New Comparability

A guide to “New Comparability” profit sharing allocations; what it means, how it is used, and what rules govern this powerful plan design.

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What is New Comparability?

New comparability is a profit sharing allocation formula that allows a business owner to permissibly skew benefits to a select group or tier of employees. This allocation formula is also referred to as cross-tested.

How is New Comparability used?

Typically, new comparability is paired with 401(k) and safe harbor non-elective features. This helps to maximize the plan design by skewing the most benefits to the selected group. The Plan Sponsor determines the groups to target within the plan, subject to certain restrictions associated with the additional testing that must be performed. In smaller plans you will often see only two groups: owners; and all other employees.

Is there additional testing needed?

Yes there is. The allocation formula itself (or the fact that such allocation generally heavily favors highly-compensated and/or key employees) requires careful consideration of the Top Heavy, Minimum Gateway, Average Benefits and General Tests. However, most of these tests can be satisfied by employing certain plan design features.

What are the limits to this plan?

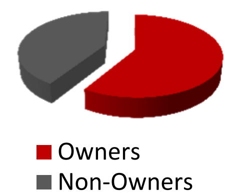
New comparability is simply a way to allocate a profit sharing contribution within a profit sharing plan. Therefore, other than the uniqueness of the new comparability allocation formula, a "new comparability" plan remains a profit sharing plan subject to all of the other rules associated with a profit sharing plan.

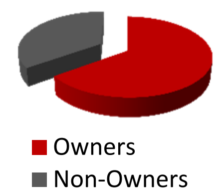
What if a company wants to contribute more than what can go into a 401(k) profit sharing plan?

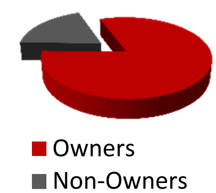
If a client would like to contribute more than the annual defined contribution limit to their retirement plan, we are capable of exploring the appropriateness of pairing a new comparability plan design with a cash balance plan. A cash balance plan is a type of defined benefit plan that also can skew benefits to a selected group of employees. These "paired plans" can be very powerful if designed correctly.

Sample Illustration - 2013

	Deferrals & Catchup	Pro-Rata		Integrated		New Comp Max	
Owners	$ 46,000.00	$ 63,058.82	58.54%	$ 62,296.36	64.74%	$ 63,058.82	80.90%
Non-Owners	$ 44,500.00	$ 44,666.67	41.46%	$ 33,927.87	35.26%	$ 14,888.89	19.10%
Total	**$ 90,500.00**	**$ 107,725.49**		**$ 96,224.23**		**$ 77,947.71**	







Employee Name	Comp	Deferrals & Catchup	Pro-Rata		Integrated		New Comp Max	
Owner 1	$ 255,000.00	$ 23,000.00	$ 33,500.00	13.14%	$ 33,500.00	13.14%	$ 33,500.00	13.14%
Owner 2	$ 225,000.00	$ 23,000.00	$ 29,558.82	13.14%	$ 28,796.36	12.80%	$ 29,558.82	13.14%
Employee 1	$ 60,000.00	$ 8,500.00	$ 7,882.35	13.14%	$ 5,987.27	9.98%	$ 2,627.45	4.38%
Employee 2	$ 50,000.00	$ 8,000.00	$ 6,568.63	13.14%	$ 4,989.39	9.98%	$ 2,189.54	4.38%
Employee 3	$ 50,000.00	$ 8,000.00	$ 6,568.63	13.14%	$ 4,989.39	9.98%	$ 2,189.54	4.38%
Employee 4	$ 50,000.00	$ 8,000.00	$ 6,568.63	13.14%	$ 4,989.39	9.98%	$ 2,189.54	4.38%
Employee 5	$ 40,000.00	$ 7,500.00	$ 5,254.90	13.14%	$ 3,991.51	9.98%	$ 1,751.63	4.38%
Employee 6	$ 40,000.00	$ 2,000.00	$ 5,254.90	13.14%	$ 3,991.51	9.98%	$ 1,751.63	4.38%
Employee 7	$ 30,000.00	$ 1,500.00	$ 3,941.18	13.14%	$ 2,993.64	9.98%	$ 1,313.73	4.38%
Employee 8	$ 20,000.00	$ 1,000.00	$ 2,627.45	13.14%	$ 1,995.76	9.98%	$ 875.82	4.38%

	ESTIMATED TAX SAVINGS		
Matching and Profit Sharing Contribution	$107,725.49	$96,224.23	$77,947.71
Estimated Corporate Tax Rate	35.00%	35.00%	35.00%
Estimated Tax Savings @ 35% Corporate Rate	$37,703.92	$33,678.48	$27,281.70
Cost of Contribution to Employees	$44,666.67	$33,927.87	$14,888.89
Net Savings/Cost of Contribution	**-$6,962.75**	**-$249.39**	**$12,392.81**

For more information, Please contact us at:

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