

Owner-Friendly 401(k) Plans

A cash or deferred arrangement, sometimes known as a 401(k) plan (after the section of the Internal Revenue Code under which these plans are established), is often viewed as an ideal vehicle to encourage employee retirement savings, and in fact can accomplish this goal quite effectively. This is particularly true when the employer provides a savings incentive, for example by offering a matching contribution to promote greater participation.

However, 401(k) plans are subject to numerous non-discrimination rules that can limit the participation by owners and other highly paid employees, particularly when the plan is maintained by a company with relatively few employees. A carefully designed 401(k) plan can actually take advantage of different 401(k) compliance requirements to provide greater benefits to the highly compensated owners, at a lower cost, than would be available in a traditional profit-sharing plan, which is funded solely by employer contributions.

We typically consider a wide range of different combination or hybrid plan designs (with and without 401(k) features) in order to achieve the best result for the business and its owners.

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