

Traditional Profit Sharing vs. Group Allocation



In a traditional allocation plan, the non-discrimination tests are met by providing an equal contribution percentage to all eligible participants without exceeding the individual allocation limits.

In the first allocation example on the following page, each participant receives an allocation of 25% of compensation – except the highest paid owner who is capped at \$45,000. The total allocation to two owners is \$88,000. The 5% cost to all other employees is \$103,750.

However, the average age of the owners is 56 and the average age of all other employees is 39. This 17 year difference allows the plan to prove that benefits provided at retirement by a 5% allocation to the non owner employees is on par with the benefits provided by the same \$90,000 allocation to the owners. The employee cost is reduced to \$20,750 for savings of \$83,000.

Traditional Profit Sharing vs. Group Allocation

| | Age | Compensation | Traditional Flat Percentage allocation | Percent of Comp | Group Allocation | Percent of Comp |
|----------------|-----|-------------------|--|-------------------------|-------------------|-------------------------|
| Owner A | 60 | 225,000.00 | 45,000.00 | 20.00% | 45,000.00 | 20.00% |
| Owner B | 52 | 180,000.00 | 45,000.00 | 25.00% | 45,000.00 | 25.00% |
| <i>Average</i> | | 56 | <i>Subtotal</i> | <i>Percent of total</i> | <i>Subtotal</i> | <i>Percent of total</i> |
| | | | 90,000.00 | 46.45% | 90,000.00 | 81.26% |
| Manager C | 46 | 85,000.00 | 21,250.00 | 25.00% | 4,250.00 | 5.00% |
| Staff D | 62 | 62,000.00 | 15,500.00 | 25.00% | 3,100.00 | 5.00% |
| Staff E | 24 | 26,000.00 | 6,500.00 | 25.00% | 1,300.00 | 5.00% |
| Staff E | 51 | 50,000.00 | 12,500.00 | 25.00% | 2,500.00 | 5.00% |
| Staff F | 42 | 40,000.00 | 10,000.00 | 25.00% | 2,000.00 | 5.00% |
| Staff G | 38 | 37,000.00 | 9,250.00 | 25.00% | 1,850.00 | 5.00% |
| Staff H | 34 | 37,000.00 | 9,250.00 | 25.00% | 1,850.00 | 5.00% |
| Staff I | 26 | 40,000.00 | 10,000.00 | 25.00% | 2,000.00 | 5.00% |
| Staff J | 30 | 38,000.00 | 9,500.00 | 25.00% | 1,900.00 | 5.00% |
| <i>Average</i> | | 39 | <i>Subtotal</i> | <i>Percent of total</i> | <i>Subtotal</i> | <i>Percent of total</i> |
| | | | 103,750.00 | 53.55% | 20,750.00 | 18.74% |
| | | 820,000.00 | 193,750.00 | | 110,750.00 | |
| | | | Owners | 90,000.00 | Owners | 90,000.00 |
| | | | Staff | 103,750.00 | Staff | 20,750.00 |
| | | | | | savings | 83,000.00 |

