New Comparability
Profit Sharing Plans

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These plans allow for the largest share of the company's contribution to be allocated to the owner and or key employees.

There is flexibility in the contribution level since it is a profit sharing plan and the contribution each year is discretionary.

This type of plan, therefore, enjoys certain advantages over the traditional profit sharing plan and is worth exploring if you are the owner of a small business.

Advantages over Traditional Profit Sharing Plan

- Allows different allocations among different groups of plan participants;
- may allow groups to be determined by salary, service, position, or even a combination of these categories;
- may allow the owner to receive a much larger allocation, as a percentage of pay, than other plan participants; and
- may allow an owner to select those participants he would like to reward with larger allocations.

What requirements must be met to qualify as a Nondiscriminatory New Comparability Plan?

This design is referred to as a "cross-tested" type of profit sharing plan. The discrimination testing is done by reviewing the projected benefits at retirement as opposed to the traditional plan approach of reviewing the contributions allocated to a participant's account each year. In this new type of design, the plan is not required to allocate the same percentage of pay to all participants.

The projected benefits of the highly compensated employees are averaged and compared to the average projected benefits of all other employees. If the comparison of benefits fall within a particular range, the plan will pass the mathematical testing stipulated in the regulations to qualify as a nondiscriminatory plan.

The flexibility allowed will be most pronounced if the key employees are, on average, older than most of the other employees. Only a feasibility study created for a specific firm will ultimately determine the allowable opportunities in plan design for that firm.

How the initial allocation of New Comparability Plan Contributions compares to the allocation of a Traditional Profit Sharing Plan

Below is a specific example of the allowable plan allocations of a new comparability plan versus the traditional profit sharing approach.[1]

	Age	Salary	Traditional Profit Sharing Allocation	Percent of Total Allocation	New Comparability Profit Sharing Allocation	Percent of Total Allocation
Owner	60	$165,000	$41,250	57%	$66,000	91%
Employee	51	$38,000	$9,500	13%	$1,900	3%
Employee	42	$32,000	$8,000	11%	$1,600	2%
Employee	29	$28,000	$7,000	10%	$1,400	2%
Employee	26	$26,000	$6,500	9%	$1,300	2%
Total		**$289,000**	**$72,250**		**$72,200**	
Owner's Share			**(57%)**		**(91%)**	

If your goal is a deduction for your business and a retirement benefit for yourself, the flexibility available in the new comparability approach to allocating profit sharing contributions is worth exploring. American National would be happy to provide you with a free look at a new comparability plan for your specific business.

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1) Allocations are dependent upon the specific ages of the employees in the firm. The allowable allocations necessary to meet the nondiscrimination requirements will vary by firm. Maximum contribution illustrated reflects limits for a 2023 Plan Year. In defined contribution plans, the amount of funds accumulated and the investment gains or losses solely determine the benefit at retirement. Distributions made to a Participant before age 59½ may be subject to a 10% premature distribution penalty. Qualified Plans have minimum distribution rules that govern the timing and amount of distributions. You should refer to your retirement plan, adoption agreement, or consult a tax advisor for more information about these distribution rules.

Neither American National Insurance Company nor its agents give tax advice. Clients should contact their attorney or tax advisor on their specific situation. American National Insurance Company Galveston Texas. Not available in all states.

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