

Qualified Retirement Plans

Practice Alert

November 2009

Profit Sharing Plans – Where’s The Sizzle?

Profit sharing plans are the plain vanilla of qualified retirement plans – or are they? The traditional profit sharing plan allocates a discretionary deposit, as determined by the plan sponsor, based on each eligible employee’s compensation. Some plans take Social Security into consideration when making that allocation which provides a slightly higher contribution for the higher paid employees, usually the owners and key employees. Over the years alternatives to this allocation approach have developed resulting in a more favorable allocation, i.e. a higher percent allocation to those owners and key employees. Illustrated below is a traditional profit sharing plan and one allocated in accordance with a more favorable approach. **Call for a custom illustration.**

Traditional Profit Sharing Plan

	Age	Salary	Allocation	Percent Allocation
Steve	55	\$ 245,000	\$ 49,000	35.46%
Michael	49	75,000	15,000	10.85%
Alex	38	60,000	12,000	8.68%
		<u>\$ 380,000</u>	<u>\$ 76,000</u>	<u>54.99%</u>
Carol	26	\$ 25,000	\$ 5,000	3.62%
Scott	27	45,000	9,000	6.51%
Arthur	28	22,000	4,400	3.18%
Mary Ann	37	38,000	7,600	5.50%
Jonathan	47	55,000	11,000	7.96%
Rebecca	22	41,000	8,200	5.93%
Susan	33	27,000	5,400	3.91%
Joan	41	25,000	5,000	3.62%
Stanley	39	15,000	3,000	2.17%
Stuart	29	18,000	3,600	2.60%
		<u>\$ 311,000</u>	<u>\$ 62,200</u>	<u>45.01%</u>
		<u>\$ 691,000</u>	<u>\$ 138,200</u>	<u>100.00%</u>

Safe Harbor 401(k) with Cross Tested Profit Sharing

	Age	Salary	Employee Deferral	Employer Nonelective	Cross Tested PS Contribution	Total Deposit	Total Employer Deposit
Steve	55	\$ 245,000	\$ 22,000	\$ 7,350	\$ 25,150	\$ 54,500	\$ 54,500
Michael	49	75,000	16,500	2,250	16,500	35,250	35,250
Alex	38	60,000	16,500	1,800	3,750	22,050	22,050
		<u>\$ 380,000</u>	<u>\$ 55,000</u>	<u>\$ 11,400</u>	<u>\$ 45,400</u>	<u>\$ 111,800</u>	<u>\$ 111,800</u>
Carol	26	\$ 25,000	\$ 750	\$ 750	\$ 500	\$ 2,000	\$ 1,250
Scott	27	45,000	2,500	1,350	900	4,750	2,250
Arthur	28	22,000	1,000	660	440	2,100	1,100
Mary Ann	37	38,000	3,000	1,140	760	4,900	1,900
Jonathan	47	55,000	5,000	1,650	1,100	7,750	2,750
Rebecca	22	41,000	-	1,230	820	2,050	2,050
Susan	33	27,000	1,200	810	540	2,550	1,350
Joan	41	25,000	1,000	750	500	2,250	1,250
Stanley	39	15,000	-	450	300	750	750
Stuart	29	18,000	1,000	540	360	1,900	900
		<u>\$ 311,000</u>	<u>\$ 15,450</u>	<u>\$ 9,330</u>	<u>\$ 6,220</u>	<u>\$ 31,000</u>	<u>\$ 15,550</u>
		<u>\$ 691,000</u>	<u>\$ 70,450</u>	<u>\$ 20,730</u>	<u>\$ 51,620</u>	<u>\$ 142,800</u>	<u>\$ 127,350</u>

Owners %	87.79%
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