

Types of Profit Sharing



New Comparability

Often the most cost-effective for owners because it allows for multiple benefit groups each with their own contribution rates. This means owners can receive a substantially higher portion than non-owners.



Pro-Rata

The simplest and most common type. All employees must receive the same proportional amount, including the owner.



Age-Weighted

Allows a business to allocate a higher percentage to older employees because they are closer to retirement; younger employees receive a smaller portion.



Integrated

Allows an employer to contribute different amounts to employees based on their Social Security tax levels. This means higher paid employees typically receive a higher contribution.

	New Comparability	Pro-Rata	Age-Weighted	Integrated
Who Should Consider	<ul style="list-style-type: none"> • Owners who want to maximize contribution • Businesses with <25 employees per owner • Owners who are older than employees 	<ul style="list-style-type: none"> • Owners who don't want to maximize their contribution • Businesses looking for the simplest method 	Businesses looking to give a higher contribution to older employees.	Business looking to give a higher contribution to high earning employees.
Grouping Criteria	Flexible	N/A	Employee Age	Social Security Tax Level
Calculation Formula	% of Salary	% of Salary	% of Salary	% of Salary
Pros	Can be the most cost-effective way for owners to maximize their portion of the company contribution	Simple	Allows businesses to reward older employees	Allows businesses to reward high earning employees
Cons	Not cost-effective for all demographics	Owner typically isn't able to maximize their annual contribution	Not cost-effective for all demographics	Not cost-effective for all demographics

Pro-Rata vs. New Comparability

Often times plans utilize a pro-rata profit sharing formula because it's the simplest. However, changing from pro-rata to new comparability can save the business owner significantly in cost without compromising tax savings. Consider the example below, where a business owner was able to reduce contribution costs by \$51,000 per year.

Employee	Age	Annual Compensation	Pro-Rata	New Comparability	Results
Owner	62	\$250,000	\$50,000	\$50,000	–
Employee 1	45	\$100,000	\$20,000	\$5,000	-\$15,000
Employee 2	45	\$75,000	\$15,000	\$3,750	-\$11,250
Employee 3	40	\$75,000	\$15,000	\$3,750	-\$11,250
Employee 4	35	\$50,000	\$10,000	\$2,500	-\$7,500
Employee 5	25	\$40,000	\$ 8,000	\$2,000	-\$6,000
TOTAL EMPLOYER CONTRIBUTION			\$118,000	\$67,000	-\$51,000
% to Owner			42%	75%	+33%
% to Employees			58%	25%	-33%

NEW COMPARABILITY BENEFITS & CONSIDERATIONS

Benefits

- Allows for maximum cost-effective employer contributions
- Contributions are flexible & tax-reducing
- Can add a vesting schedule of up to 6 years

Considerations

- Can be expensive to provide an employer contribution to eligible employees
- Can be complex. Consult with a specialized adviser to evaluate