

## Cross-Tested and 401(k) Safe Harbor Profit Sharing

### Profit Sharing Plans: Cross-Tested Formula

In a cross-tested formula, employees are assigned to classification groups based upon ownership or job title. Each group receives a different percentage of the contribution, subject to nondiscrimination testing.

#### Advantages

- › Allocation percentages favor the owner.
- › Discretionary, tax-deductible contributions.
- › Availability of life insurance with tax-deductible premiums.

#### Considerations

- › Owner allocations impacted by employee demographics.

### Profit Sharing Formula Comparison

- › Salary Proportion and Cross-Tested
  - Business owner age 55, Spouse 52
  - Two employees age 24, 33

|                         | Salary Proportion Formula | Cross-Tested Formula |
|-------------------------|---------------------------|----------------------|
| Owner & Spouse          | \$81,000                  | \$97,000             |
| Employees               | \$10,400                  | \$2,600              |
| Total                   | \$91,400                  | \$99,600             |
| Percent to Owner/Spouse | 89%                       | 97%                  |

### 401(k) Safe Harbor with Cross-Tested Profit Sharing

Combining a cross-tested profit sharing with a Safe Harbor 401(k) is a powerful formula.

#### Advantages

- › Owners can defer the maximum amount.
- › Profit sharing allocations favor the owner.
- › Tax-deferred retirement savings.
- › Availability of life insurance with tax-deductible premiums.

#### Considerations

- › Safe harbor contributions are required.
- › Owner profit sharing allocations impacted by employee demographics.

### Sample Contribution Analysis

- Business owner age 55, Spouse 52
- Two employees age 24, 33

|                         | Profit Sharing + Safe Harbor | 401(k)   | Total Annual Contribution |
|-------------------------|------------------------------|----------|---------------------------|
| Owner & Spouse          | \$72,500                     | \$62,000 | \$134,500                 |
| Employees               | \$2,600                      | —        | \$2,600                   |
| Employer Contribution   | \$75,100                     |          |                           |
| Percent to Owner/Spouse | 98%                          |          |                           |

Contributions are for illustration purposes only, and actual contributions may vary. Contributions are calculated based upon individual census data. Values as of 1/1/2025.

**Life insurance and annuity products are not bank products, are not a deposit, are not insured by the FDIC nor any other federal entity, have no bank guarantee and may lose value.**

The Lafayette Life Insurance Company does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Lafayette Life cannot guarantee that the information herein is accurate, complete, or timely. Lafayette Life makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Please consult an attorney or tax professional regarding your specific situation. The Lafayette Life Insurance Company provides services to pension plans as outlined in a separate Administrative Services Agreement, and issues life insurance and annuity products that may be used as funding options. This material is for informational purposes only. Lafayette Life does not serve as plan administrator or fiduciary, nor does Lafayette Life or its representatives provide ERISA, legal or tax advice. Your personal or legal tax advisors should always be consulted and relied upon for advice.

The Lafayette Life Insurance Company, Cincinnati, Ohio, operates in D.C. and all states except NY, and is a member of Western & Southern Financial Group, Inc.

© 2020–2025 The Lafayette Life Insurance Company. All rights reserved.



**Lafayette Life  
Insurance Company**

A member of Western & Southern Financial Group

The Lafayette Life Insurance Company  
400 Broadway  
Cincinnati, OH 45202-3341

**Retirement Services**

[www.llic.com](http://www.llic.com) · 800.555.6048

DESIGN

ADMINISTRATION

FUNDING