

Business & Estate Advisers, Inc.
With Your Interest In Mind

CASE OF THE QUARTER
CASE # 5
THE CLIENT WITH A PACKAGED 401(k)

GOAL

To find a 401(k) provider that was not always pointing the finger at one of the other players in the service arena (the investment people were pointing fingers at the administration people and the administration people were pointing fingers at the design people, etc.)

FACTS

The Company was matching on the basis of 25% of whatever the employee contributed. The Plan had become Top Heavy and thus required a 3% contribution by the employer or they could put nothing in the owners' and key employees' accounts. Each employee had made investment guesses based on past performance and no sound financial thinking. The factory rep and the broker had stated the Plan complied with Section 404(c), but in practice it did not. The factory rep and broker used the standard practice of explaining Roth 401(k) vs. Traditional 401(k), the standard practice proves the options to be equal!

SOLUTIONS

1. We reviewed the Plan Document and suggested the following changes:
 - ✓ Changed the 25% match of an unlimited amount to a 100% match of 4% of compensation.
 - ✓ The new match made the Plan a Safe Harbor one which eliminates discrimination testing. Thus more of the key players can now save whatever they wish to save with no fear of forced refunds the following year. Essentially, it changed the amount they could save from an average of \$5,000 per year to over \$15,000 per year each!
 - ✓ We added an In-Service Withdrawal provision which allowed us to move key employee account balances to individual IRA's outside the Plan, this eliminates Top Heavy issues one year later.
 - ✓ We added a Life Insurance option to the 401(k) so that employees that wanted to buy Life Insurance with pre-tax dollars could do so.
2. We held an employee meeting and educated all the employees on 404(c) and how to best invest their account balances, something most had never been taught.
3. Finally we re-educated on the Roth vs. Traditional on a historic basis rather than an "all things are equal" basis. We used simple to understand phrases like "Would you rather be taxed on the seed or the harvest?"

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