EMPLOYEE FIDUCIARY

Plan Design Report

Disclaimer: Employee Fiduciary is providing this report for projection purposes only. The plan design illustrations contained with this report are not based on legal plan documents nor should they be used as final contribution calculations.

Plan Design Report

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INTRODUCTION

Thank you for requesting a plan study from Employee Fiduciary.

In response to your request, we are providing you with this Plan Design Report containing three popular plan designs used today. These designs are discussed in the Appendix section of this report.

Each of these designs are exhibited in attachments provided with this report. These exhibits reflect the employee census information you provided to us.

After reading this report and carefully examining the plan designs presented with it, it is our hope that you will feel comfortable in choosing the most appropriate plan design for your company.

DESIGN BASICS

A defined contribution plan is a tax-qualified plan that maintains an "account balance" for each participant. A defined contribution plan can allow for employee contributions and/or employer contributions. Any employer contributions must be allocated to participant accounts pursuant to a formula defined in the plan document.

It is important to understand the contribution options available to you and how those contributions can satisfy your goals for the plan.

CONTRIBUTION OPTIONS

401(k) Deferrals:

401(k) deferrals are pre-tax contributions made to a plan at the election of an employee, in lieu of receiving such amounts as cash compensation.

An employee's election to contribute 401(k) deferrals is usually done pursuant to a salary reduction agreement whereby the employee elects to defer a percentage of their compensation.

Generally, a 401(k) plan will permit eligible employees to defer from all forms of compensation, including “non-regular” compensation such as overtime, commissions and bonuses.

The amount of 401(k) an eligible employee can defer each calendar year is limited by the IRC Section 402(g) limit ($17,500 for 2013).

Eligible employees over age 50 can defer additional “catch-up” 401(k) deferrals (up to $5,500 for 2013).

Roth Contributions:

Roth deferrals are similar to 401(k) deferrals, only they are contributed by employee on an after-tax basis.

An employee's election to contribute Roth deferrals is usually done pursuant to a salary reduction agreement whereby the employee elects to defer a percentage of their compensation.

The amount of Roth and 401(k) contributions an eligible employee can defer each calendar year is limited by the IRC Section 402(g) limit ($17,500 for 2013).

“Catch-up” limit applies to both 401(k) and Roth deferrals ($5,500 for 2013).

Employer Matching Contributions:

The plan may provide for a matching contribution based on all or a portion of the elective deferrals under the 401(k) arrangement. The matching formula also may be discretionary, so that the employer will determine each year what the rate of match should be.

The following factors might be taken into consideration in designing a matching contribution formula: (1) whether the employer wants discretion in setting the amount each year, (2) whether the formula should be tiered (i.e., a different rate of match for different levels of elective deferrals), and (3) whether the amount of the match should be capped to a specific percentage of compensation or a specific dollar amount.

Employer Profit Sharing Contributions

A key advantage of a profit sharing contribution feature is that the employer can have flexibility in determining its annual contribution to the plan because of the ability to use a discretionary contribution formula. This way the employer is able to contribute more in years of high profitability, and to contribute less when business is not as good, without having to amend the plan's contribution formula. This option can be especially attractive to a start-up company, to a company that has an erratic profitability, or to a company that frequently acquires other companies and may need some flexibility on a year-to-year basis with respect to the annual qualified plan contribution.

There are three principle profit sharing allocation formulas:

- Pro rata
- Permitted Disparity
- New Comparability

A “pro rata” formula allocates the employer’s contribution in proportion to some uniform standard. The most common pro rata allocation method is one that allocates proportionate to each participant's compensation. Each participant's share of the employer’s contribution is equal to the participant's share of the total compensation paid to all participants.

A "permitted disparity" formula takes into account that the employer also makes Social Security contributions for the participant. Since Social Security contributions are a factor, the formula is said to be "integrated" with Social Security. The major consequence of a permitted disparity formula is that the "excess compensation" allocation rate can be greater than the "base compensation" allocation rate by up to 5.7%. Excess compensation is compensation earned above the plan's "integration level" and base compensation is compensation earned below the plan's "integration level". The plan's integration level for a particular plan year is usually equal to the year Social Security Taxable Wage Base (SSTWB) or a percentage thereof. For 2013, the SSTWB is $113,700.

A "new comparability" formula is designed to produce greater allocation rates for a "target group" of participants as long as a "gateway" minimum contribution is provided to all eligible non-highly compensated employees and special nondiscrimination rules are satisfied. The "target group" might be identified by job classification (e.g., highly compensated employees, salaried employees, officers, managers, a particular division), compensation levels (e.g., employees with compensation exceeding a specified dollar amount), or other objective criteria (e.g., employees over age 50, employees with at least 10 years of service). For each eligible non-highly compensated employee, the gateway minimum contribution must be equal to the lesser of a) 1/3 the highest allocation rate provided to any highly-compensated employee or b) 5% of compensation.

Safe Harbor Contributions

A safe harbor 401(k) plan is a type of 401(k) that is "deemed to pass" annual ADP/ACP testing. The ADP test compares the average deferral rates of the nonhighly compensated employees (NHCEs) to the average deferral rates of the highly compensated employees (HCEs). The ACP test compares the average contribution rates of the NHCEs to the average contribution rates of the HCEs. Failure to pass this testing generally requires the distribution of excess contributions to certain HCEs or the funding of additional contributions to NHCEs

There are various requirements a 401(k) plan must satisfy in order to be a safe harbor 401(k) plan. Among these requirements is an employer contribution requirement. To satisfy this requirement, a plan must provide for one of the two following employer contributions:

- safe harbor matching contribution
- safe harbor nonelective contribution

An eligible safe harbor matching contribution must be no less than the contribution determined under the "basic" formula prescribed under the regulations. The basic formula is 100% on the first 3% of compensation deferred *plus* 50% match on the next 2% of compensation deferred, for a maximum match of 4%. An "enhanced" formula can also be chosen so long as the matching contribution at each level of deferral is no less than the matching contribution determined under the basic formula.

An eligible safe harbor nonelective contribution must be equal to at least 3% of an employee's compensation. A contribution greater than 3% is also permitted. An eligible employee must receive the allocation of the nonelective contribution regardless of whether he chooses to make deferrals under the 401(k) arrangement.

If the plan is determined to be top heavy, either safe harbor contributions will generally satisfy the plan's top heavy minimum contribution requirement. A plan is top heavy when over 60% of total plan assets are attributable to key employee account balances. The top heavy minimum contribution requirement is generally 3% of an eligible employee's compensation

Both the safe harbor match and nonelective contributions are non-discretionary contributions and must be subject to 100% immediate vesting. It is very common for safe harbor 401(k) plans to provide for other discretionary employer contributions in addition a safe harbor contribution. For example, a very popular design currently combines a safe harbor nonelective contribution with a discretionary new comparability contribution. While helping to allow targeted employees to maximize their contributions under the plan, the safe harbor nonelective contribution pulls triple duty. The contribution:

- Satisfies any top heavy minimum contribution requirements (new comparability plan are frequently top heavy)
- Helps to satisfy the new comparability formula's "gateway" requirements
- Allows HCEs to maximize their 401(k) deferrals without fear of any ADP test limitations

AUTOMATIC ENROLLMENT

Automatic enrollment allows an employer to enroll employees in a 401(k) plan without the employees' affirmative election, as long as the employees have the right to "opt out" of contributing or change the amount of automatic deferral.

Adding an automatic enrollment feature to a 401(k) plan generally increases the level of employee participation in the plan.

There are 3 basic automatic enrollment plan designs:

- Automatic Contribution Arrangement (ACA)
- Eligible Automatic Contribution Arrangement (EACA)
- Qualified Automatic Contribution Arrangement (QACA)

Automatic Contribution Arrangement (ACA)

An ACA is the most basic automatic enrollment plan design. This design may be a good fit for a sponsor that wants the employee participation benefits of an automatic enrollment plan, but do not want to satisfy a lot of rules.

ACA benefits include:

- Preemption of state wage garnishment laws

ACA requirements include:

- A special automatic enrollment notice must be provided to employees

Eligible Automatic Contribution Arrangement (EACA)

An EACA provides all the benefits of an ACA plus additional benefits if additional requirements are satisfied.

EACA benefits include (in addition to ACA benefits):

- Permissible withdrawal option, allowing "auto-enrolled" employee to withdraw deferrals within 90 days
- 3 ½ month extension to distribute any ADP/ACP refunds without 10% excise tax

EACA requirements include (in addition to ACA requirements):

- All participants must be automatically enrolled at the same default deferral rate, unless they opt out or select a different percentage
- The plan's default investment fund must be a Qualified Default Investment Alternative (QDIA)

Qualified Automatic Contribution Arrangement (QACA)

A QACA provides all the benefits of an EACA plus additional benefits if additional requirements are satisfied.

QACA benefits include (in addition to EACA benefits):

- Deemed to satisfy ADP and ACP tests
- Deemed to meet top heavy requirements

QACA requirements include (in addition to EACA requirements):

- Default deferral rate must at least 3% for the first plan year in which the participant is enrolled; 4% for the second year; 5% for the third year and 6% per year thereafter (must never exceed 10% per year)
- The employer must make: (a) an annual matching contribution of 100% of the first percent deferred and 50% of the next five percent deferred, or (b) a profit sharing contribution of 3% (must be 100% vested after two years)
- Automatic enrollment notice provided to employees must meet QACA content requirements

DESIGNS PROVIDED WITH THIS REPORT

We are providing you with exhibits illustrating the following plan designs:

- Safe Harbor 401(k) plan with safe harbor nonelective contribution + discretionary new comparability contribution
- Safe Harbor 401(k) plan with safe harbor matching contribution + discretionary matching contribution + permitted disparity contribution
- Traditional 401(k) plan with discretionary matching contribution + prorata profit sharing contribution

Each design exhibited reflects the employee demographics you provided to us on your employee census.

Each of the exhibits provided contains the following assumptions:

- Plan provides for immediate eligibility. In other words, all employees provided on census were assumed eligible for plan participation
- Highly compensated employee group represents any employee with greater than a 5% ownership interest or that earned over $115,000 in 2012. If you did not provide prior year compensation on employee census, 2012 compensation was assumed to equal 2013 compensation
- If 401(k) amounts were not provided, each participant's deferral rate was assumed to be 10%. Participants with compensation of less than $30,000 were assumed to defer 0%

APPENDIX A: PLAN DESIGNS PRESENTED

Safe Harbor 401(k) Plan with Safe Harbor Nonelective Contribution + Discretionary New Comparability Contribution

Why choose this design?

- A new comparability design is often the best design to maximize the contributions of owners/officers while keeping overall employer contribution costs low (when special testing rules are satisfied)
- Design is a safe harbor 401(k) design that allows HCEs to maximize 401(k) deferrals without fear of year-end refunds caused by failed ADP testing
- Design can be a great way to recruit/reward key employee talent

Advantages

- 401(k) deferrals not subject to annual nondiscrimination testing
- Safe harbor nonelective contribution automatically satisfies top heavy minimum contribution requirement
- Owners/officers can be targeted for a higher rate of contribution than rank and file under new comparability formula
- Safe harbor nonelective contribution counts towards satisfying the new comparability contribution's "gateway" requirement
- New comparability contribution can be subject to vesting schedule and allocation conditions

Disadvantages

- Safe harbor nonelective contribution is a required contribution
- Safe harbor nonelective contribution subject to immediate 100% vesting
- Annual notice requirement
- Safe harbor nonelective contribution subject to 401(k) withdrawal restrictions
- No allocation conditions can apply to safe harbor nonelective contribution or any discretionary match (e.g. last day rule, 1,000 hours)
- New comparability contribution requires special annual testing (additional fees apply)
- Viability of design contingent upon ages of workforce

Safe Harbor 401(k) Plan with Safe Harbor Matching Contribution + Discretionary Matching Contribution + Permitted Disparity Contribution

Why choose this design?

- Employer matching contributions are only allocated to participants deferring 401(k) amounts.
- Providing an employer match often increases 401(k) plan participation
- Design is a safe harbor 401(k) design that allows HCEs to maximize 401(k) deferrals without fear of year-end refunds caused by failed ADP testing
- Employer can choose to fund discretionary match or permitted disparity contribution or some combination of both

Advantages

- Match is only funded to participants that contribute 401(k) deferrals
- 401(k) deferrals and match not subject to annual nondiscrimination testing
- Safe harbor match automatically satisfies top heavy minimum contribution requirement if only match is funded, counts towards satisfying requirement if permitted disparity contribution is funded
- Permitted disparity contribution formula provides a higher contribution rate on compensation earned above the "integration level"
- Permitted disparity contribution and discretionary match are discretionary contributions
- Permitted disparity contribution can be subject to vesting schedule and allocation conditions. Discretionary match can be subject to vesting

Disadvantages

- Safe harbor match is a required contribution
- Safe harbor match subject to immediate 100% vesting
- Annual notice requirement
- Safe harbor match subject to 401(k) withdrawal restrictions
- No allocation conditions can apply to safe harbor match or discretionary match (e.g. last day rule, 1,000 hours)
- Plan subject to top heavy minimum contribution requirements if permitted disparity contribution is funded

Traditional 401(k) Plan with Discretionary Matching Contribution + Pro rata Contribution

Why choose this design?

- Employer matching contributions are only allocated to participants deferring 401(k) amounts.
- Providing an employer match often increases 401(k) plan participation, improving ADP test results. Adding an automatic enrollment feature may increase participation further.
- Under this design, both employer contributions are discretionary
- Employer can choose to fund discretionary match or prorata contribution or some combination of both
- Prorata formula is easy for participants to understand

Advantages

- Match is only funded to participants that contribute 401(k) deferrals
- Pro rata contribution formula is easily understood by participants
- Match and pro rata contribution are discretionary
- Match and pro rata contribution can be subject to vesting schedule and allocation conditions

Disadvantages

- 401(k) deferrals and any match subject to annual nondiscrimination testing
- Plan subject to top heavy rules

Design Highlights

The following grid outlines the major features of the designs exhibited in this report. If you have further questions regarding the designs provided, please let us know.

Design	Safe Harbor 401(k) Plan with Safe Harbor Nonelective Contribution + Discretionary New Comparability Contribution	Safe Harbor 401(k) Plan with Safe Harbor Matching Contribution + Discretionary Matching Contribution + Permitted Disparity Contribution	Traditional 401(k) Plan with Discretionary Matching Contribution + Pro Rata Contribution
Employer Contribution Budget	Maximize owners	Maximize owners	Maximize owners
Total Employer Contributions	$95,726.80	$131,608.03	$150,420.39
Employer Contributions to Preferred Group	$67,000.00	$67,000.00	$67,000.00
Preferred Group % of Employer Contributions	69.99%	50.91%	44.54%
HCE % of Employer Contributions	69.99%	50.91%	44.54%
Contains a Required Contribution Component	Yes	Yes	No
Employee Contributions Required to Receive Employer Contribution	No	Yes – match only	Yes – match only
Automatically Satisfies ADP/ACP Testing	Yes	Yes	No - see exhibit for projected ADP/ACP results
Automatically Satisfies Top Heavy Minimum Contribution Requirements	Yes if no discretionary contribution is funded. Otherwise, employer contributions count towards satisying top heavy minimum	Yes if no discretionary contribution is funded. Otherwise, employer contributions count towards satisying top heavy minimum	No
Special “Cross-Testing” Required (additional test fee applies)	Yes	No	No

Exhibit #1 - Safe Harbor 401(k) Plan with New Comparability Contribution

For plan year ending December 31, 2013

Name	Birth	Hire	Termination	Compensation	401(k)	Catchup	SH 3%	%	New Comparability	%	Total Contributions
Tom Owner	10/29/1965	2/5/1999		255,000.00	17,500.00	0.00	7,650.00	3.00%	25,850.00	10.14%	51,000.00
Bill Owner	6/16/1960	2/5/1999		255,000.00	17,500.00	5,500.00	7,650.00	3.00%	25,850.00	10.14%	56,500.00
Robert Employee	9/3/1955	7/8/2002		147,000.00	14,700.00	0.00	4,410.00	3.00%	2,027.25	1.38%	21,137.25
Eric Employee	9/22/1974	7/21/2003		130,000.00	13,000.00	0.00	3,900.00	3.00%	1,792.81	1.38%	18,692.81
Carrie Employee	6/30/1972	7/12/2004		60,000.00	6,000.00	0.00	1,800.00	3.00%	827.45	1.38%	8,627.45
Diana Employee	11/5/1966	8/24/2005		45,000.00	4,500.00	0.00	1,350.00	3.00%	620.59	1.38%	6,470.59
Dan Employee	3/8/1982	10/5/2005		55,000.00	5,500.00	0.00	1,650.00	3.00%	758.50	1.38%	7,908.50
Michael Employee	5/31/1980	4/3/2006		35,000.00	3,500.00	0.00	1,050.00	3.00%	482.68	1.38%	5,032.68
Tim Employee	11/30/1972	6/16/2006		40,000.00	4,000.00	0.00	1,200.00	3.00%	551.63	1.38%	5,751.63
Russell Employee	11/28/1975	9/5/2006		52,000.00	5,200.00	0.00	1,560.00	3.00%	717.12	1.38%	7,477.12
Angela Employee	4/15/1981	3/12/2007		26,000.00	0.00	0.00	780.00	3.00%	358.56	1.38%	1,138.56
Don Employee	9/30/1962	3/12/2007		15,000.00	0.00	0.00	450.00	3.00%	206.86	1.38%	656.86
Tina Employee	1/2/1985	3/19/2007		26,000.00	0.00	0.00	780.00	3.00%	358.56	1.38%	1,138.56
Jennifer Employee	2/6/1986	4/9/2007		25,000.00	0.00	0.00	750.00	3.00%	344.77	1.38%	1,094.77
				$1,166,000.00	**$91,400.00**	**$5,500.00**	**$34,980.00**		**$60,746.80**		**$192,626.80**

Exhibit #2 - Safe Harbor 401(k) Plan with Permitted Disparity Contribution

For plan year ending December 31, 2013

Name	Birth	Hire	Termination	Compensation	401(k)	Catchup	SH Match	%	Permitted Disparity	%	Total Contributions
Tom Owner	10/29/1965	2/5/1999		255,000.00	17,500.00	0.00	10,200.00	4.00%	23,300.00	9.14%	51,000.00
Bill Owner	6/16/1960	2/5/1999		255,000.00	17,500.00	5,500.00	10,200.00	4.00%	23,300.00	9.14%	56,500.00
Robert Employee	9/3/1955	7/8/2002		147,000.00	14,700.00	0.00	5,880.00	4.00%	10,686.91	7.27%	31,266.91
Eric Employee	9/22/1974	7/21/2003		130,000.00	13,000.00	0.00	5,200.00	4.00%	8,701.52	6.69%	26,901.52
Carrie Employee	6/30/1972	7/12/2004		60,000.00	6,000.00	0.00	2,400.00	4.00%	3,587.27	5.98%	11,987.27
Diana Employee	11/5/1966	8/24/2005		45,000.00	4,500.00	0.00	1,800.00	4.00%	2,690.45	5.98%	8,990.45
Dan Employee	3/8/1982	10/5/2005		55,000.00	5,500.00	0.00	2,200.00	4.00%	3,288.33	5.98%	10,988.33
Michael Employee	5/31/1980	4/3/2006		35,000.00	3,500.00	0.00	1,400.00	4.00%	2,092.57	5.98%	6,992.57
Tim Employee	11/30/1972	6/16/2006		40,000.00	4,000.00	0.00	1,600.00	4.00%	2,391.51	5.98%	7,991.51
Russell Employee	11/28/1975	9/5/2006		52,000.00	5,200.00	0.00	2,080.00	4.00%	3,108.97	5.98%	10,388.97
Angela Employee	4/15/1981	3/12/2007		26,000.00	0.00	0.00	0.00	0.00%	1,554.48	5.98%	1,554.48
Don Employee	9/30/1962	3/12/2007		15,000.00	0.00	0.00	0.00	0.00%	896.82	5.98%	896.82
Tina Employee	1/2/1985	3/19/2007		26,000.00	0.00	0.00	0.00	0.00%	1,554.48	5.98%	1,554.48
Jennifer Employee	2/6/1986	4/9/2007		25,000.00	0.00	0.00	0.00	0.00%	1,494.70	5.98%	1,494.70
				$1,166,000.00	**$91,400.00**	**$5,500.00**	**$42,960.00**		**$88,648.03**		**$228,508.03**

Exhibit #3 - Traditional 401(k) Plan with Prorata Contribution

For plan year ending December 31, 2013

ADP Test		ACP Test	
Avg ADP - NHCEs	6.67%	Avg ACP - NHCEs	2.00%
Limt - HCEs	8.67%	Limt - HCEs	4.00%
Average ADP - HCEs	6.86%	Average ACP - HCEs	2.00%
Result:	**Pass**	Result:	**Pass**

Name	Birth	Hire	Termination	Compensation	401(k)	Catchup	Match	%	Pro Rata	%	Total Contributions
Tom Owner	10/29/1965	2/5/1999		255,000.00	17,500.00	0.00	7,650.00	3.00%	25,850.00	10.14%	51,000.00
Bill Owner	6/16/1960	2/5/1999		255,000.00	17,500.00	5,500.00	7,650.00	3.00%	25,850.00	10.14%	56,500.00
Robert Employee	9/3/1955	7/8/2002		147,000.00	14,700.00	0.00	4,410.00	3.00%	14,901.76	10.14%	34,011.76
Eric Employee	9/22/1974	7/21/2003		130,000.00	13,000.00	0.00	3,900.00	3.00%	13,178.43	10.14%	30,078.43
Carrie Employee	6/30/1972	7/12/2004		60,000.00	6,000.00	0.00	1,800.00	3.00%	6,082.35	10.14%	13,882.35
Diana Employee	11/5/1966	8/24/2005		45,000.00	4,500.00	0.00	1,350.00	3.00%	4,561.76	10.14%	10,411.76
Dan Employee	3/8/1982	10/5/2005		55,000.00	5,500.00	0.00	1,650.00	3.00%	5,575.49	10.14%	12,725.49
Michael Employee	5/31/1980	4/3/2006		35,000.00	3,500.00	0.00	1,050.00	3.00%	3,548.04	10.14%	8,098.04
Tim Employee	11/30/1972	6/16/2006		40,000.00	4,000.00	0.00	1,200.00	3.00%	4,054.90	10.14%	9,254.90
Russell Employee	11/28/1975	9/5/2006		52,000.00	5,200.00	0.00	1,560.00	3.00%	5,271.37	10.14%	12,031.37
Angela Employee	4/15/1981	3/12/2007		26,000.00	0.00	0.00	0.00	0.00%	2,635.69	10.14%	2,635.69
Don Employee	9/30/1962	3/12/2007		15,000.00	0.00	0.00	0.00	0.00%	1,520.59	10.14%	1,520.59
Tina Employee	1/2/1985	3/19/2007		26,000.00	0.00	0.00	0.00	0.00%	2,635.69	10.14%	2,635.69
Jennifer Employee	2/6/1986	4/9/2007		25,000.00	0.00	0.00	0.00	0.00%	2,534.31	10.14%	2,534.31
				$1,166,000.00	**$91,400.00**	**$5,500.00**	**$32,220.00**		**$118,200.39**		**$247,320.39**