while Company B may match 100% of the first 5% of employee compensation. The matching formula can be changed by the employer as permitted by the plan documents and with proper notification provided to employees.

Profit Sharing with 401(k) & Safe Harbor Match

Unlike a discretionary match, a safe harbor match requires the plan sponsor to match a portion of employee contributions based on one of these formulas:

1. 100% matching of the first 3% of employee deferrals and 50% of the next 2% of deferrals

   Or

2. 100% matching of the first 4% of employee deferrals

The contributions immediately vest, providing an additional employee benefit. As a benefit for the plan sponsor, the plan automatically passes most annual nondiscrimination testing per IRS regulations. Unlike a discretionary match, a safe harbor provision can be more expensive as the plan is required to match employee deferrals. Furthermore, adding or removing safe harbor contribution provisions is contingent upon specific regulatory requirements.

Profit Sharing with 401(k) & Safe Harbor Non-Elective

Similar to a safe harbor match, a safe harbor non-elective option requires a plan sponsor to commit to funding employee accounts. Funds added to employee accounts are also fully vested and the plan is automatically deemed to pass annual nondiscrimination testing. But in this option, the plan must contribute a minimum of 3% of each eligible employee's annual compensation. Because the employer is required to contribute to all eligible employees regardless of participation, the non-elective provision tends to be the most expensive of all contribution methods. However, the 3% safe harbor non-elective contribution can be very attractive option for a plan that routinely fails annual nondiscrimination testing. A cost-benefit analysis should be completed to justify use of either safe harbor match or the safe harbor non-elective.

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401(k) SOLUTIONS

Retirement Plan Comparison Chart

Retirement Plan Characteristics	Profit Share Plan Only	Profit Share with 401(k) Plan	Profit Share with 401(k) & Discretionary Match	Profit Share with 401(k) & Safe Harbor Match**	Profit Share with 401(k) & Safe Harbor Non-Elective
Employer contributions are tax-deductible*	✓	✓	✓	✓	✓
Provides employees a visible retirement benefit	✓	✓	✓	✓	✓
Employees are able to defer their compensation		✓	✓	✓	✓
Employer contribution is optional	✓	✓	✓		
Incentivizes employees to contribute more			✓	✓	
Plan is subject to annual ADP/ACP testing		✓	✓		
Plan is subject to annual top-heavy testing	✓	✓	✓		
Employer contributions are mandatory				✓	✓
Employer contributions are 100% vested immediately				✓	✓

Fisher Investments 401(k) Solutions is dedicated to helping small and mid-size businesses deliver successful retirement plan services. Our success is defined by each business achieving its custom 401(k) plan goals and by empowering employees with the dedicated support and resources necessary to achieve a dignified retirement. Our solutions are built on the core principles of providing employers and employees ready access to dedicated 401(k) specialists, flexible investment options, and fee transparency.

The Fisher Investments Resource Library is designed to support 401(k) Plan Sponsors with insights, tools and answers without obligation.

To learn more, call us at 844-254-1698
or visit: www.fisher401k.com/ContactUs

**Term references only the basic and enhanced safe harbor matches.