

What's A **HOT** 401(k)?

If you own a small business, pay taxes, and you are sponsoring a 401(k) plan you need to look at the new **HOT** 401(k)! There are many reasons 401(k) plans are the fastest growing retirement design in the U.S. today. However, most business owners have found the 401(k) plan design to be too restrictive when contributing dollars to their own account.

Although many small business owners have embraced the 401(k) plan design, once implemented they find there are severe restrictions for the *Highly Compensated Employee* (HCE) based on what the *Non Highly Compensated Employees* (NHCE) contribute on average. Highly Compensated is currently defined as owning 5% or more of the company *or* earning \$80,000 or more annually. Thus, after the ACP and ADP tests, owners find that they may not contribute more than approximately 2% of what the NHCE's contribute. So, while the 401(k) plan design works very well for employees, it does place contribution restrictions on the employer and the employer's family members who work in the business.

A **HOT** 401(k) may provide a solution to HCE restrictions. The difference is a **HOT** 401(k) permits the plan design to include anywhere from 2 to several different classes of employees. For example, an *Owner*, *Management*, and *All Other Employee* class is common when using this design concept. In the end, the *Owner* class might receive as much as 25% of the compensation while the *Management* class receives 10%, and the *All Other Employee* class receives somewhat less. This *cross-tested* approach is fairly new, and while it is not always the best approach, it has worked very well for the companies that have implemented this design. So, whether you currently sponsor a 401(k) plan or not, and you want to add some *SIZZLE* to a basic 401(k), try a **HOT** 401(k)!

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