

CROSS-TESTED ALLOCATION SURVEY – November 2010

President Obama commissioned an advisory board to review tax issues. One of the recommendations of this board was to ‘simplify’ employee plan contributions by eliminating several forms of profit sharing allocations that weight the benefits towards owners or other key employees. The two main kinds of skewing being targeted are integration with the social security limit and “cross-testing”.

The integration method gives all participants a level allocation up to a certain compensation level (usually the Social Security taxable wage base), and then an additional allocation for any participant above that threshold to reflect that pay which isn’t counted for Social Security benefits.

The “cross-testing” method, also known as “new comparability”, is more aggressive and can weight the profit sharing allocation towards selected employees dramatically – in many cases, maximizing them at \$54,500 per year at a cost of only 5% to other employees. This kind of allocation is sensitive to your demographics, and requires additional nondiscrimination testing which we perform for you. The law allowing this has cleared several court challenges and this design is a popular option today.

We would argue that any formula that increases the allocation to the key employees is an incentive for the employer to continue their plan contribution, and having the plan provides a benefit to all eligible employees, which is a good thing. The nondiscrimination testing regulations have been tweaked to ensure that the allocations to the other employees are meaningful, yet still provide a reward to the employer for bearing the expense.

In order to accumulate evidence to make a counter-argument to the advisory board's recommendations, one of the main pension industry professional associations (to which we proudly belong) is putting together a survey that will be sent to a significant number of plans that were cross-tested in 2008, asking for information to support the retention of this allocation method. If you receive the survey from the American Society of Pension Professionals and Actuaries (ASPPA), please feel free to contact us for assistance in completing it, and then make sure to return it to them.

If you have any questions on this, or any other retirement plan topic, please don't hesitate to contact us. I'm Karl Muller, and thank you again for working with Creative Pension Consultants.



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