

## 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" plans may 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 ESOP/KSOP plan?**
- **A:** A ESOP/KSOP 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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LEON WERTZ & ASSOCIATES, INC.

## EMPLOYEE STOCK OWNERSHIP PLAN

ADMINISTRATORS & CONSULTANTS FOR EMPLOYEE BENEFIT PLANS



# FEATURES OF AN ESOP/KSOP

## WHAT IS A ESOP/KSOP PLAN?

An ESOP/KSOP is a special type of a retirement plan that allows an employer to contribute employer securities and deduct the value of the securities. With the addition of a 401(k) feature the plan 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.

An ESOP/KSOP 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.

## WHAT IS THE ADVANTAGE?

- ◆ The employer creates a market for closely held securities.
- ◆ Employees can have the opportunity to have an investment of their employer. They can help make this investment grow by loyalty and hard work.
- ◆ The employer may deduct Treasury Stock contributions instead of an actual cash contribution. This may free up cash for use by the employer.

## HOW DOES THIS PLAN WORK?

- ◆ **Profit Sharing and Matching Contributions.** The contributions for matching and profit sharing can be made in employer securities. The securities may be from Treasury Stock or may be purchased from current or former owners of the employer.
- ◆ **Salary Deferrals.** Employers who add a 401(k) feature to their ESOP plans can allow the employees to invest in non-employer publicly traded funds. This gives the employee additional diversification for retirement.
- ◆ **Leveraging.** Employer securities may be obtained by having the ESOP/KSOP borrow funds to acquire the securities. The employer stock is released as the employer makes loan payments.
- ◆ **Valuations.** ESOP/KSOP plans must have the employer stock valued on an annual basis by a professional appraiser. This valuation sets the price for the employer stock for the year. Any publicly traded securities can be valued daily as market prices change.

## 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. Generally loans are only available on non-employer securities.

**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 this retirement plan are threefold, the internal cost to the employer for information and contributions, plan administration costs, and the cost of the annual valuation. We are a fee for service company and our fees are based on the work performed. 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. The cost of the valuation must be provided by the valuation company.