



Retirement
Services

"20 Years of Excellence"

401(k) PLANS
DEFINED CONTRIBUTION PLANS
CASH BALANCE/DEFINED BENEFIT PLANS

HAVE YOUR CLIENTS OR PROSPECTS FAILED DISCRIMINATION TESTING? ERP HAS A COST-SAVING SOLUTION!

Bundled 401(k) systems may have their place in the qualified plan world as they are perceived as a convenient option for the plan sponsor and financial advisor. But what these bundled systems may add in perceived efficiency, they lack in actual effectiveness. Most bundled providers use automated, turn-key Discrimination Testing when performing annual ADP/ACP Discrimination tests on 401(k) plans and many do not offer non-standard customized plan designs.

ERP has a cost-saving solution which uses the **Top 20% Rule**. The **Top 20% Rule** utilizes an alternative definition of highly compensated employees (HCE) to include **ONLY** the Top 20% highest paid employees instead of using **ALL** employees earning more than \$150,000 in 2024. Most bundled systems do not utilize this key plan provision and would simply recommend a **SAFE HARBOR** feature, unnecessarily costing the company thousands of dollars. Why? Most bundled platforms automate or outsource the testing process, which imits the plan sponsor to basic cookie-cutter plan designs. The plan sponsor would benefit more with a customized plan that would ultimately be more cost effective *and* best meets *their* retirement goals and objectives, rather than adjusting to the bundled provider's automated system.

The following is an example of a test that would most likely fail using a bundled platform's standard testing method, but would pass when using **The ERP Solution**:

ACME CONSULTING 401(k) PLAN						
Employee	Comp	Limit	Deferral	Deferral %	HCE?	Top 20%?
John	\$355,000	\$350,000	\$23,500	6.71%	YES	YES
Sarah	\$325,000	\$325,000	\$23,500	7.23%	YES	NO
Matt	\$200,000	\$200,000	\$23,500	11.75%	YES	NO
Jane	\$130,001	\$130,001	\$10,000	7.69%	NO	NO
Jim	\$50,000	\$50,000	\$1,500	3.00%	NO	NO

STANDARD TESTING METHOD

AVERAGE DEFERRAL PERCENTAGE TEST RESULTS*

The HCEs' ADP is **8.57%**.
The non-HCEs' ADP is **5.35%**.
The non HCE's adjusted ADP is: **7.35%**

FAIL

THE ERP SOLUTION

AVERAGE DEFERRAL PERCENTAGE TEST RESULTS*

The HCEs' ADP is **6.71%**.
The non-HCEs' ADP is **7.42%**.
The non HCE's adjusted ADP is: **9.42%**

PASS

* Generally, a discrimination test passes when the average deferral % for the HCE group is not more than 2.00% higher than the average deferral % of the non-HCE group.

When speaking with your existing clients or prospecting for new 401(k) business, ask the plan sponsor if their current plan has ever failed an ADP test or if they have found Safe Harbor Plans to be too expensive. If so, ERP's Solution using the **Top 20% Rule** may benefit them.