CROSS-TESTED PLANS

What they are & the benefits they offer

WHAT ARE THEY?

Cross-tested or "new comparability" plans are not a separate plan type. Instead, they are an allocation method that uses age and compensation to determine employer contributions for eligible participants. This method can be used in either stand-alone profit sharing plans or 401(k) plans. Cross-tested plans meet all the basic requirements and share the attributes of profit sharing or 401(k) plans.

WHAT ARE THE BENEFITS?

Favors older employees:

Because age is a factor in allocation, these plans generally offer higher contributions to older employees, who have fewer years to save. They work best when key employees are older or when there is an age gap between them and the rest of the workforce.

Supports higher retirement savings:

They can supplement defined benefit or cash balance plans when an owner aims to boost retirement savings.

Allows targeted benefits for specific employees:

Under certain conditions, the plan can allocate higher contributions to specific groups, such as owners, officers, managers, or long-tenured employees.

Provides flexible plan design & financial flexibility for employers:

Employers can create multiple employee groups and assign different contribution rates to each. Profit sharing contributions can fluctuate yearly, from zero up to the maximum allowed, depending on company performance.

Encourages meaningful retirement contributions:

While contributions are flexible, keeping a minimum level of contribution is often necessary to fully realize the benefits for key employees.

WHAT ELSE SHOULD BE CONSIDERED?

Cross-tested allocations are subject to special nondiscrimination tests each year to verify that the key employees are not overly favored in the plan. This creates two key considerations:

1. Administrative costs are typically higher due to additional testing.
2. Changes in employee demographics, especially in smaller companies, can significantly impact testing results. Planning before the end of each plan year can help address this, making close coordination essential for success.

HOW CAN I LEARN MORE?

Cross-tested plans are gaining popularity. They provide flexibility in yearly contribution amounts and can be designed to assign higher contributions to key employees. Reach out to your EGPS sales consultant to see if a cross-tested plan suits your needs.