

The Power of Profit Sharing

THE SIEKMANN COMPANY

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Strategies to maximize retirement plan contributions

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— Retirement and Employee Benefits —

All 401(k) Plans are Profit Sharing plans, but not all Profit Sharing Plans are 401(k) plans

Profit Sharing plans are often times overlooked as viable ways to allocate employer contributions and benefits to specific groups of people within an organization. At times the inherent name "Profit Sharing" leads people to believe that contributions are somehow tied to profits or ownership when in reality they are a very flexible way to compensate and incentivize your most important people. Allocations can be discretionary in amount and offered in some years and not in other years. Whether you are looking for ways to increase tax deductions or simply share your financial successes with key members of your team, Profit Sharing can be a great addition to your company 401(k) plan.

how

best for



Salary Ratio

Utilizing a % of pay or flat contribution amount is a simple formula that provides a uniform benefit to all employees

Simple and "evenly" distributed benefits to all members of your team



Integration (Permitted Disparity)

Employees earning more than the social security wage base can receive a higher contribution amount

Groups with a wide disparity of wages and where more benefit is desired to be provided to the higher wage earners



Age Weighted

Allocate more profit sharing to older employees by incorporating time value of money principals (compound interest).

Groups that have a high age disparity and where more benefit is desired to be provided to the older workers



New comparability

Allocate profit sharing to specific groups or classes of people to incentivize and add benefit to a targeted group of employees

Groups that have targeted segments of their workforce to direct benefit. High wage earning older members and low wage earning younger members.

2020 Defined Contribution Limits
\$57,000 + Catch Up

Note: All formulas still require passing of discrimination testing (ADP, ACP, Top Heavy)

Profit Sharing Comparison





Sample Census

	Owner	Salesman	Assistant	Clerical
Groups	1	2	3	4
Age	55	46	36	61
Date of Hire	01/01/1990	01/01/2000	01/01/1995	01/01/2009
Compensation	\$285,000	\$125,000	\$50,000	\$25,000
Safe Harbor Contribution (3% Non-Elective)*	3%	3%	3%	3%

* a 3% employer contribution is often needed to meet the "gateway funding minimum"

Profit Sharing Illustrations

Strategic Planning = Cost Savings

Profit Sharing Formulas	1 Owner	2 Salesman	3 Assistant	4 Clerical	Total Employer Contribution and Allocation to Owner (% of total)
 Salary Ratio (20%)	\$57,000	\$25,000	\$10,000	\$5,000	\$97,000 58%
 Integration (<i>Permitted Disparity</i>)	\$57,000 (20%)	\$21,660 (17.5%)	\$8,344 (16.7%)	\$4,172 (16.7%)	\$91,176 63%
 Age Weighted	\$57,000 (20%)	\$11,997 (9.6%)	\$2,122 (4.2%)	\$7,343 (29.4%)	\$78,462 73%
 New Comparability	\$57,000 (20%)	\$6,250 (5%)	\$2,500 (5%)	\$1,250 (5%)	\$67,000 85%

TOTAL COST DECREASE
31%

- (%) in the chart references contribution as a percentage of their compensation

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Fiduciary Advisor Third Party Administration Employee Benefits HRIS

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FOR MORE INFORMATION

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