



Money Purchase Plan

Money purchase plans have required contributions. That is, you, as the employer, are required to make a contribution, on behalf of the plan participants, to the plan each year.

With a money purchase plan, the plan states the contribution percentage that is required. For example, let's say that your money purchase plan has a contribution of 5% of each eligible employee's pay. You, as the employer, need to make a contribution of 5% of each eligible employee's pay to their separate account. A participant's benefit is based on the amount of contributions to their account and the gains or losses associated with the account at the time of retirement.

That type of arrangement is different than, say, a profit-sharing plan. With the profit-sharing plan, you, the employer, can decide that you'll contribute a certain amount, say \$10,000. Then, depending on the plan's contribution formula, you allocate that \$10,000 to the separate accounts of the eligible employees. Also, in past years, money purchase plans had higher deductible limits than profit-sharing plans. This is no longer the case.

If you establish a money purchase plan, you:

- Can have other retirement plans.
- Can be a business of any size.
- Need to annually file a Form 5500.

You can make a money purchase plan as simple or as complex as you want. Pre-approved money purchase plans are available to cut down on administrative headaches.

Information List:

Pros and Cons:

- Possible to grow larger account balances than under some other arrangements.
- Administrative costs may be higher than under more basic arrangements.
- Need to test that benefits do not discriminate in favor of the highly compensated employees.
- An excise tax applies if the minimum contribution requirement is not satisfied.

Who Contributes: Employer and/or employee contributions.

Contribution Limits: The lesser of 25% of compensation or \$46,000 in 2008 (\$49,000 in 2009 and subject to [cost-of-living adjustments](#) for later years).

Filing Requirements: Annual filing of Form 5500 is required.

Participant Loans: Permitted.

In-Service Withdrawals: Not permitted.

