

Tiered Profit Sharing Plan

A flexible 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:** 30 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 Profit Sharing Plan is an excellent option for a successful small business that wants their Profit Sharing 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.
- **Low Employee Costs.** Contributions to other employees may be as low as 5% of their compensation.
- **Contributions are Flexible.** Annual contributions can range from 25% of all eligible compensation, to nothing at all: there are no required contributions.

Example: Typical Profit Sharing Plan vs. Tiered Plan

Analysis: Compared to the Typical Plan, the Tiered Plan *increases* the profit sharing allocation to the owner by \$7,500 while – at the same time – *lowering* the company's contribution to the other participants by \$26,000. This increases the owner's share of the contribution to 92%!

	Age	Salary	Typical Plan	Tiered Plan	Difference
Owner 1	59	\$250,000	\$62,500	\$70,000	\$7,500
Employee A	30	\$60,000	\$15,000	\$3,000	(\$12,000)
Employee B	27	\$40,000	\$10,000	\$2,000	(\$8,000)
Employee C	25	\$30,000	\$7,500	\$1,500	(\$6,000)
Total Plan Contribution:			\$95,000	\$76,500	
Owner's Percentage:			66%	92%	

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.

The result is a plan that may allocate up to 90% or more of the profit sharing contribution to the owner. This could save a business owner thousands of dollars each year in employee contributions.

Request a free contribution illustration

To find out if a Tiered Profit Sharing Plan is right for you or your client, contact your local Benetech specialist, or call our consulting department at (800) 310-6811. With some basic company and employee information, Benetech will generate a contribution illustration at no cost or obligation.

