"OUTSIDE THE BOX" RETIREMENT PLAN DESIGN

401(k) plans, profit sharing plans, and pension plans may have minimum age (age 21 or less) and minimum service (1 year or less) requirements for plan eligibility. However, a plan does not have to cover all employees after they satisfy the eligibility requirements.

A plan may exclude any one or all eligible highly compensated employees (owners, their relatives, and employees who earned more than an IRS-specified dollar amount during the prior year). A plan may also exclude any one or more non-highly compensated employees, subject to a minimum coverage requirement.

The minimum percentage of eligible non-highly compensated employees who must be covered by the plan is at least 70% of the percentage of eligible highly compensated employees actually covered by the plan. For example, suppose there are 2 eligible highly compensated employees and only 1 of them is covered by the plan. If there are 20 eligible non-highly compensated employees, then as few as 7 of them actually have to be covered by the plan.

Objective standards for excluding non-highly compensated employees from plan coverage must be used such as exclusions based on job categories or compensation levels.

This is just one example of an "outside the box" and entirely legal feature which may be used by an employer for its 401(k) plan, profit sharing plan, or pension plan.

There is no monopoly on these legal "outside the box" rules. They are available to everyone. We don't avoid them just because they don't fit conventional thinking or production line administrative procedures. Instead, we use them to help employers meet special objectives for their 401(k) plans, profit sharing plans, and pension plans.

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