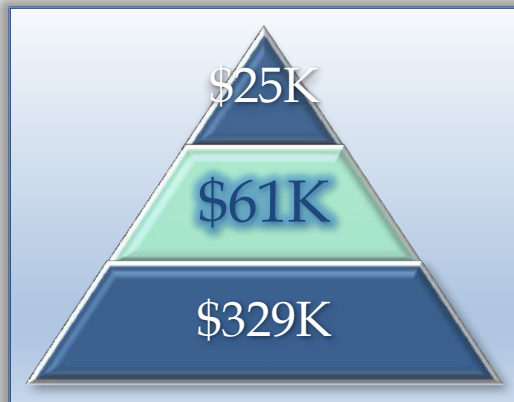


## Profit Sharing Plan

### WHAT is a Profit Sharing Plan?

A “Profit Sharing” plan is a defined contribution plan in which employers have discretion to determine when and how much the company pays into the plan. The contribution does not necessarily need to be linked to business profitability and may be as little as zero in a given year. The method by which employer contributions are made can vary based upon plan design.

Did you know that all 401(k) plans are actually profit sharing plans? That’s right, a 401(k) provision simply allows for deferrals into a profit sharing plan.



### WHO is an Plan Sponsor?

- ✓ **Goal:** Businesses looking for flexible ways to allocate employer contributions in order to increase retirement readiness and achieve tax benefits.
- ✓ **Demographic:** Companies of any size can take advantage of this structure.
- ✓ **Generosity:** Contributions to eligible employees can vary based upon the profit sharing structure and employee demographic. Profit sharing plans are subject to age-based discrimination testing and include design options such as the following:
  - **Traditional:** A pro-rata percentage of annual income or fixed dollar amount.
  - **Integrated:** Also known as Permitted Disparity, this method accounts for Social Security compensation limits.
  - **Age Weighted:** A greater percentage of profit sharing contributions are allocated to older employees.
  - **New Comparability:** Creates categories of employees that can have differing allocations.

### Example

Name	Earnings	Age	Profit Sharing							
			Traditional		Integrated		Age Weighted		New Comp.	
			Amount	%	Amount	%	Amount	%	Amount	%
Owner, A	\$220,000	53	\$55,000	25.0	\$55,000	25.0	\$55,000	25.0	\$55,000	25.0
Manager, A	\$35,000	41	\$8,750	25.0	\$7,606	21.7	\$3,287	9.4	\$1,750	5.0
Employee, #1	\$25,000	41	\$6,250	25.0	\$5,433	21.7	\$2,348	9.4	\$1,250	5.0
Employee, #2	\$25,000	31	\$6,250	25.0	\$5,433	21.7	\$1,039	4.2	\$1,250	5.0
Employee, #3	\$20,000	21	\$5,000	25.0	\$4,346	21.7	\$367	1.8	\$1,000	5.0