

# Profit Sharing and Employer Matching

See what makes employer contributions so powerful.

# 41%

of companies that offer a 401(k) plan provide employer matching contributions up to 6% of employees' salaries.<sup>1</sup>



Employer contributions are funds deposited into employee retirement accounts by the company, which can help attract and retain employees, improve 401(k) participation rates, and gain a valuable tax deduction. There are two types of employer contributions for you to choose from—matching and profit sharing. Learn which contribution type is right for you and how you can get started easily.

## MATCHING

With a matching contribution, the employer matches part or all of the eligible employee's contribution. An employee must defer from their salary into the plan to receive a matching contribution.

### Example

Alice's gross monthly pay is \$1,000. She wants to contribute, or defer, 5% of her gross pay to her retirement account. Her employer offers a match on deferrals up to 4% of compensation.

- Alice's contribution:  $\$1,000 \times 5\% = \mathbf{\$50.00}$
- Employer contribution:  $\$1,000 \times 4\% = \mathbf{\$40.00}$
- Total monthly contributions in Alice's account: **\$90.00**

## PROFIT SHARING

Profit sharing contributions are a predetermined, equal percentage of company profits that are contributed to all eligible employee accounts. Unlike with a matching contribution, employees do not need to defer from their salary into the plan to be eligible to receive a profit sharing contribution.<sup>2</sup>

### Example

Alice does not contribute from her salary this year, but meets the conditions to receive a profit sharing contribution. Her annual salary is \$28,800. Her employer offers a 4% profit sharing contribution.

- Alice's contribution: **\$0.00**
- Employer contribution:  $\$28,800 \times 4\% = \mathbf{\$1,152.00}$
- Total contributions in Alice's account: **\$1,152.00**

## MATCHING VS. PROFIT SHARING

	Description	Funded to All Eligible Employees?
<b>Matching</b>	Employer matches a part or all of the eligible employee's contribution, up to a certain percentage of salary.	<b>No</b> ; must only be funded to eligible employees who contributed into the plan within the plan year.
<b>Profit Sharing</b>	Employer-funded contribution based on a predetermined formula or equal percentage to all eligible employees.	<b>Yes</b> ; must be funded to all employees who meet the eligibility requirements and allocation conditions as set forth in the plan document <b>whether or not the employee contributed</b> into the plan within the plan year.

**Note:** If you plan to establish a 401(k) for the prior year and want to make an employer contribution, you are only permitted to make profit sharing contributions. If establishing a 401(k) plan in the current year, the employer and employees can make contributions to the plan.

Whether matching or profit sharing, all employer contributions are:

- Tax deductible<sup>3</sup>
- Contributed pre-tax<sup>4</sup>
- Subject to annual contribution limits
- Subject to plan eligibility requirements and allocation conditions, as defined in the plan document

75%

of employees would accept less compensation for higher retirement contributions from their employer.<sup>5</sup>

Contact us to learn more.

 [ascensus.com](https://ascensus.com)

<sup>1</sup>"What Is The Average 401k Employer Match For 2023?" Carry.com. January 16, 2024.

<sup>2</sup>Special allocation conditions may apply dependent on your plan design. A profit sharing contribution may also be required to correct certain failed annual compliance tests.

<sup>3</sup>Seek assistance from your tax advisor on tax deductibility limits.

<sup>4</sup>In the Setting Every Community Up for Retirement Enhancement 2.0 Act of 2022 (SECURE 2.0), employers may permit participants to designate employer matching and nonelective contributions as Roth contributions. Further guidance is expected from the IRS. Our materials will be updated as we receive additional guidance.

<sup>5</sup>"401(k)s a better recruiting tool than cash, study says" InvestmentNews. July 28, 2023

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