Manulife Retirement | John Hancock

The power of *customized* plan design

How your plan consultant can help you optimize retirement plan benefits for your key people

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The *power* of a custom-designed plan and your plan consultant's insight

Combining your 401(k) plan with a profit-sharing, cash balance, or defined benefit (DB) plan can provide added flexibility and precision in targeting your employer contributions. Starting with an evaluation of your goals and needs, employee demographics, and current situation, your independent plan consultant can show you the power of customized plan design. This includes helping you maximize the benefits for key employees while complying with nondiscrimination rules.

The following sample strategies show how custom design can help enhance tax-advantaged retirement benefits for co-owners and other key personnel.

SAMPLE STRATEGY #1

Combining a 401(k) plan with profit sharing

Let's look at a small, hypothetical, and professional firm to help illustrate how the expertise of a plan consultant can help. Three profit-sharing plan designs are compared below: a traditional safe harbor 401(k) plan, a plan that provides for permitted disparity in employer contributions, and a plan that uses the new comparability approach.

The simpler, traditional profit-sharing plan types require you to provide benefits to participants using approximately equal percentages, but cross-tested profit-sharing plans—such as the new comparability model—can offer greater flexibility by using alternative formulas[1] for clearly defined groups of employees.

As long as the required nondiscrimination tests are passed, employer contributions for owners and other highly compensated employees (HCEs) can be significantly higher as a percentage, as shown in this example.

401(k) plan with profit sharing: percentage of employer contribution going to owners[1,2]

		Employer-provided profit-sharing and safe harbor 401(k) contributions		
	Total employer standard and catch-up contributions	Traditional safe harbor 401(k) and profit-sharing plan[2]	Permitted disparity for profit-sharing plan[2]	New comparability for profit-sharing plan[2]
Three HCEs	$93,000	$139,500	$139,500	$139,500
Eight non-highly compensated employees (NHCEs)	$31,260	$52,668	$39,996	$17,424
Total		**$192,168**	**$179,496**	**$156,924**
Percentage of total to HCEs/owners		**72.60%**	**77.72%**	**88.90%**

ASSUMPTION: The examples are hypothetical and intended for illustrative purposes only. They do not take into consideration a number of variables that may need to be included in a specific plan's contribution calculation. Your plan consultant will be able to assist you with generating an actual allocation formula and performing discrimination testing.

As we move from simpler to more customized designs, the average contribution amount allocated to NHCEs decreases while leaving the total contributions allocated to HCEs unchanged. As you can see, the new comparability method provides the largest allocation percentage for HCEs.

1 IRS regulations allow certain types of allocation methods, if they fall within the range allowed by nondiscrimination tests. A local plan consultant can help you maximize the benefits for your key employees by taking advantage of legitimate plan design options. **2** All numbers are based on employer contributions, 3.0% safe harbor contributions for both HCEs and NHCEs, profit-sharing contributions intended to be optimal for HCEs, and 10.3% profit-sharing employer contributions, adjusted for NHCEs to 7.1% for permitted disparity examples and 1.4% for new comparability examples. Maximum compensation of $350,000 is used for HCEs. Plan allocations were designed to maximize the owners at a total allocation of $77,500.

SAMPLE STRATEGY #2

Adding a cash balance plan to further maximize tax-deductible contributions for key employees

Cash balance plans continue to increase in popularity and can be very beneficial for small businesses and professional corporations seeking to maximize tax-deductible retirement plan contributions. Adding a cash balance plan also makes sense for owners who'd like to make larger tax-deductible retirement plan contributions—but find themselves hemmed in by annual 401(k) and profit-sharing contribution limits. Using the same employee group as sample strategy #1, here's an example of how this works.

401(k) plan with profit sharing, including cash balance employer contribution: percentage of employer contribution going to owners[3]

				Employee contributions	Employer-provided contributions				
	Sample employee	Compensation	Age	Standard and catch-up 401(k)	3% 401(k) safe harbor	New comparability profit sharing	Cash balance	Total contribution	Total employer contribution
Owners	HCE1	$350,000	58	$31,000	$10,500	$7,000	$175,000	$223,500	$192,500
	HCE2	$350,000	54	$31,000	$10,500	$7,000	$175,000	$223,500	$192,500
	HCE3	$350,000	51	$31,000	$10,500	$7,000	$175,000	$223,500	$192,500
	HCE total	**$1,050,000**		**$93,000**	**$31,500**	**$21,000**	**$525,000**	**$670,500**	**$577,500**
Employees	NHCE1	$46,000	43	$2,760	$1,380	$1,840	$1,150	$7,130	$4,370
	NHCE2	$62,000	47	$3,720	$1,860	$2,480	$1,550	$9,610	$5,890
	NHCE3	$41,000	32	$2,460	$1,230	$1,640	$1,025	$6,355	$3,895
	NHCE4	$41,000	38	$2,460	$1,230	$1,640	$1,025	$6,355	$3,895
	NHCE5	$36,000	27	$2,160	$1,080	$1,440	$900	$5,580	$3,420
	NHCE6	$41,000	34	$2,460	$1,230	$1,640	$1,025	$6,355	$3,895
	NHCE7	$77,000	50	$12,120	$2,310	$3,080	$1,925	$19,435	$7,315
	NHCE8	$52,000	47	$3,120	$1,560	$2,080	$1,300	$8,060	$4,940
	NHCE total	**$396,000**		**$31,260**	**$11,880**	**$15,840**	**$9,900**	**$68,880**	**$37,620**
	Grand total	**$1,446,000**		**$124,260**	**$43,380**	**$36,840**	**$534,900**	**$739,380**	**$615,120**

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93.88% of employer contributions benefit the owners.

3 All numbers are based on maximum salary deferrals ($23,500) and a catch-up ($7,500) for HCEs, 6% salary deferrals for NHCEs, 3% safe harbor contributions for both HCEs and NHCEs, 2% profit-sharing employer contributions for HCEs and 4% for NHCEs, and 50.0% cash balance contributions for HCEs and 2.5% for NHCEs. Your plan consultant will be able to assist you with generating an actual allocation formula and performing discrimination testing.

2025 contribution and benefit limits

For 401(k) and other qualified plans

Type of limitation	2024	2025
401(k), 457, and 403(b) maximum annual elective deferral limit	$23,000	$23,500
401(k), 403(b), and 457 plan catch-up contribution limit • **In 2024**, the limit applies to individuals age 50 or over • **In 2025**, the limit applies to individuals age 50–59 and 64 or over	$7,500	$7,500
401(k), 403(b), and 457 plan catch-up contribution limit for individuals age 60, 61, 62, or 63	N/A	$11,250
Defined contribution plan annual limit	**Lesser of:** $69,000 **and** 100% of compensation	**Lesser of:** $70,000 **and** 100% of compensation
Savings Incentive Match Plan for Employees (SIMPLE) maximum annual elective deferral limit	$16,000	$16,500
SIMPLE IRA catch-up contribution limit • **In 2024**, the limit applies to individuals age 50 or over • **In 2025**, the limit applies to individuals age 50–59 and 64 or over	$3,500	$3,500
SIMPLE IRA catch-up contribution limit for individuals age 60, 61, 62, or 63	N/A	$5,250
Traditional IRA contribution limit	**Lesser of:** $7,000 **and** 100% of compensation	**Lesser of:** $7,000 **and** 100% of compensation
Traditional IRA catch-up contribution limit for individuals age 50 or over	$1,000	$1,000
DB plan annual limit under Internal Revenue Code Section 415	$275,000	$280,000
Annual allowable compensation limit for deduction, benefit, and contribution purposes	$345,000	$350,000
HCE	$155,000[4]	$160,000[5]
Key employee/officer in a top-heavy plan	$220,000	$230,000
Income subject to Social Security tax	$168,600	$176,100

For full details on the pension plan limits for 2025, visit the IRS website.
Annual contribution rates are based on the IRS 2025 retirement plan limitations and are subject to change.

Contact your plan consultant today to discuss your organization's unique retirement needs and about designing a solution that fits.

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4 Applies for determining highly compensated employees for the 2025 plan year. **5** Applies for determining highly compensated employees for the 2026 plan year.

The limits stated above are subject to the provisions of the plan. Refer to your plan document or contact your plan consultant for more information. The content of this document is for general information only and is believed to be accurate and reliable as of posting date but may be subject to change.

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