

**SMALL BIZ HOW TO**

# A Top-Heavy Retirement Plan Could Sink Your Profit Margins

**Question:** What are the right questions to ask now to help avoid a disqualified retirement plan?

**Answer:** The old adage an ounce of planning is worth a pound of cure is sound advice for business owners who sponsor retirement plans, including 401(k), profit sharing, defined benefit or some combination thereof.

A common mistake made by owners is that they do not plan on how much money they want to contribute to a plan during the plan year.

Rather, they wait until the end of the year, usually the due date of a corporate tax return when the certified public accountant is in the process of completing a tax return, to make a plan contribution. This can put a severe strain on a business's bank account.

By asking the right questions now about its retirement plan, a business can avoid larger headaches later in the year.

This is especially important when a company's retirement plan is top heavy — in which key employees — typically the owner and officers earning more than \$145,000 a year — hold at least 60 percent of the plan assets. When a plan is top heavy, the government requires that all regular employees receive a benefit in the retirement plan, even if only one key employee is benefiting.

This type of oversight can be expensive, especially for a small business where top-heavy status is much easier to reach,

and a required contribution is something that could cause an owner to shut down the plan completely.

In order to bring the retirement plan back into compliance, the owner would need to make a contribution that can be up to 3 percent of payroll. Failure to do so within the prescribed time period, usually the end of the next plan year, will result in a plan being disqualified.

Unfortunately, ignorance of the details of your plan isn't an excuse accepted by the Internal Revenue Service or Department of Labor. No matter who is providing retirement plan administrative services, the owner is typically the one on the hook.

Most administrators never revisit a business's retirement plan once it has been written.

So remember: If the company's plan was deemed top heavy on the last day of the previous year, then it's considered top heavy for all of the next year.

By asking the right questions now, including "How much do we want to contribute?" or "Must, we contribute this year?" will help the owner prepare for any retirement plan contingency and safeguard the business.

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