

# THE BENEFIT BULLETIN

## *FAST FACTS ABOUT RETIREMENT PLANS*

The following article contains general plan facts and is intended for informational purposes only. To ensure that your plan contains specific provisions outlined in this and future articles, please contact your third party administrator or plan ERISA attorney.

### **Plan Types**

Today, every business must compete aggressively—not just for customers but for employees as well. And as more and more business owners and professionals are discovering, an effective employee benefit program is often a key factor in outpacing the competition. The foundation of that program is, typically, a qualified retirement plan.

A qualified retirement plan can help a company (1) save income taxes (2) increase productivity by increasing employee job satisfaction (3) recruit and retain qualified employees (4) reduce employee turnover and (5) enhance retirement benefits for all the employees. In short, well-designed, well-implemented employee benefits plans can give the organization a competitive edge. Some types of retirement plans are as follows:

**Defined Benefit Plans**—In this type of retirement plan, an employee's retirement benefit formula is pre-determined and funded by company contributions. As a result, the benefit is not impacted by volatile investment markets. The plan provides each employee with a fixed retirement benefit determined by a formula the employer chooses. Benefits are typically based on the employee's average compensation over his or her years of service with the company. The company's annual contribution is determined by an actuary, based on factors such as the ages of their employees and the plan's investment performance.

**Profit Sharing Plans**—Basically, a profit-sharing plan allows the employer to make retirement plan contributions for employees. The plan is set up as an employee benefit trust to which contributions are made and from which benefits are paid out. The contributions to the plan are held by the plan trustee until distributions are made from the plan.

These easy-to-understand plans allow the employees to receive company contributions while maintaining the funding flexibility vital to their company's financial future. Administrative demands are less than with other defined contribution plans.

The key word for a profit sharing plan, though, is flexibility. The plan may provide, for example, that the employer will contribute a certain percentage of eligible compensation to the plan or the contributions may be left entirely up to the discretion of the company's board of directors.

**Standard 401(k) Profit Sharing Plan**—Under a 401(k) profit sharing plan arrangement, in addition to the features of a profit sharing plan, employees may make tax-deferred contributions and the employer may make additional matching contributions of a certain portion of the salary deferrals on behalf of the employee.

### **Features of a Plan**

- Depending on the terms of the plan, the employees may borrow funds from the plan or receive distributions while still employed. (Certain tax law restrictions must be met, however.)
- If the plan offers matching contributions, employees who contribute to the plan can accumulate even more for their retirement years by deferring salary and receiving the resulting matching contributions.

### **Benefits for the employer**

- The cost of adding a qualified plan may be justifiable based on the benefits to the company and having the plan.
- When tax law requirements are met, employer contributions to a 401(k) arrangement are typically fully and currently deductible for income tax purposes.
- A 401(k) plan may well result in a lower employer costs with respect to contributions than in the case of certain other retirement plans.

### **Benefits for the employee**

- Pre-tax dollars are used for retirement plan contributions (401(k) plan). In other words, no federal or state income tax is immediately payable with respect to the amount of the salary reduction.

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- Amounts contributed to the plan—and any plan earnings on those contributions—are not taxed until they are distributed from the plan.
- Plan may allow employees to “roll over” retirement plan assets from other qualified plans.

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