



Navigating life together

401(a) Money Purchase and 401(k) Plans



401(a) Money Purchase and 401(k) Profit Sharing Plans

What are 401(a) Money Purchase and 401(k) Profit Sharing Plans?

- Both are retirement, individual account, defined contribution plans that enable an employer to offer employees an additional incentive program
- For a 401(a) Money Purchase plan, the sponsoring employer determines a mandatory fixed contribution amount, whether dollar-based or percentage-based, eligibility and vesting schedules; elective contributions are not allowed by the employee
- 401(k) Profit Sharing plans may permit employer discretionary non-elective contributions and participant elective Roth pre-tax and post-tax contributions; governmental employers may not offer 401(k) elective deferral plans

Maximum Allowable Contributions (MAC) Calculation

- 401(k) plans defer taxes on income by allowing elective before-tax contributions
- Roth after-tax elective contributions are also permitted and when eventually distributed with earnings will be distributed tax-free subject to certain restrictions
- Before-tax and Roth elective contributions are aggregated for MAC purposes

Maximum Allowable Contributions (MAC) Calculation

- Two separate Internal Revenue Code sections apply to elective contribution limits for the individual employee:
 - Limit I. Section 415(c) General Limit: applies to both employer and employee contributions, and reallocated forfeitures
 - Limit II. Section 402(g) Elective Deferral Limit: applies to employee elective deferrals and Roth contributions

Maximum Allowable Contributions (MAC) Calculation

- Limit I. Section 415 (c) General Limit
 - Annual additions to a defined contribution plan on behalf of a participant (employer and employee contributions) cannot exceed the lesser of 100% of the participant's compensation and \$61,000 (for 2022).
- Limit II. Section 402(g) Elective Deferral Limit
 - Limit applies equally to all salary reduction contributions, including Roth contributions (elective deferrals) whether made by an individual to a 403(b), 401(k), SEP or SIMPLE IRA.
 - All elective deferrals made by employee to other plans must be aggregated to determine if limit has been exceeded. (Contributions to 457(b) plans are not aggregated into the 402(g) limit for the above plans)
 - The 2022 annual limit is the lesser of 100% of compensation or \$20,500

Maximum Allowable Contributions (MAC) Calculation

- Employees age 50 and over are eligible to use a catch-up contribution of \$6,500 for 2022 (Not available for 457(b) tax-exempt)
- Eligible employees can contribute \$20,500

**Refer to www.IRS.gov for more details on current limits*

Disclosure

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