

New Concepts Permit Employers to Enhance Retirement Plans

Small employers may want to upgrade or adopt a new qualified retirement plan in 1999. Few employers know that since 1994, the IRS has permitted a new concept called "cross testing" or "new comparability". This plan design permits the plan sponsor to group employees by class. The plan sponsor may establish as few as two classes within the company or as many classes as reasonably necessary. Thus allowing the employer to achieve the desired affect of contributing different amounts to the various classes within the required testing allowances set by the IRS. This new design opportunity may enhance an existing Profit Sharing or 401(k) plan or the employer may establish a 2nd plan in addition to the plan currently offered.

The flexibility that exists in this design is what most employers' want in a plan. The employer, at its discretion at the end of the fiscal year, may contribute different percentages within each class, contribute the same percentages in each class, or simply not make any contributions at all. Each year the flexibility exists for the employer to rethink contribution strategies.

Meanwhile, the employees typically enjoy the benefits of a 401(k) plan running concurrently with this Profit Sharing format. This plan design is simple to install to an existing program and requires very few additional considerations from an administrative perspective. To learn more about the options available to employers contact your local pension specialist for more information.

Mr. Shaffer, president of Executive Benefit Plans, Inc, is a pension specialist with over twenty years experience in the industry. You may contact him through the EBP website www.benefitplans.com, e-mail: mshaffer@benefitplans.com, or at 1-800-622-2411.