# 401(k) Plan Design and Management

## A Wealth of Experience and Trust

Community Financial Advisors
A Division of The Community Bank

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**As a successful business owner you know: to maintain and grow a business is a constant struggle between growth and spending; the ability to compensate key employees in the most tax-efficient manner is invaluable; benefits costs continue to escalate faster than revenues; keeping good employees is one of the most difficult issues you face. A properly structured retirement plan can help solve these important issues.**

**In general, all retirement plans have the same basic objective – to serve as a retirement savings plan for employees. Yet there are many different retirement plan models that suit a wide range of specific company needs. Our role is to help you select and design the best plan to meet your company's financial needs, demographics and ownership status.**

**With over 18 years of experience in designing, managing and administering qualified retirement plans, the team at Community Financial Advisors (CFA) has the experience and resources needed to help you design the most beneficial retirement plan structure. We currently advise over 30 companies that range in size from small, family-owned businesses to multi-location regional enterprises. We are a turn-key advisor: starting with advising our clients on plan design…all the way to participant enrollments and investment reviews.**

**Simplified Employee Pensions (SEP):** Commonly known as a SEP, this plan is specifically designed for self-employed people and small-business owners. The SEP is a very simple and cost effective plan to operate.
SEP plans have significant limitations relating to contribution limits, vesting and employee participation.

**Savings Incentive Match Plan for Employees (SIMPLE):** A SIMPLE IRA is a retirement program that offers an employee a salary-deferral contribution feature along with a matching employer contribution. Key plan benefits include:

- Simple administration and low administrative costs.
- No employer tax filings.

Just as SEP Plans, SIMPLE Plans have limitations on contribution amounts, vesting and employee participation.

**401(k) Traditional Plans:** Similar in structure to SIMPLE plans, 401(k) plans offer an advantage in that employers are not required to make "matching" contributions. In addition, employees whom do not elect to participate may be excluded from matching employer contributions. Key plan benefits include:

- Higher employee contribution limits than SIMPLE and SEP plans.
- The ability to add vesting schedules to employer matching contributions.
- Greater flexibility in employee participation.

Traditional 401(k) Plans have limitations on plan testing, vesting and employee participation.

**401(k) Safe Harbor Plans:** In response to employer concerns over plan testing, a new trend in 401(k) planning is the adoption of a "safe harbor" structure which allows the plan to avoid most testing requirements. Under a safe harbor status, plans can forego certain testing in exchange for making a 4% graded matching contribution formula for participating employees.
One drawback to safe harbor plans is that the employer matching contributions are always 100% vested.

**Age-Weighted 401(k) Plans:** Age-weighted allocation formulas can be very beneficial to companies that have specific plan demographics. The design takes into account the participants' respective ages and service when allocating matching contributions. This generally results in older employees receiving a higher allocation percentage since they are closer to retirement age.
Age-weighted plans are more complex than other types of 401(k) plans and require additional testing and support.

**New Comparability or Cross-Tested Plans:** New comparability or "cross-tested" plans permit employees to be divided into separate groups (generally targeting highly compensated and other key employees into one group, and then all other employees into another group). The plan then calculates separate contribution percentages for these groups. This allocation method can work extremely well whenever there are highly compensated employees in the targeted group, as compared to the remaining employees.
Calculations can also be very volatile depending upon the overall composition and demographics of the workforce during any given year. There are also limitations to each group's benefit limits.