



# Triple-Stacked Match

AN APPROACH TO CONSIDER WHEN NEW COMPARABILITY FAILS

# Census Listing

P	O	H	Last Name	First Name	Birth Date	Hire Date	Att Age	Earnings	% Own	Deferral
*	*	*	1Owner	Al	01/01/1963	01/01/2012	50	255,000	50	17,500.00
*	*	*	2Owner	Beatrice	01/01/1968	01/01/2012	45	255,000	50	17,500.00
			3Manager	Chris	01/01/1957	01/01/2012	56	85,000	0	17,500.00
			4Buyer	Dave	01/01/1965	01/01/2012	48	65,000	0	2.00%
			5Salesman	Eve	01/01/1963	01/01/2012	50	74,000	0	0.00%
			6Receptionist	Feeney	01/01/1978	01/01/2012	35	35,000	0	0.00%

- Here is our census. The 2 owners are 50 & 45 yrs. old
- Both owners and the manager are deferring \$17,500
- The Buyer is deferring 2%
- The Salesman and the Receptionist are not deferring

# New Comparability

						Deferral		Match		Profit Sharing		Catch Up	Total Contribution				
P	O	H	C	Name	Earnings	Att Age	Dollar	%	Dollar	%	Dollar	%	Dollar	Amount	% of Pay	Employer Cost	% of Total
*	*	*	A	1Owner, Al	255,000	50	17,500	6.86	10,200	4.00	23,300	9.14	5,500	56,500	22.16	56,500	42.40
*	*	*	A	2Owner, Beatrice	255,000	45	17,500	6.86	10,200	4.00	23,300	9.14	0	51,000	20.00	51,000	38.27
			B	3Manager, Chris	85,000	56	17,500	20.59	3,400	4.00	6,910	8.13	5,500	33,310	39.19	10,310	7.74
			B	4Buyer, Dave	65,000	48	1,300	2.00	1,300	2.00	5,284	8.13	0	7,884	12.13	6,584	4.94
			B	5Salesman, Eve	74,000	50	0	0.00	0	0.00	6,016	8.13	0	6,016	8.13	6,016	4.51
			B	6Receptionist, Feeney	35,000	35	0	0.00	0	0.00	2,846	8.13	0	2,846	8.13	2,846	2.14
<b>TOTALS -&gt;</b>					<b>769,000</b>		<b>53,800</b>		<b>25,100</b>		<b>67,657</b>		<b>11,000</b>	<b>157,556</b>		<b>133,256</b>	<b>100.00</b>

Note that the NHCEs' Employer Cost is \$25,756.

The 2 NHCEs with no deferrals get 8.13% of the Profit Sharing contribution.

*** Report Summary ***				
	Considered Earnings	Employer Cost	Percent of Pay	Percent of Total
Principals	510,000	107,500	21.08	80.67
Non-Principals	259,000	25,756	9.94	19.33
Grand Totals	769,000	133,256	17.33	100.00

## Triple-Stacked Match is Safe Harbor because:

1. An ADP Safe Harbor contribution is provided. **(1<sup>st</sup> match)**
2. It meets the following:
  - ✓ Allocation of discretionary matching formula does not exceed 4% of compensation and match is limited to the first 6% of deferral. **(2<sup>nd</sup> Match)**
  - ✓ Fixed match: Participant deferrals in excess of 6% of compensation are not matched. The matching contribution is never greater than 6% of compensation. **(3<sup>rd</sup> Match)**

# Components of the Triple-Stacked Match

## 1<sup>st</sup> Match: Safe Harbor

100% of first 3% plus 50% of next 2% deferral

## 2<sup>nd</sup> Match: Discretionary

66 2/3 % of deferral up to 6% deferred (match is limited to 4% of compensation (2/3 x 6% = 4%))

## 3<sup>rd</sup> Match: Fixed

X % of deferral up to 6% deferred

## Solving for X %

Amount to maximize Owner: 13,100  
(51,000 – 17,500 – 10,200 – 10,200)

6 % of 255,000 = 15,300

Match Formula:  $13,100 \div 15,300 = 85.621\%$

						Deferral		Safe Harbor Match		Discretionary Match		Fixed Match		Catch Up	Total Contribution			
P	CH	C	Name	Earnings	Att Age	Dollar	%	Dollar	%	Dollar	%	Dollar	%	Dollar	Amount	% of Pay	Employer Cost	% of Total
*	*	*	A 1Owner, Al	255,000	50	17,500	6.86	10,200	4.00	10,200	4.00	13,100	5.14	5,500	56,500	22.16	56,500	46.33
*	*	*	A 2Owner, Beatrice	255,000	45	17,500	6.86	10,200	4.00	10,200	4.00	13,100	5.14	0	51,000	20.00	51,000	41.82
			B 3Manager, Chris	85,000	56	17,500	20.6	3,400	4.00	3,400	4.00	4,367	5.14	5,500	34,167	40.20	11,167	9.16
			B 4Buyer, Dave	65,000	48	1,300	2	1,300	2.00	867	1.33	1,113	1.71	0	4,580	7.05	3,280	2.69
			B 5Salesman, Eve	74,000	50	0	0	0	0.00	0	0.00	0	0	0	0	0.00	0	0.00
			B 6Receptionist, Feeney	35,000	35	0	0	0	0.00	0	0.00	0	0	0	0	0.00	0	0.00
<b>TOTALS -&gt;</b>				<b>769,000</b>		<b>53,800</b>		<b>25,100</b>		<b>24,667</b>		<b>31,680</b>		<b>11,000</b>	<b>146,247</b>		<b>121,947</b>	<b>100.00</b>

*** Report Summary ***				
	Considered Earnings	Employer Cost	Percent of Pay	Percent of Total
Principals	510,000	107,500	21.08	88.15
Non-Principals	259,000	14,447	5.58	11.85
<b>Grand Totals</b>	<b>769,000</b>	<b>121,947</b>	<b>15.86</b>	<b>100.00</b>

Employer Cost of non-principals for New Comp = \$25,756  
Compare to \$14,447 for Triple-Stacked Match

Rules	ADP Safe Harbor	Discretionary	Fixed
May impose 1,000 hour or last day requirement	No	No	No
May be Subject to Vesting	No	Yes	Yes
Permit In-service withdrawal before 59 1/2	No	Yes	Yes

## Top Heavy Minimum

**The Triple-stacked matching plan is exempt from Top-Heavy rules.**

Why? Because it only permits deferrals and matching contributions that meet the ADP and ACP requirements and it has no profit sharing component.

# Analysis:

							Deferral		Safe Harbor Match		Discretionary Match		Fixed Match		Catch Up	Total Contribution			
P	O	H	C	Name	Earnings	Att Age	Dollar	%	Dollar	%	Dollar	%	Dollar	%	Dollar	Amount	% of Pay	Employer Cost	% of Total
*	*	*	A	1Owner, Al	255,000	50	17,500	6.86	10,200	4.00	10,200	4.00	13,100	5.14	5,500	56,500	22.16	56,500	46.33
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			B	4Buyer, Dave	65,000	48	1,300	2.00	1,300	2.00	867	1.33	1,113	1.71	0	4,580	7.05	3,280	2.69
			B	5Salesman, Eve	74,000	50	0	0.00	0	0.00	0	0.00	0	0.00	0	0	0.00	0	0.00
			B	6Receptionist, Feeney	35,000	35	0	0.00	0	0.00	0	0.00	0	0.00	0	0	0.00	0	0.00
<b>TOTALS -&gt;</b>					<b>769,000</b>		<b>53,800</b>		<b>25,100</b>		<b>24,667</b>		<b>31,680</b>		<b>11,000</b>	<b>146,247</b>		<b>121,947</b>	<b>100.00</b>

1. The Triple-stacked match is not age related .
2. It is totally dependent on how much the participants defer.
3. Notice that the Fixed match of 85.62% was enough to maximize the 2 owners.
4. The Manager who maximizes with a deferral of 17,500 (20.59% of compensation), only got a match of 13.14% of pay.
5. The employees who made no deferral received zero contribution. Compare this to the New Comparability which is subject to Top Heavy and Minimum Gateway.
6. The Buyer who deferred 2% got 1.33% from the discretionary match and 1.71% from the fixed match.

## Triple-Stacked Risks

1. When designing a Triple-Stacked plan, be sure to explain your assumptions regarding deferrals. For example, assuming that the owners make maximum deferrals and the NHCs can only afford to defer 2% or nothing at all will certainly skew the results in favor of the owners.
2. Prepare an illustration showing what could happen if all of the NHCs defer 6% or more.
3. Finally, it would be prudent to make sure that each participant that does not want to defer indicates that they read the safe harbor notice and still do not want to defer. This could be helpful if an IRS agent argues that the employer didn't give a copy of the notice to the employees.