

MEETING THE NEEDS OF TODAY'S BUSINESS OWNERS

401(K) PLAN

HOW DOES A 401(K) PLAN WORK?

A 401(k) plan is a qualified profit sharing plan with the added feature of employee salary deferrals. Salary deferrals may be pre-tax or after-tax (Roth Deferrals). 401(k) plans typically have employee salary deferrals, a company match and an optional employer profit sharing contribution. 401(k) Plans can include a Safe Harbor feature which makes the plan simpler to administer. A Safe Harbor feature will guarantee that any plan participant can defer the maximum allowable amount. Most 401(k) plans allow the plan participants to direct the investment of the funds in their plan accounts.

401(k) plans are subject to the same rules as profit sharing plans with additional rules for how much the employees can defer. The maximum employer tax-deductible annual contribution is 25% of the total payroll of all the plan participants, excluding employee salary deferrals. The most any employee may receive in a year, including salary deferrals, is 100% of pay to a maximum of \$72,000 (2026). Employees may defer up to 100% of pay to a maximum of \$24,500 (2026). Employees age 50 or older may make additional catch-up deferrals up to \$8,000 (2026). This \$8,000 is above the \$72,000 enabling a plan participant who is age 50 or older to potentially achieve a total allocation of \$80,000. A higher catch-up limit of \$11,250 applies to those age 60-63.

WHY ADOPT A 401(k) PLAN?

FLEXIBILITY

Salary deferrals and profit sharing contributions to a 401(k) plan are flexible enabling participants and employers to adjust their contributions to meet their needs each year.

EMPLOYEE BENEFIT

401(k) Plans are the most frequently adopted and most recognized of qualified retirement plans. Because they are easily understood by employees they can be effective benefit programs for attracting and rewarding employees.

CREDITOR PROTECTION

Funds in a 401(k) plan are fully protected from creditors under the Employee Retirement Income Security Act (ERISA).

TAX ADVANTAGES

Salary deferrals are made pre-tax by employees, unless made as Roth deferrals, and all employer contributions are fully tax-deductible to the employer. Benefits accrue on a tax-deferred basis.



PLAN FEATURES

SPONSORING EMPLOYER

Any employer may adopt a 401(k) plan. The employer may be a sole proprietor, partnership, LLC, S corporation or C corporation.

ELIGIBILITY

Employees enter the plan upon completion of the eligibility requirements selected by the employer. Eligibility requirements are typically the completion of one year of service and age 21. The employer may elect to exclude from participation certain classes of employees, provided IRS minimum participation and coverage requirements can be satisfied.

PLAN COMPENSATION

Plan compensation is used to determine benefits under the plan. In corporations, salary may be limited to base pay, or base pay plus bonuses, overtime and commissions. It may also be expanded to include total W-2 compensation. Plan compensation is limited to \$360,000 in 2026.

EMPLOYER CONTRIBUTIONS

Employers frequently make matching and profit sharing contributions in 401(k) plans. If the plan includes a Safe Harbor feature the employer is required to make Safe Harbor contributions of either 3% of pay or a matching contribution of dollar for dollar for the first 3% of pay an employee defers plus \$.50 for each dollar for the next 2% of pay an employee defers. Profit Sharing contributions may be allocated in any method allowed in a Profit Sharing plan.

VESTING

Vesting represents the non-forfeitable right to benefits under the Plan. Upon termination of employment, a vested participant is entitled to a benefit from the plan, while a non-vested participant is not. Salary deferrals and employer Safe Harbor contributions are always fully vested. Other employer contributions may be on a vesting schedule. Typically, they are vested using a graded vesting schedule which fully vests benefits in six years.

FUNDING

CONTRIBUTIONS

Salary deferrals must be deposited once withheld. Employer contributions may be made up until the employer files their tax return. The amount of the Profit Sharing contribution is flexible and may range from \$0 to 25% of the total payroll of plan participants in any year. Once made, the contribution is allocated to plan participants in accordance with the allocation formula in the plan. No employee can receive more than 100% of their pay to a maximum of \$72,000 in 2026, plus catch-up contributions.

INVESTMENT RISK

The plan participant bears the investment risk of the funds contributed and allocated to their account. Any losses or gains will be reflected in their account.

PLAN ADMINISTRATION

At Pentegra, we commit the resources to ensure that clients receive the quality administrative support critical to the success of any plan.

ADMINISTRATIVE SERVICES

- Plan Design and Implementation
- Document Preparation and Filing
- Consulting, Actuarial and Legal Support
- Plan Administration & Recordkeeping
- Compliance Testing
- Government Filings
- Annual Actuarial Valuation Reports
- Benefit Calculations
- Annual Employee Benefit Statements
- Summary Plan Descriptions

EMPLOYEE COMMUNICATIONS

Effective ongoing employee communications are critical to the success of any retirement program.

Each year employees receive personal statements, illustrating their benefit under the plan. Typically, the statement will show a beginning of year account balance, any contribution and investment gains and losses for the year, and the end-of-year balance.

PLAN DESIGN

We develop plan designs to ensure the plan is consistent and in alignment with your goals and objectives.

With over 65 years of experience in developing effective retirement benefit programs, Pentegra provides clients with flexible, innovative solutions to help them meet their cost and benefit objectives.



COMPARING RETIREMENT PLANS

Plan Features	401(k) Plans	Profit Sharing Plans
How it works	Employees make salary deferrals either before-tax or after-tax (Roth), or a combination of the two. Employers make varying contributions from year to year. Contributed amounts are allocated to employee accounts according to a formula defined in the plan. Employee account balances are credited with actual investment returns and losses.	Employers make varying contributions from year to year. Contributed amounts are allocated to employee accounts according to a formula defined in the plan. Employee account balances are credited with actual investment returns and losses.
Who determines how the money is invested?	The employee.	The employer or employee based on plan provided options.
Who bears the investment risk?	The employee.	The employee.
What if investments have higher-than-expected returns?	The employee keeps the money.	The employee keeps the money.
Is the benefit portable?	Yes. When employees change jobs, they can roll their 401(k) into an IRA or into their new employer's plan.	Yes. When employees change jobs, they can roll their profit sharing benefit into an IRA or into their new employer's plan.