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Current Retirement Plan Topics

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After-Tax Contribution

Also Known As: Mega Backdoor Roth

Employee Base – Two Groups

Greater than 5% Owner + Spouses and Lineal Descendants
Employees >$160,000

Highly Compensated
HCE

Employees <$160,000

Non-Highly Compensated
NHCE

ADP Testing
Average Deferral Percentage

Greater than 5% Owner + Spouses and Lineal Descendants

Employees >$160,000

HCE

Highly Compensated Employees

Employees <$160,000

NHCE

Non-Highly Compensated Employees

ADP Testing
Permitted Ranges

NHCE Average Deferral %	Maximum HCE Average Deferral %
Less than or Equal to 2%	2 x NHCE %
More than 2% but less than 8%	NHCE % +2 Percentage Points
8% or Greater	1.25 x NHCE %

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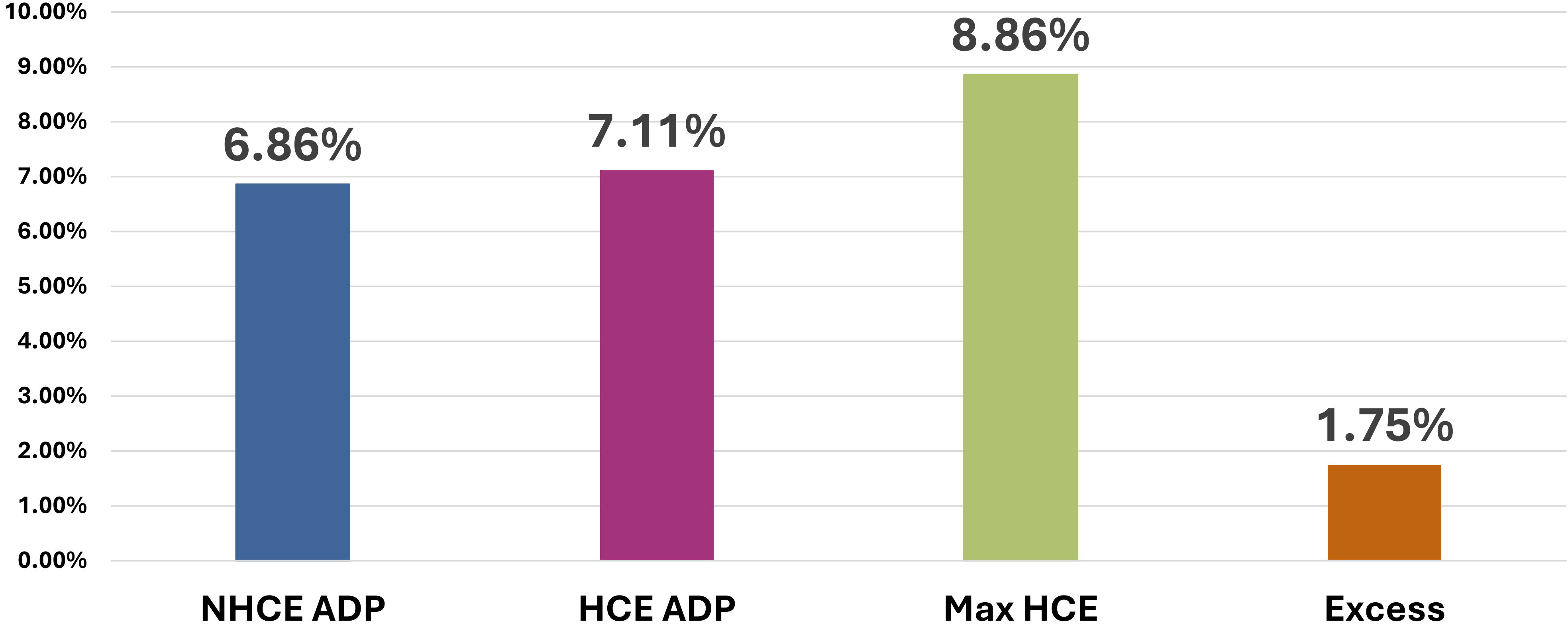
ADP Failure Discussion Points

1. Top 20% Exclusion
2. Otherwise Currently Excludable
3. Encourage Auto Increase – Vendor Program
4. Provide Small Financial Incentive to Participate
5. Auto Enrollment
6. Safe Harbor Plan Design

Highly Compensated HCE

Non-Highly Compensated NHCE

ADP Test Results



ACP Testing
Average Contribution Percentage

Greater than 5% Owner + Spouses and Lineal Descendants

Employees >$160,000

HCE

Highly Compensated Employees

Employees <$160,000

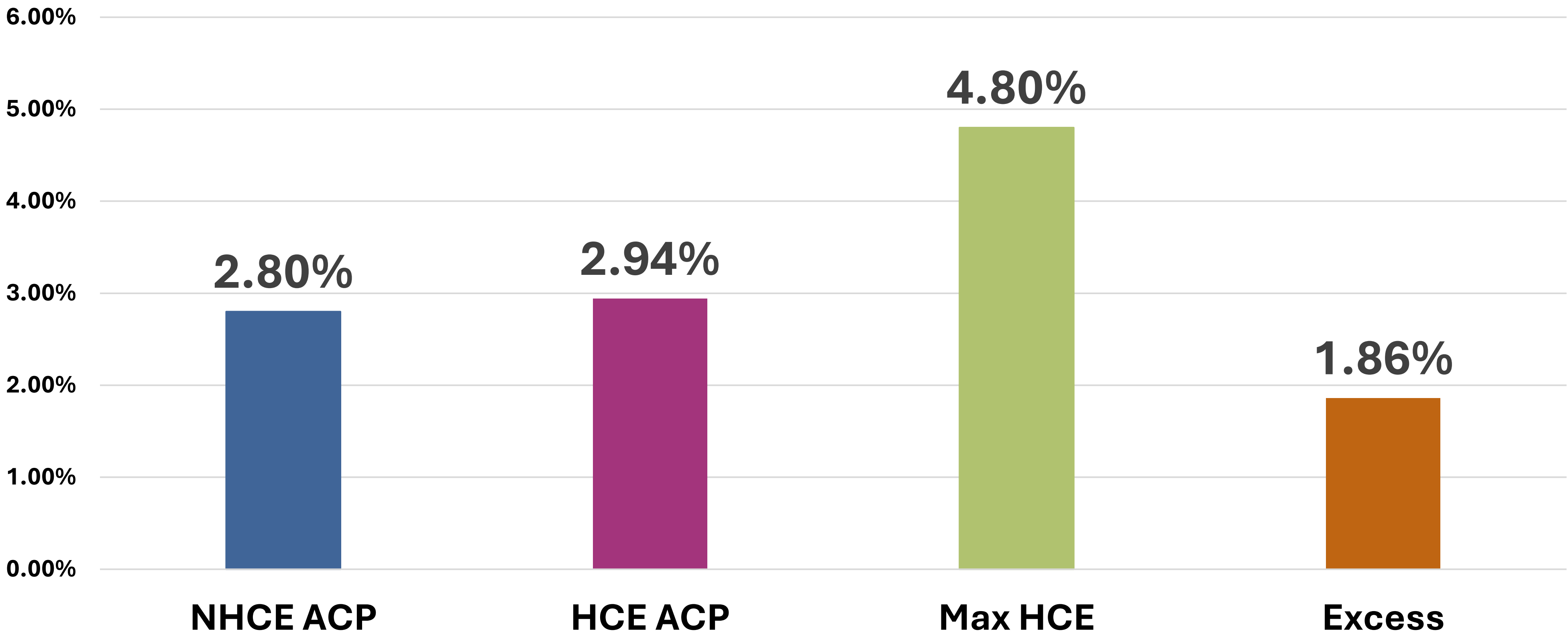
NHCE

Non-Highly Compensated Employees

ACP Testing
Permitted Ranges

NHCE Average Match %	Maximum HCE Average Match %
Less than or Equal to 2%	2 x NHCE %
More than 2% but less than 8%	NHCE % +2 Percentage Points
8% or Greater	1.25 x NHCE %

ACP Test Results



Annual Additions Limit (415 Testing)

Salary Deferrals + Match + Employer Contributions <=$72,000

$24,500 + $4,000 + $4,000 =$32,500

After-Tax Contribution

Remaining Amount =$39,500

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Why ACP Testing Matters

After-Tax Contributions are Included in ACP Testing

1. **Employee Makes After-Tax Contribution**
2. **Contribution Enters ACP Calculation**
3. **HCE Rate is Tested Against NHCE Rate**

Design Takeaway

Contribution Flexibility must be considered together with nondiscrimination testing

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Putting It All Together

Deferral Test		Match Test
ADP		ACP
6.86%	NHCE	2.80%
7.11%	HCE	2.94%
8.86%	Max HCE	4.80%
1.75%	Excess	$\boxed{1.86\%}$

50 HCE’s
250 NHCEs

Putting It All Together

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1.75%	Excess	1.86%

50 HCE's
250 NHCEs

1.)	1.86% Excess ACP	=	1.86% x 50 HCE's = 93%
2.)	10% HCE Participation	=	5 People = 93% ÷ 5 = 18% After-Tax Rate
3.)	15% HCE Participation	=	8 People = 93% ÷ 15 = 11% After-Tax Rate

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Putting It All Together – Part II
Shift Excess ADP

Deferral Test		Match Test
ADP		ACP
6.86%	NHCE	2.80%
7.11%	HCE	2.94%
8.86%	Max HCE	4.80%
$\boxed{1.75\%}$	Excess	$\boxed{1.86\%}$

50 HCE's
250 NHCEs

Putting It All Together – Part II
Shift Excess ADP

Deferral Test		Match Test
ADP		ACP
6.86%	NHCE	2.80%
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1.75%	Excess	1.86%

50 HCE's
250 NHCEs

1.)	1.75% + 1.86%	=	3.61% - Excess ACP
2.)	3.61% x 50 People	=	180.5%
3.)	10% HCE Participation	=	5 People = 180.5% ÷ 5 = 36%
4.)	15% HCE Participation	=	8 People = 180.5% ÷ 8 = 22%

After-Tax Recap

- Gauge Level of Interest from Selected Employees
  - Already Deferring Maximum
- Feasibility Analysis
- 415 Limitations - $72,000
- Cap the After-Tax Deferral
- Safe Harbor Plans – Very Challenging!

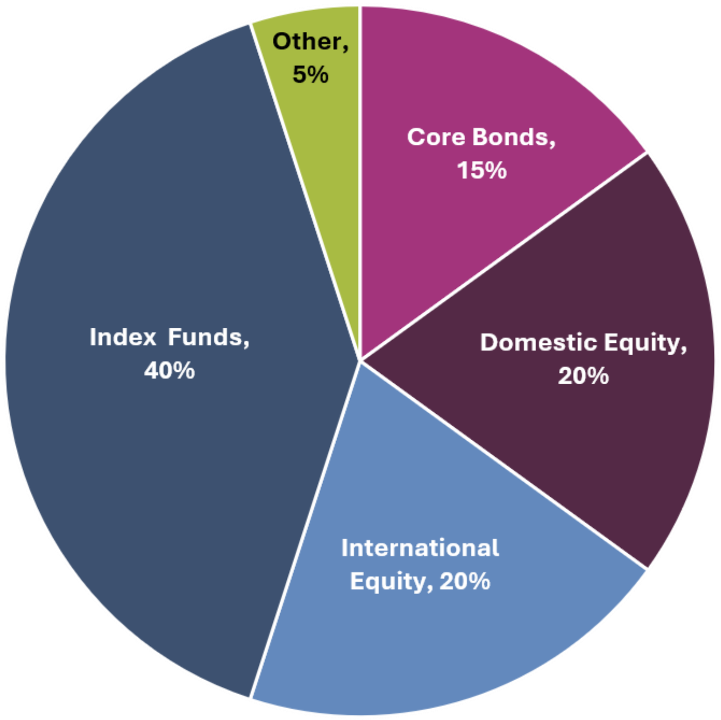
Additional Topics

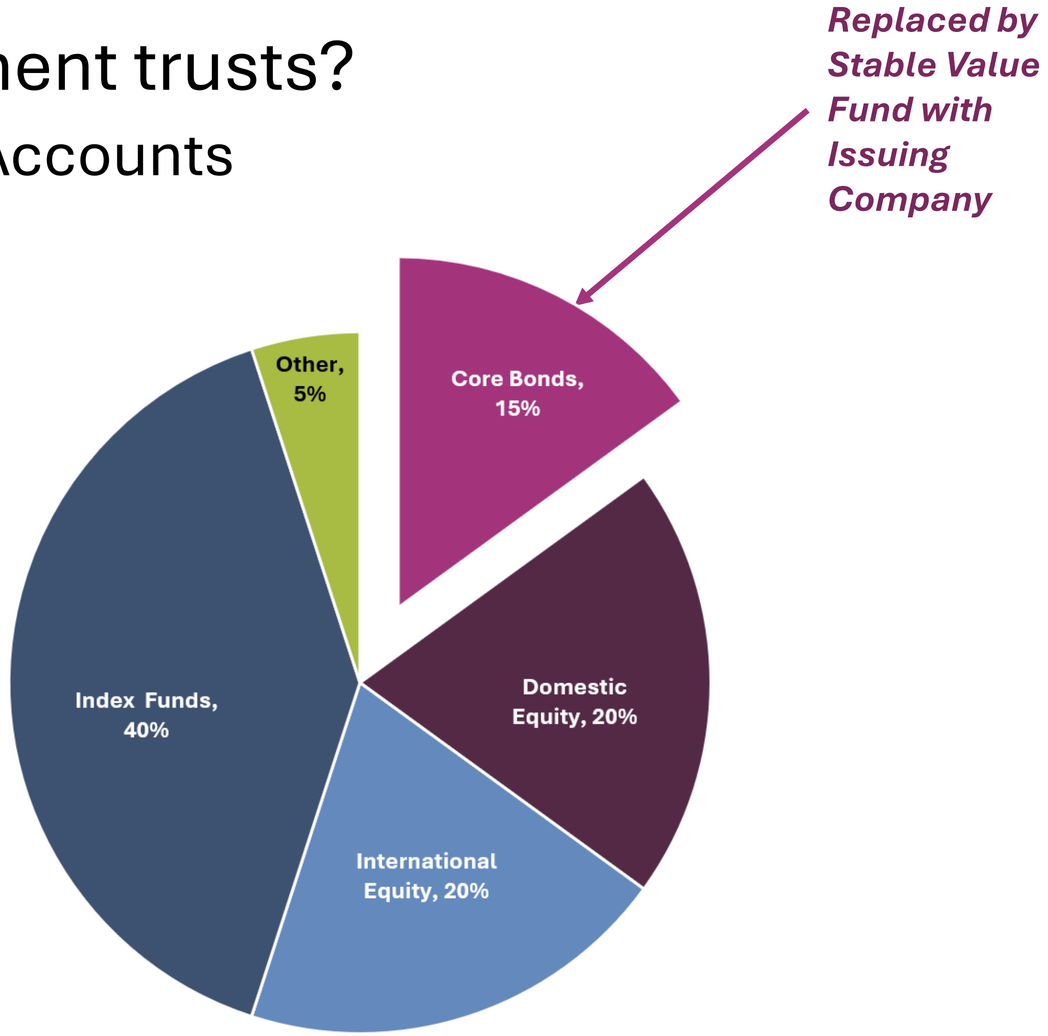
Why can’t we have ETFs in our plan?

What are collective investment trusts (CIT)?

Additional Topics

- What are co-branded collective investment trusts?
  - This component is replaced by Insurance Accounts





Secure 2.0 Provisions

- 2026 Requirement that Catch-Up Contributions for Employees Earning over $150,000 in Prior Year must be Roth

- Potential New Distribution Options
  - Emergency
  - Domestic Abuse
  - Terminal Illness
  - Long Term Care

- Roth Elections on Employer Contributions