

Selecting the Right Plan For You The Ladder of Custom Plan Design

Owners generally think of a retirement plan as simply an employee benefit. However, what is often overlooked is that a retirement plan may also serve as one of the best tax-planning tools for a business owner. Here's a brief climb up the "ladder of plan design."

Standard Plan Designs

1. Standard 401(k) Plan.

This is the plan most owners are thinking of when they think of a retirement plan. This standard plan is generally only an employee perk because contributions for the owner (deferral, match and profit-sharing contributions) are limited by non-discrimination testing requirements.

2. Standard 401(k) with Safe Harbor Match.

By committing to making a Safe Harbor Match contribution to all eligible participants who defer salary into the plan, the owner is free to defer up to the deferral maximum (\$24,500 for 2026 + \$8,000 catch-up if age 50 or older or + \$11,250 catch-up if attained age is 60 - 63), while also receiving the full matching contribution (no discrimination testing is applied to the owner's deferrals or Safe Harbor Match).

Custom Plan Designs

3. Tiered 401(k) with Safe Harbor 3% Non-elective Contribution (NEC)

By committing to contributing this Safe Harbor NEC to all eligible participants (whether they defer or not), the owner may be able use the "Tiered Profit Sharing" feature to set aside up to \$72,000 (\$80,000 if age 50 or older or if attained age is 60 - 63 \$83,250) in exchange for total contributions to other participants of as little as 5% of their compensation. The result is up to 90% or more of the total deductible company contribution being allocated to the owner. ¹

4. Cash Balance Defined Benefit Pension Plan (CB Plan)

(Usually a CB Plan is combined with a Tiered 401(k) Safe Harbor NEC).

This plan allows owners to greatly accelerate their retirement savings. Given favorable employee demographics, an owner may be able to set aside \$300,000 a year or more on a tax-deductible basis, in exchange for a contribution to the other participants of as little as about 7.5% of compensation.¹

¹ Subject to discrimination testing that is sensitive to age and compensation.

Candidates For A Custom Plan Design

Custom plans take advantage of rules that allow owners who are older than most of their employees to legally receive much higher contributions than non-owner employees than they would have using normal contribution allocation rules.

The core principle is that an older plan participant has fewer years to save for retirement compared to a younger participant. Therefore, an older owner can receive a higher percentage of compensation as a contribution than a younger participant.

(a) **Objective:**

- a. Tiered 401(k) Plan Candidate: Owner wants to save more than about \$24,500/year (or \$32,500 if age 50 or older or \$35,750 if attained age is 60 - 63).
- b. Cash Balance Plan Candidate: Owner wants to save substantially more than \$72,000 (\$80,000 if age 50 or older or if attained age is 60 - 63 \$83,250).

(b) **Concentration:** Fifteen or fewer employees per targeted owner.

(c) **Compensation:** Owner makes substantially more than most of the employees.

(d) **Age:** Owner is 8 years or more older than 40%-50% of the employees.

Plan Design - Comparative Chart

Plan Type	Key Advantage	Required Contributions	Max Deferrals For Owners/HCEs	Gets to the DC Max for owner	Contributions for Owner Are Larger Than IRS DC Max
Standard 401(k)	Usually, no required contribution*.	No (*unless plan is Top Heavy)	No (unless non-discrimination testing requirements are satisfied).	Yes, but generally not as favorable for the owner as a Tiered 401(k) Plan	No.
Standard 401(k) w/ SH Match	Allows owners and other HCEs to defer the IRS max.	Yes, the Safe Harbor Match must be made to anyone who defers.	Yes.	Yes, but generally not as favorable for the owner as a Tiered 401(k) Plan	No.
Tiered 401(k) w/ SH NEC	Owner can get DC Max (\$72,000 or if catch-up eligible, \$80,000 or \$83,200 depending on age).	Yes, the Safe Harbor 3% Non-elective Contribution is deposited to ALL Eligible Participants (and not just to those who defer - it is not a match).	Yes.	Yes.	No.
Cash Balance Plan	Gets the owner the qualified plan maximum.	Yes, these contributions <u>are</u> required.	Yes, if combined with a Safe Harbor 401(k) Plan	Yes, and more in most cases.	Yes.