

Comparative Descriptions of Age-Weighted, Cross-Tested, and Point Allocation Plans

<i>Plan Feature</i>	<i>Age-Weighted Plan</i>	<i>Cross-Tested Plan</i>	<i>Point Allocation</i>
Advantages	Adopted by employers whose primary purpose is to provide larger contributions for older owners. Typically, practical for employers with up to 25 employees, and where the owner(s) are older than the other employees.	Employers wishing to maximize contributions for owners and minimize contributions for non-owners. Permits all owners (or groups of managers) to have the same level of contribution even if differing in age, something not available in an age-weighted plan.	Employers wanting to provide higher contributions for employees with greater years of service. Cannot discriminate in favor of the highly compensated employees (HCEs). A simple test is required that averages benefits for HCEs and NHCEs.
Can plan provide higher contributions for the highly compensated employees (HCE)?	Yes, if HCEs are older than the other employees. Generally meets the nondiscrimination requirements of Treas. Reg. §1.401(a)(4)1-13 by default.	Yes, if HCEs are older than the other employees. Must be tested each year under the “average benefits test” to show that the plan meets requirements of Treas. Reg. §1.401(a)(4)1-13.	No. Average benefit for HCEs cannot exceed the average benefits for the nonhighly compensated (NHCEs).
Basis for allocating contributions	Contributions are based upon an allocation factor; that is, the product of a discount (at 7.5 percent to 8.5 percent from the projected retirement age) and current year compensation. Contributions increase as individuals approach retirement age.	Generally, two levels of contribution set for each employee group; one for the HCEs and a lower level for the nonhighly compensated employees (NHCEs).	Contributions are allocated on the basis of points credited for pay, service, and/or age. For example, each employee is given one point for each \$100 of pay and one point for each year of service, with the employer contribution allocated pro rata based on the total points for each participant.
Type of plan	Defined contribution plan, generally a profit sharing plan.	Defined contribution plan, generally a profit sharing plan.	Defined contribution plan, generally a profit sharing plan.
Features	Meets average benefits percentage test rules by design and does not generally need to be tested for discrimination each year. Contributions are based upon a discount table in the plan document and does not require an actuarial certification.	Plan provides the greatest opportunity for making the greatest contributions to HCEs and the least contribution for NHCEs. However, must be tested for discrimination each year and tends to require additional administrative processings.	Offers planning opportunity where emphasis is to provide higher contributions for older ad long service NHCEs. Might be plan of choice for an employer with long-tenured employees implementing a plan for the first time, as it acknowledges those with longer service. Administrative cost approximates that of an integrated profit sharing plan.
Disadvantages	Could be target of future legislation. Contribution levels must be monitored to avoid violation of the annual addition limitation. May fail to automatically meet the cross-testing rules of Treas. Reg. §1.401(a)(4)1-13 if any HCE is also a non-key participant, or if NHCE is at the IRC §415 limits.	Could be the target of future legislation. Some existing designs are target of current IRS focus. Costly to set up and administer	Cannot discriminate in favor of the HCEs. Requires special testing if one point is awarded for more than \$200 in compensation