benetrends FINANCIAL

When choosing a retirement plan, it's important to know the differences and choose the type that best suits the needs and goals of your business.

WHAT ARE THE DIFFERENCES?

- In a **401(k) plan,** employees contribute and the employer may or may not match the employees' contribution.
- With a **Profit-Sharing Plan (PSP),** employees are not allowed to contribute; instead, the employer makes a contribution on behalf of the employees.

Most of our competitors only offer their clients a plan that includes 401(k) provisions, but with Benetrends you have options. You can set up a Profit-Sharing Plan, that may or may not include 401(k) provisions (401(k) or Roth 401(k) contributions with or without match). Because of our experience and expertise, we are able to offer the plan that makes the most sense depending on your unique circumstance. Having said that, in our more than 40 years of experience, when most businesses are just starting, they are usually better served by a PSP that does not include 401(k) provisions initially. Let's take a look at some reasons why this is the case.

1

A 401(k) plan requires additional ongoing administration with rigid compliance requirements.

Example A
If an employer doesn't make the 401(k) feature available to an employee upon becoming eligible, the employer must make a contribution for the missed employee, even though the employee was paid a salary.

Example B
If 401(k) contributions are not deposited into the plan within 7 business days of a pay date, there is a 15% excise tax on the lost earnings, and the employee must be made whole for the lost earnings. This eligibility tracking and the burden of making timely deposits into the plan account, create an unnecessary distraction to running your business.

2

Unlike profit sharing contributions, all employee contributions to a 401(k) are subject to FICA (Social Security and Medicare) taxes. If an owner is making employee contributions (and is earning below the social security wage base), they will be required to pay both the employee and employer side of the FICA tax totaling 15.3%.

Example A
If you are using one of our competitors 401(k) plans and you make a $20,000 4011(k) contribution to your plan, you will be required to pay $3,060 in FICA taxes. With profit sharing contributions, you are not required to pay FICA on employer contributions, therefore making this a less expensive option for a new business.

3

If the owner-employee is a Highly Compensated Employee and his employees don't make contributions to the 401(k), then he or she cannot contribute to the plan unless the Plan is Safe Harbor 401(k) Plan.

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