

**DESIGNING A QUALIFIED  
DEFINED CONTRIBUTION PLAN**

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Designing a tax-qualified defined contribution plan (such as profit sharing, 401(k), 403(b), or employee stock ownership plan) requires that the employer consider a number of major questions (in addition to many minor questions not addressed in this outline):

- 1) Who do you wish to benefit from the plan? Do you want to exclude employees not working 1,000 hours per year? Is there some other category of employee you wish to exclude?
- 2) Do you want all participants to receive employer-sponsored benefits that are the same percent of pay, or do you want to give a higher percent to certain groups of employees?
- 3) Do you want to have some “waiting period” for entering into the plan – i.e., some eligibility requirement such as age 21 and a year of service?
- 4) What behavior do you want to encourage? Is this to be a “profit sharing” plan? Is it primarily intended to attract and keep good employees? Is it to be invested in employer stock?
- 5) Do you want to allow participants to save for retirement in this plan, on a pre-tax basis?
- 6) Do you want to encourage employee retirement savings with a matching contribution?
- 7) Do you want to only give a company contribution to those who are still with the company at the end of the plan year or who meet some minimum hours requirement?
- 8) Do you want to use a vesting schedule to encourage and reward longer service?
- 9) When first establishing a plan, does the employer want to count past service for vesting?
- 10) Should the plan facilitate early retirement? In other words, do you want to fully vest an employee, regardless of years of service, once he has attained a certain age --- e.g., 55 or 60?
- 11) What can the employer afford? How much flexibility does the employer need in annual contributions? Is the employer willing to commit to a matching contribution?
- 12) Do you feel comfortable, or even obligated, to give investment control to the participants?
- 13) Do you want to allow a new participant to be able to roll over into this plan what he has received from his previous employer’s plan?
- 14) When a participant terminates employment for a reason other than retirement, should there be some waiting period before benefits are distributed?