



Profit-sharing solutions

Age-weighted, new comparability, and Social Security-integrated plans

Vanguard offers age-weighted, new comparability, and Social Security-integrated allocation methods to provide a streamlined, cost-effective way to increase savings without inflating overhead. Consider the advantages of these retirement plan options.

Who might benefit?

- All types of businesses, including corporations, partnerships, and sole proprietorships.
- Businesses with fewer than 50 employees.
- Businesses in which the owner is older than the majority of the employees.
- Instances in which owners seek to maximize their contributions.

What are the benefits?

Maximize savings

- Plan sponsors can achieve savings of up to 25% of eligible payroll.
- Plan sponsors maximize tax savings because all contribution and plan-operating costs are tax deductible.

Flexibility

- Plan sponsors have flexibility to allocate discretionary contributions in their favor and in favor of key personnel.
- We offer a comprehensive package that is priced to grow in step with a small business.

How do these plans work?

Age-weighted

Simply put, an age-weighted profit-sharing plan allows employers to allocate a greater percentage of profit-sharing contributions to older employees, under the logic that they have less time to save.

Participant	Age	Compensation	Pro rata		Age-weighted	
			Contribution	Percent of compensation	Contribution	Percent of compensation
Owner	49	\$225,000	\$45,000	20.0%	\$45,000	20.0%
Employee 1	35	80,000	16,000	20.0	5,120	6.4
Employee 2	32	40,000	8,000	20.0	2,000	5.0
Employee 3	28	35,000	7,000	20.0	1,260	3.6
Employee 4	29	30,000	6,000	20.0	1,170	3.9

These numbers are for illustrative purposes only. Actual results may vary.

New comparability

A new comparability profit-sharing plan divides employees into two or more groups on the basis of objective standards. An IRS-approved formula allows a greater percentage of profit-sharing contributions to be allocated to one group (e.g., “the owner”) versus the other group(s). Because of the allocation flexibility of this type of plan, it is subject to stringent discrimination tests. Additionally, changing employee demographics throughout the year may impact the groups and their contribution rates.

Participant	Age	Compensation	Pro rata		New comparability	
			Contribution	Percent of compensation	Contribution	Percent of compensation
Owner	49	\$225,000	\$45,000	20.0%	\$45,000	20.0%
Employee 1	35	80,000	16,000	20.0	4,000	5.0
Employee 2	32	40,000	8,000	20.0	2,000	5.0
Employee 3	28	35,000	7,000	20.0	1,750	5.0
Employee 4	29	30,000	6,000	20.0	1,500	5.0

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Social Security-integrated

The Social Security taxable wage can be integrated into a plan’s allocation formula as a feature of a 401(k) plan. With this feature, employees earning more than the taxable wage base are eligible to receive an additional allocation and employees earning less than this integration receive a base pro rata allocation. The additional contribution is allowed for those employees who do not have the benefit of the employer’s Social Security contribution on their excess compensation.

Participant	Age	Compensation	Pro rata		Social Security-integrated	
			Contribution	Percent of compensation	Contribution	Percent of compensation
Owner	49	\$225,000	\$45,000	20.00%	\$35,010	15.56%
Employee 1	35	80,000	16,000	20.00	9,944	12.43
Employee 2	32	40,000	8,000	20.00	4,972	12.43
Employee 3	28	35,000	7,000	20.00	4,351	12.43
Employee 4	29	30,000	6,000	20.00	3,729	12.43

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To learn more about these plan design features, contact us.

All investing is subject to risk, including the possible loss of the money you invest.

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