

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 \$50,000. The total allocation to two owners is \$95,000. The 25% cost to all other employees is \$103,750.

However, the average age of the owners is 58 and the average age of all other employees is 38. This 20 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 a better \$100,000 allocation to the owners. The employee cost is reduced to \$20,750 for a 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	\$245,000	\$49,000	20.00%	\$49,000	20.00%
Owner B	55	180,000	45,000	25.00%	45,000	25.00%
<i>Average</i>	58		<i>Subtotal</i>	<i>Percent of total</i>	<i>Subtotal</i>	<i>Percent of total</i>
			94,000	47.53%	94,000	81.92%
Manager C	46	85,000	21,250	25.00%	4,250	5.00%
Staff D	62	62,000	15,500	25.00%	3,100	5.00%
Staff E	21	26,000	6,500	25.00%	1,300	5.00%
Staff E	51	50,000	12,500	25.00%	2,500	5.00%
Staff F	42	40,000	10,000	25.00%	2,000	5.00%
Staff G	30	37,000	9,250	25.00%	1,850	5.00%
Staff H	35	37,000	9,250	25.00%	1,850	5.00%
Staff I	27	40,000	10,000	25.00%	2,000	5.00%
Staff J	26	38,000	9,500	25.00%	1,900	5.00%
<i>Average</i>	38		<i>Subtotal</i>	<i>Percent of total</i>	<i>Subtotal</i>	<i>Percent of total</i>
			103,750	52.47%	20,750	18.08%
		840,000.00	197,750		114,750	
			Owners	94,000	Staff	20,750
					savings	83,000

