Defined Contribution Plan Options

ABA Retirement Funds™

When you choose a retirement plan for your firm, you want flexibility in a plan design that addresses your needs as a plan sponsor, as well as the needs of your plan participants. Whether establishing a new plan or converting your existing plan, the ABA Retirement Funds Program ("the Program") provides you with the options and flexibility you require. This guide is intended to assist you in understanding your defined contribution plan design options.

WHICH RETIREMENT PLAN OPTION IS RIGHT FOR YOU?

Select the key objective for your plan

Minimize Cost	Attract and Retain Employees	Maximize Tax Benefits
Based on your choice, here are plan designs that may fit your needs:		
☐ Profit Sharing Plan ☐ 401(k) Plan	☐ Safe Harbor 401(k) ☐ Cash Balance Plan	☐ Social Security Integration with 401(k) ☐ Cross-Tested 401(k) Plan ☐ Personal Pension Plan

Contact a Program Representative to walk through the options that are available to your firm. 800.826.8901

DEFINED CONTRIBUTION LIMITS AND REQUIREMENTS

Qualified retirement plans are regulated by both the Internal Revenue Service and the Department of Labor. Every qualified plan is subject to numerous tests and limits. Here's a brief look at some of the contribution limits and requirements that often affect the design of a plan:

- The maximum annual deductible employer contribution is 25% of eligible payroll.
- The maximum compensation that can be considered for any participant for purposes of calculating contributions is $265,000 (in 2016).
- The maximum participant deferral in a 401(k) plan is $18,000 (in 2016); with the exception of participants who are age 50 or over who may make additional "Catch-Up" contributions (up to $6,000 in 2016) by plan year-end.
- The maximum "annual addition" per participant (from all contributions and other sources combined) is the lesser of 100% of compensation or $53,000 (in 2016).
- A plan must be tested annually for compliance with all applicable limits.
- A firm contribution of up to 3% of compensation may be required if the account balances of key employees exceed 60% of the total of all account balances - a plan exceeding this level is considered a "top-heavy" plan.
- Contributions to a 401(k) plan must be remitted by the firm to the trustee as soon as administratively feasible and in any case no later than 15 days after the end of the month in which the compensation was deferred.
- 401(k) plans generally require annual nondiscrimination (ADP) testing. This test may limit deferrals by highly compensated employees.

A DIFFERENT KIND OF RETIREMENT PLAN

Call an ABA Retirement Funds Program Regional Representative today at 800.826.8901.

DEFINED CONTRIBUTION PLAN OPTIONS

A defined contribution plan is a retirement savings vehicle that lets employees, and sometimes their employers, contribute to a tax-advantaged retirement account. In most plans, contributions and growth in the account are tax-free until the money is withdrawn. In all defined contribution plans, investment risks and the potential for gain are borne by the participating employee, not the employer. Though some employers offer matching contributions to encourage workers to contribute to the plan, the ultimate decision to save rests with the employee.

Employees have substantial control over how the contributions to their plan are invested and may generally choose from an assortment of investment options allowing for diversification. Examples of defined contribution plan options and features include profit sharing employer contributions, 401(k) employee deferrals, Safe Harbor contributions, and Social Security Integration.

Profit Sharing Plan

Typically used when the firm seeks flexibility in making contributions.

- Funded by the firm—tax deductible contributions.
- Contributions can be discretionary and are generally not required every year.
- Contributions can be subject to a vesting schedule.
- Contributions based on a flat percentage of salary for all eligible employees.

DEMOGRAPHICS			CONTRIBUTIONS			
Eligible Employee	Age	Eligible Compensation	Uniform Allocation Rate for Employer Contribution	Discretionary Employer Contribution	401(k) Salary Deferral	Total Contribution
Owner 1	55	$265,000	20%	$53,000	0	$53,000
Owner 2	45	$265,000	20%	$53,000	0	$53,000
Staff 1	55	$60,000	20%	$12,000	0	$12,000
Staff 2	40	$50,000	20%	$10,000	0	$10,000
Staff 3	30	$40,000	20%	$8,000	0	$8,000
Staff 4	25	$30,000	20%	$6,000	0	$6,000

Here we display a profit sharing plan where the employer contribution is structured to allow the owners to reach the maximum annual additions limit of $53,000. In this example, this requires a contribution from the firm to each employee of 20% of eligible compensation.

401(k) Plan

Typically used when the firm seeks to offer an employee funded benefit.

- 401(k) is a feature of a profit sharing plan.
- Funded by participants—100% vested immediately.
- Employer-matching contributions are available, but are not required.

DEMOGRAPHICS			CONTRIBUTIONS			
Eligible Employee	Age	Eligible Compensation	Uniform Allocation Rate for Employer Contribution	Discretionary Employer Contribution	401(k) Salary Deferral	Total Contribution
Owner 1	55	$265,000	13.21%	$35,000	$24,000 (6.79%[1])	$59,000
Owner 2	45	$265,000	13.21%	$35,000	$18,000 (6.79%)	$53,000
Staff 1	55	$60,000	13.21%	$7,925	$3,000 (5%)	$10,925
Staff 2	40	$50,000	13.21%	$6,604	$2,500 (5%)	$9,104
Staff 3	30	$40,000	13.21%	$5,283	$2,000 (5%)	$7,283
Staff 4	25	$30,000	13.21%	$3,962	$1,500 (5%)	$5,462

In this example, the addition of a 401(k) feature to the profit sharing plan lowers the amount of contributions the firm is making, from a 20% rate to a 13.21% rate. The example shows that the total amounts allocated to the owners does not change because each owner has deferred $18,000, the limit for 401(k) salary deferrals for 2016. All staff members are assumed to contribute 5% of pay annually.[2]

1 Percentage excludes catch-up contributions, $6,000 in 2016.

2 The rate at which non-highly compensated employees defer, relative to the rate at which highly compensated employees defer, is critical to passage of the ADP test. In the 401(k) example above, the ADP test generally requires that the average deferral rate of highly compensated employees cannot exceed the average deferral rate of non-highly compensated employees by more than 2%. The example shows that the ADP test is passed because the owners' deferrals average 6.79%, and the staff's deferrals average 5%, a difference of 1.79%, is within the allowable 2% maximum.

Safe Harbor 401(k)

In a 401(k) plan, the ADP test can prevent highly compensated employees from making the highest possible deferrals and in some cases may even require refunds of excess 401(k) contributions. However, Safe Harbor 401(k) plans may eliminate ADP testing, which enables highly compensated employees to defer up to the legal limit each year the Safe Harbor is in effect. But it also requires either an employee contribution or matching contributions to eligible employees.

Option A: A fully vested Nonelective Contribution of 3% eligible compensation to all employees eligible to participate (or only on behalf of non-highly compensated eligible participants.)

Option B: A fully vested Matching Contribution, equal to 100% of a participant's elective contributions not in excess of 3% of the participant's compensation for the plan year, plus 50% of the participant's elective contributions over 3% but not in excess of 5% of compensation for the plan year.

Safe Harbor Matching contributions may be made on behalf of all participants who defer, or only non-highly compensated participants who defer. If the only contributions to a plan are 401(k) Salary Deferrals and either Safe Harbor Matching or Safe Harbor Nonelective contributions, the plan is deemed not a top-heavy plan.

Safe Harbor 401(k) plans must provide all eligible employees with a notice of the Safe Harbor contribution at least once a year, and at certain other times. Failure to timely provide the Safe Harbor notice on a timely manner will negate the benefits of the Safe Harbor design, subject the plan to the ADP test, and may still require the employer to make the Safe Harbor contribution and/or other corrective actions.

Option C: available to firms participating in the Program is a special form of Safe Harbor plan called a Qualified Contribution Arrangement ("QACA"). QACAs allow some flexibility in vesting of the safe harbor contribution but also require certain changes to the process by which employees are able to choose to make contributions.

DEMOGRAPHICS			CONTRIBUTIONS		
Eligible Employee	Age	Eligible Compensation	Safe Harbor Employer Nonelective Contribution–3% of Eligible Compensation	401(k) Salary Deferral	Total Contribution
Owner 1	55	$265,000	$7,950	$24,000 (6.79%[1])	$31,950
Owner 2	45	$265,000	$7,950	$18,000 (6.79%)	$25,950
Staff 1	55	$60,000	$1,800	$3,000 (5%)	$4,800
Staff 2	40	$50,000	$1,500	$2,500 (5%)	$4,000
Staff 3	30	$40,000	$1,200	$0 (0%)	$1,200
Staff 4	25	$30,000	$900	$0 (0%)	$900

In this example, the firm has adopted a profit sharing plan with a 401(k) Safe Harbor feature. The firm has chosen to make a 3% Employer Nonelective Contribution (Option A). Owner 1 and Owner 2 each make $18,000 in 401(k) salary deferrals, the maximum in 2015. Staff 1 and Staff 2 have elected 5% deferral rates, but Staff 3 and Staff 4 have elected not to defer this year. The ratio of deferrals between highly and non-highly compensated employees would cause this plan to fail ADP testing if the Safe Harbor design were not utilized. However, in this case the deferral ratios are not relevant as long as the Safe Harbor requirements are met.

Social Security Integration

Qualified plans generally cannot discriminate in favor of highly compensated employees. However, disparity is permitted through "integration" with Social Security. As such, all eligible employees who participate in a plan are allocated a certain percentage of their eligible compensation, not to exceed $265,000 in 2016. Furthermore, all eligible employees who participate in the plan and whose compensation exceeds the Social Security Taxable Wage Base in effect for that year ($118,500 in 2016) are allocated an additional percentage not to exceed 5.7% of the difference between the Social Security Taxable Wage Base and their eligible compensation.

DEMOGRAPHICS			CONTRIBUTIONS		
Eligible Employee	Age	Eligible Compensation	Employer Contribution–5.7% of All Eligible Compensation	Integrated Employer Contribution–5.7% of All Eligible Compensation Above $118,500	Total Contribution
Owner 1	55	$265,000	$15,105	$8,351	$23,456
Owner 2	45	$265,000	$15,105	$8,351	$23,456
Staff 1	55	$60,000	$3,420	$0	$3,420
Staff 2	40	$50,000	$2,850	$0	$2,850
Staff 3	30	$40,000	$2,280	$0	$2,280
Staff 4	25	$30,000	$1,710	$0	$1,710

In the example above, a profit sharing plan has been designed to utilize Social Security integration in calculating the employer contribution. To create the greatest leverage, the design provides 5.7% contributions both above and below the Social Security Taxable Wage Base.

1 Percentage excludes catch-up contributions, $6,000 in 2016.

Cross-Testing

Cross-tested plans may enable some firms to direct a greater portion of contributions to highly compensated employees[1]. Whether this type of plan design is appropriate for your firm will depend greatly on the demographics and goals of your firm. Cross-testing refers to one method by which a qualified defined contribution plan, can demonstrate compliance with non-discrimination testing requirements.

DEMOGRAPHICS			CONTRIBUTIONS				
Eligible Employee	Age	Eligible Compensation	3%[2] Safe Harbor	Non-Uniform Allocation Rate	Discretionary Employer Contribution	401(k) Salary Deferral	Total Contribution
Owner 1	55	$265,000	$7,950	10.21%	$27,050	$24,000	$59,000
Owner 2	45	$265,000	$7,950	10.21%	$27,050	$18,000	$53,000
Staff 1	55	$60,000	$1,800	1.41%	$846	0	$2,646
Staff 2	40	$50,000	$1,500	1.41%	$705	0	$2,205
Staff 3	30	$40,000	$1,200	1.41%	$564	0	$1,764
Staff 4	25	$30,000	$900	1.41%	$423	0	$1,323

Here we display a profit sharing plan with 401(k) which utilizes cross-testing in order to determine the non-uniform employer contribution. This design is very sensitive to the ages and incomes of plan participants.

Unlike a traditional profit sharing plan which allocates contributions using a uniform percentage of participants' compensation, a cross-tested plan allocates contributions using a non-uniform formula and passing the non-discrimination tests requires actuarial analysis. Effectively, a cross-tested plan employs a testing methodology that is customarily used in defined benefit plans and applies it to a defined contribution plan, hence the term "cross-tested."

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The ABA Retirement Funds Program has partnered with The Hilb Group to provide actuarial and on-going administrative services for Program clients who have selected Cross-tested, Personal Pension or Cash Balance Plans.

Contact a Program Representative to discuss Defined Benefit Plans that are also available to your firm. 800.826.8901

1 *Cross-tested plan design may require actuarial services, and may result in additional fees, depending on the transaction or service.*
2 *3% of the allocation rate is classified as a non-elective Safe Harbor contribution that satisfies ADP/ACP and top-heavy testing requirements.*

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Please read the Program Annual Disclosure Document (April 2016) carefully before investing. This Disclosure Document contains important information about the Program and investment options. For email inquiries, contact us at: joinus@abaretirement.com.
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