

# Tiered 401(k) Plan

## Optional Safe Harbor 3% NEC

### The 401(k) Plan that optimizes contributions for owners

#### Highlights

##### Ideal Businesses

Any type of successful small businesses including manufacturing firms, consulting firms, and professional firms such as physicians, dentists, attorneys, engineers, and architects

##### Ideal Client Profile

- **Age of Owner(s):** Owner(s) older than most of the other plan participants.
- **Number of Employees:** 50 or fewer for maximum effectiveness.
- **Compensation:** Owner's compensation higher than most of the other participants.
- **Goal:** Owner(s) to receive a majority of the plan's contributions, while minimizing company contributions for other participants.

##### Two Qualifying Questions

- Is the owner older than most of the other participants?
- Does the owner make more than most of the other participants.

Benetech's Tiered 401(k) Plan is an excellent option for a successful small business that wants their 401(k) Plan to maximize contributions for the owner(s) while minimizing contributions for other employees.

#### Plan Benefits

- **Targeted Contributions.** Favors owners and other targeted employees with a significantly higher percentage of company contributions.
- **Maximize Benefits For Owners.** Annual contributions for each owner may be as high as \$70,000 (\$77,500 if owner is age 50 or older and \$81,250 if between the ages between 60-63).
- **Low Employee Costs.** Contributions to other employees can be as low as 5% of their compensation.
- **Safe Harbor Tiered 401(k).** Combine the Tiered Method with a Safe Harbor 3% NEC to maximize contributions for owners without increasing company contributions for other employees.

#### Example: Typical 401(k) Plan vs. Tiered 401(k) Plan

**Analysis:** In both plans the owners are deferring the \$31,000 maximum. However, the Tiered Method *lowers* the company's overall contribution by \$32,122.

	Age	Salary	Typical Plan	Tiered Plan	Difference
Owner 1	56	\$200,000	\$77,500	\$77,500	\$0
Owner 2	57	\$200,000	\$77,500	\$77,500	\$0
Employee A	50	\$55,000	\$14,988	\$4,950	(\$10,038)
Employee B	41	\$36,000	\$9,810	\$3,240	(\$6,570)
Employee C	39	\$32,000	\$9,538	\$3,150	(\$6,388)
Employee D	32	\$25,000	\$6,813	\$2,250	(\$4,563)
Employee E	27	\$25,000	\$6,813	\$2,250	(\$4,563)
Total (including deferrals of the owners):			\$202,962	\$170,840	

#### Tiered Method - Background

The tremendous appeal of the Tiered Allocation Method is that it splits employees into different categories – usually “owners” and “everyone else.” For the right candidates, it uses special discrimination testing that is sensitive to age and compensation in order to maximize contributions for owners while giving as little as 5% of compensation to the other eligible employees.

#### Request a free contribution illustration

To receive a free, no-obligation contribution illustration, request our confidential Retirement Plan Questionnaire by visiting our website or by calling 800.285.7526.

