

## FREQUENTLY ASKED QUESTIONS

- **Q: Am I required to fund matching or profit sharing contributions to my plan?**
- **A:** No. The plan may be totally discretionary for both the matching or profit sharing contributions. Only “top-heavy”, or safe-harbor plans have a required annual contribution
- **Q: When does the plan have to be funded?**
- **A:** Profit sharing and matching contributions must be funded by the due date of the employer’s tax return plus extensions. Employee salary deferrals should be submitted as they are withheld.
- **Q: What is the advantage of sponsoring a 401(k) plan?**
- **A:** A 401(k) plan allows both employer and employees to save for retirement on a pre-tax basis. The dollars contributed to the plan are deductible for federal and most state taxes. Assets accumulate on a tax deferred basis with no tax paid until funds are distributed.
- **Q: Are there any limits on salary deferral contributions?**
- **A:** Yes. For 2009 the limit is \$16,500 or 100% of pay, whichever is less. There is also a \$5,500 catch up contribution that can be made by any participant that is age 50 or older during the year.
- **Q: What is the maximum amount that may be contributed to the plan by the employer?**
- **A:** The maximum contribution is 25% of covered pay for all plan participants. This amount does not include salary deferrals. The maximum that may be credited to any participant is the lesser of 100% of pay or \$49,000. Catch up contributions are in addition to the \$49,000 cap.



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## 401(K) RETIREMENT PLANS

LEON E. WERTZ & ASSOCIATES, INC.

ADMINISTRATORS &  
 CONSULTANTS FOR  
 EMPLOYEE BENEFIT PLANS



# PLAN AHEAD WITH A 401(K)

## WHAT IS A 401(K) PLAN?

A 401(k) is a special type of a profit sharing plan that is flexible, cost effective and enormously popular with both employers and employees. It offers flexible and fully tax deductible contributions together with tax sheltered growth of plan assets.

A 401(k) plan may have both a profit sharing and a matching contribution, in addition to salary deferrals. This type of plan can be effective in holding down the cost of providing benefits to employees, while allowing business owners to maximize their benefits.

## HOW MAY A MATCHING CONTRIBUTION BE ALLOCATED?

- ◆ Matching contributions may be allocated based on salary deferrals made by the employee.
- ◆ Matching contributions may be tiered. One level of matching for the first level of salary deferrals plus another level for the next level of salary deferrals.
- ◆ Matching contribution levels may be capped. Only employee deferrals, up to a certain dollar or percentage of pay level, will be matched.

## HOW MAY THE PROFIT SHARING CONTRIBUTION BE ALLOCATED?

There are numerous ways to allocate the employer discretionary profit sharing.

- ◆ **Based on Compensation:** Employer contribution is allocated based on each employee's compensation divided by the total compensation under the plan.
- ◆ **Integrated with Social Security:** Employees with compensation above the Social Security wage base are given an extra share of the employer contribution.
- ◆ **Age Weighted:** Employer contribution is allocated based on compensation, as well as the ages of participants.
- ◆ **Class Allocation:** Employees are separated into specific classes. Each employee receives a contribution based on his compensation divided by the total compensation within the class. Classes must be set based on a nondiscriminatory basis. Allocations to each class must also pass nondiscrimination testing.

## OTHER FEATURES

**Vesting.** Employer profit sharing and/or matching can be subject to a vesting schedule. This schedule determines the percentage of the employer account balance that will be available to an employee upon termination.

**Loans.** The plan may allow employees to borrow against their employee and/or employer balance. These loans are generally to be repaid within 5 years. In most cases, the interest paid is returned to the employee's account balance.

**Rollovers.** The plan may be designed to accept rollovers from other qualified plans. This feature allows new employees to transfer accounts from a prior employer even before they are eligible for entry into your plan.

**Safe Harbor Plans.** The employer may elect to provide fully vested matching or profit sharing contributions to avoid annual discrimination testing. This can enhance the value of the plan to highly compensated employees and owners.

## HOW MUCH DOES IT COST?

Administrative costs for any retirement plan are twofold, the internal cost of payroll deductions and other tasks to generate information, and the cost of a plan administrator. We are a fee for service company and our fees are based on the work performed, and not on the asset or contribution levels. We will provide a fee schedule for your plan upon request. Our staff is trained to help minimize the effort required to maintain a first class retirement plan. In addition, we have alliances with various trust companies and mutual funds to make administration easy for you, the plan sponsor.