

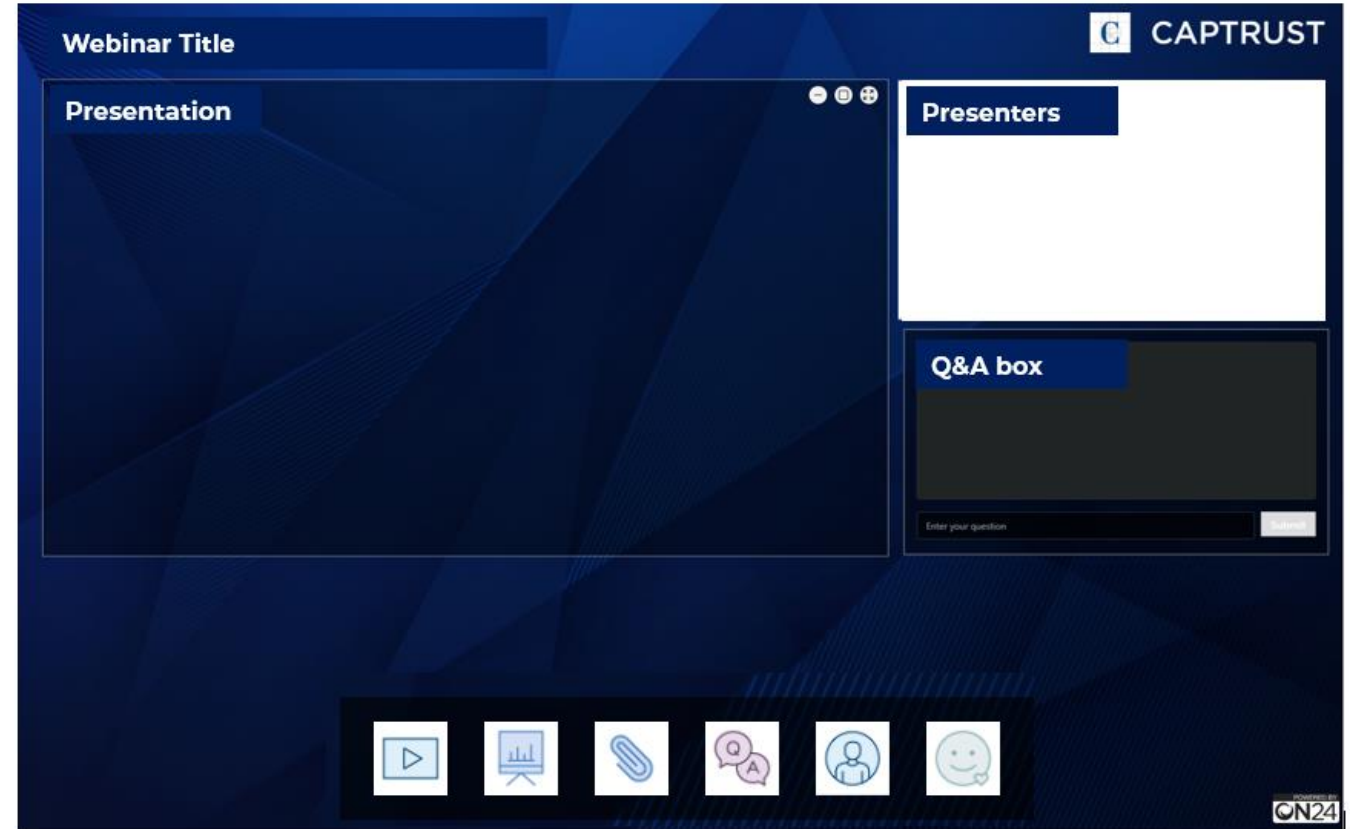
ELEVATING PLAN DESIGN: STRATEGIES FOR THE FUTURE

September 16, 2025



Information About Today's Session

- All attendee lines are automatically muted and in listen-only mode.
- Questions may be submitted during the event by selecting the Q&A icon and typing them into the Q&A box.
- Submitted questions will be visible to other audience members.
- Today's session is being recorded. The recording will be available for rewatching within 24–48 hours following the event.



Learning Objectives



Appreciate the importance of the plan design process



Comprehend why plan design has been de-emphasized



Identify strategies to help establish plan sponsor objectives



Understand how to meet plan sponsor objectives using plan design



Apply specific plan design options to meet objectives



THE PLAN DESIGN PROCESS

Goals of Plan Design

ENSURE THE PLAN
ACHIEVES IDENTIFIED
BUSINESS OBJECTIVES

SECURE TAX
ADVANTAGES FOR THE
SPONSOR AND
PARTICIPANTS

MAXIMIZE
CONTRIBUTIONS FOR
THE SPONSOR AND
PARTICIPANTS

PROVIDE ANOTHER
SOURCE OF RETIREMENT
INCOME

HELP THE SPONSOR
FULFILL FIDUCIARY
RESPONSIBILITY TO
PARTICIPANTS

Plan Design Is a Lost Art

- Cookie-cutter approaches are easier
- Safe harbor designs get media attention
- Many overlook the flexibility of modern plan document options
- Pre-approved plans can satisfy most sponsor needs and objectives

Providers Don't Focus on Plan Design

- Platform providers and third-party administrators (TPAs) are increasingly margin-driven; simple designs are:
 - Less costly to administer and support
 - More checklist-driven with fewer options
- Safe harbor options are less work to administer.
- Safe harbor has become the default design.
- Plan design specialists are hard to find.

Use Plan Design as a Differentiator

Opportunity exists for plan sponsors, consultants, and advisors.

A plan that truly meets goals and objectives is important and attractive.

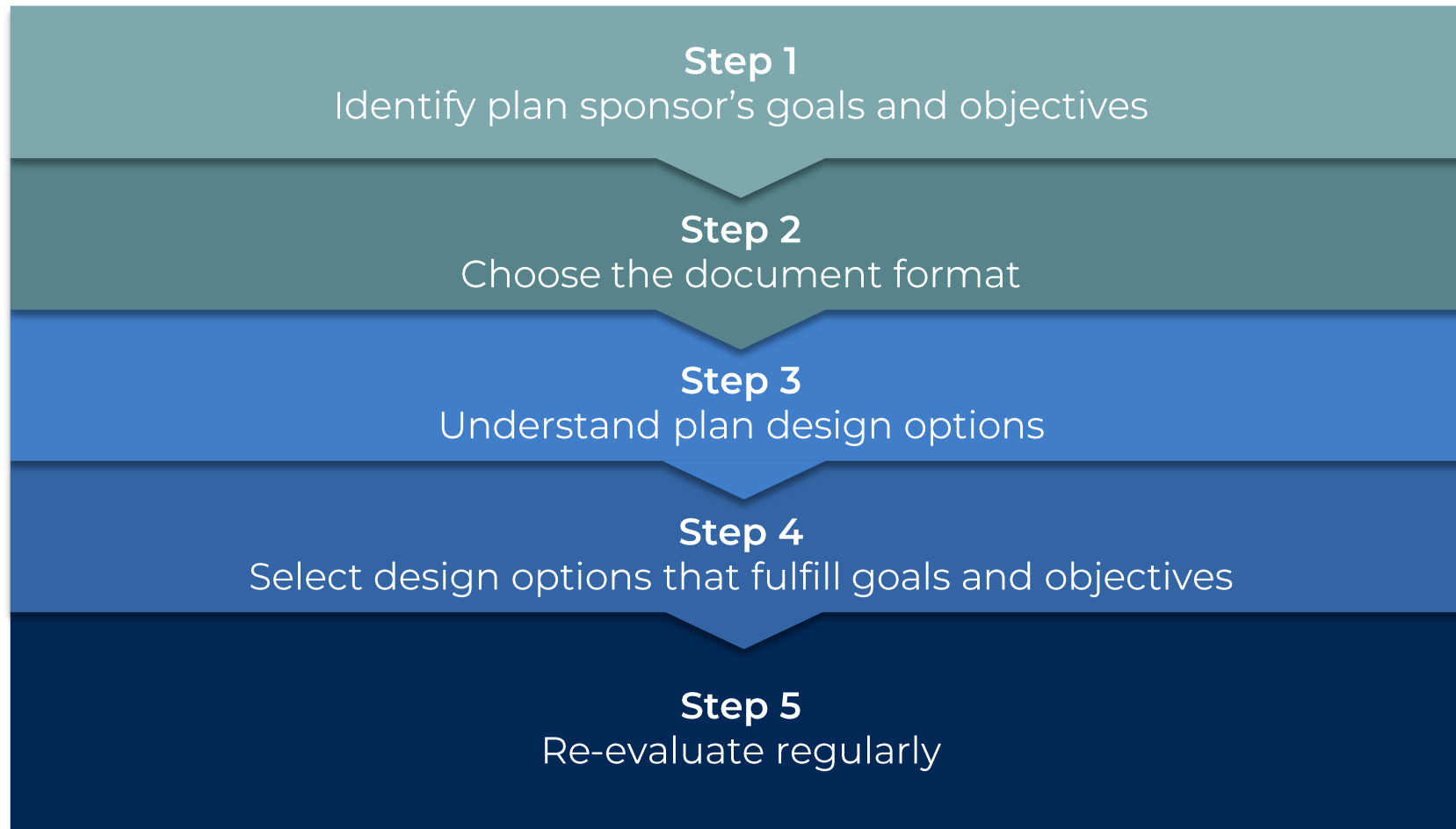
Better alignment with goals and objectives results in increased support for the plan.

Modern plan documents are streamlined and designed to augment plan design—set-up checklists are not!



DESIGN THE IDEAL PLAN

The Plan Design Process



Step 1: Identify Plan Sponsor's Goals and Objectives

Common Goals/Objectives	Example
Contribution/deduction augmentation and redirection	Sponsor wants certain employees or employee groups to receive additional contributions
Additional contributions/deferral opportunities	Highly compensated employees (HCEs) want to maximize their employee deferrals
Eliminate compliance test failures and contribution/deferral limitations	Sponsor wants to avoid distributions to corrected excesses
Cost containment	Sponsor wants to control or limit the cost of the plan
Recruitment	Sponsor wants to use the plan to attract and retain targeted employees
Simplification	Sponsor wants to streamline administrative process and reduce staff time needed to support plan

Step 1: Identify Plan Sponsor's Goals and Objectives

Stimulate the plan sponsor's thought process with questions:

- Ideally, what would you like your plan to do?
- For an existing plan, what would you like to change about your plan?
- On a per-participant basis—what contribution levels are necessary for you to meet your tax and long-term financial goals?
- Do you want employees to contribute toward their own retirement?
- Do you want to include or exclude certain employees?
- Is compliance testing an issue?
- Are employees savvy investors?

Step 2: Choose the Document Format

- Modern plan documents are flexible.
- Start on the right foot: Select plan provisions that align with the sponsor's goals and objectives.
- Consider pros, cons, and trade-offs.
- Ongoing plan and objective reviews are essential to an effective governance process.
- Plans can be amended to reflect changes in the plan sponsor's objectives.

Step 3: Understand Plan Design Options

- Effectively aligning goals and objectives with plan provisions requires an understanding of the available options and choices and their impact on plan testing.
- Selecting the correct options is not sufficient without understanding the impact on plan testing and outcomes.
- Broadly speaking, the plan must satisfy two types of compliance tests: group and individual.
- Group testing ensures the plan covers and provides appropriate contributions and/or benefits to enough NHCEs compared to the number of HCEs covered and the HCEs' contribution or benefit amounts.
- Individual testing ensures compliant allocations to participants.

Step 4: Select Design Options That Fulfill Goals and Objectives

- Correctly executing the plan document is critical.
- Following the plan document is essential.
 - Knowing the document and operating the plan in accordance with its terms is the first step of a successful plan.
 - The *Firestone and Rubber Co. v. Bruch* case affirmed that following the plan is the first line of compliance defense.

Step 5: Re-Evaluate Regularly

- Ongoing plan and objective reviews are essential to an effective governance process.
- Plans can be amended to reflect changes in the plan sponsor's objectives.
- Amending the plan is not difficult.
 - Execute board resolution.
 - Sign a plan document amendment.
 - Provide employee notification (update Summary Plan Descriptions).
 - Remember that generally, amendments are not retroactive.



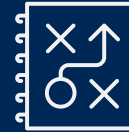
SAMPLE PROFILES

Profile 1



SPONSOR OBJECTIVE

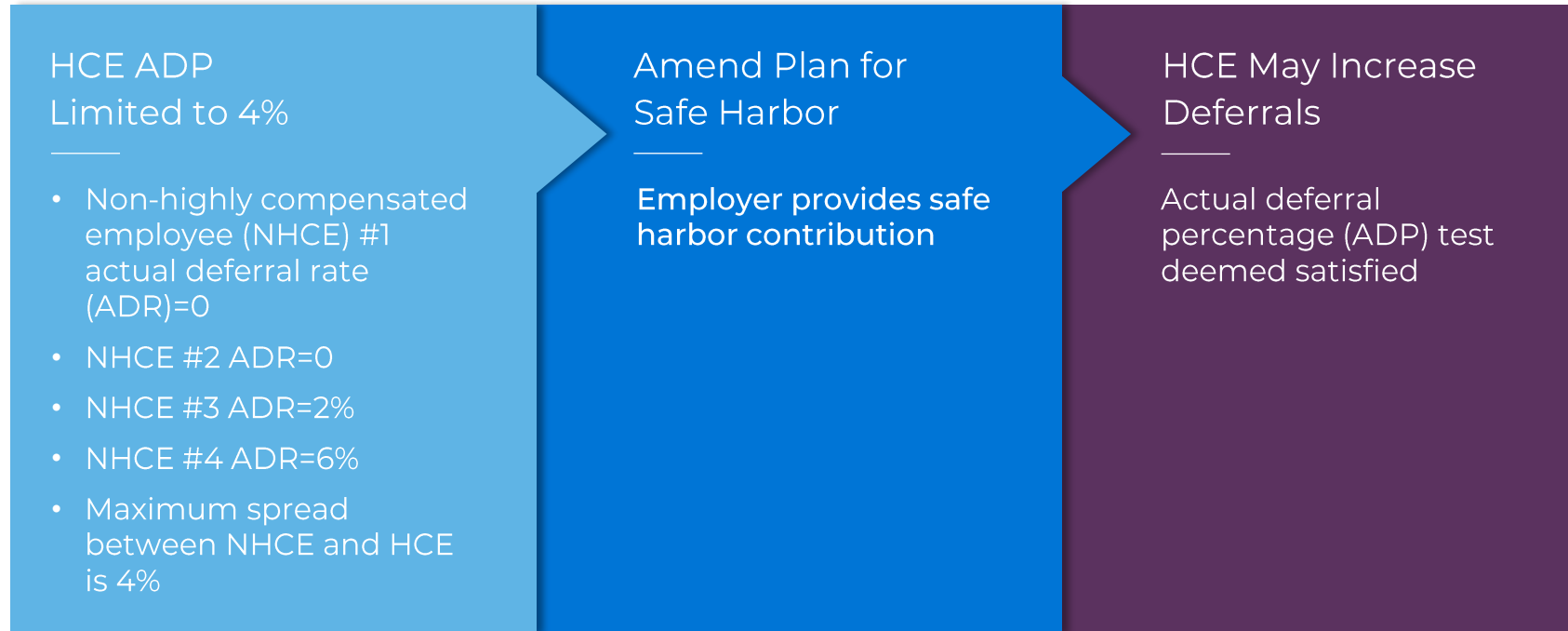
Allow HCEs to defer additional amounts



DESIGN SOLUTION

A safe harbor option allows HCEs to make additional deferrals without testing

Example: Safety, Inc.



Profile 1: Safe Harbor

The safe harbor strategy has advantages and disadvantages.

PROS

- Testing is simplified
- ADP and actual contribution percentage (ACP) testing is deemed satisfied
- HCE deferrals not linked to NHCE deferral percentages
- Top Heavy testing is deemed satisfied

CONS

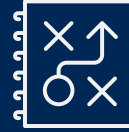
- Expense of employer contributions
- Additional reporting and disclosure
- Additional contributions (after-tax) not permitted (unless plan allows and ACP is tested separately)

Profile 2



SPONSOR OBJECTIVE

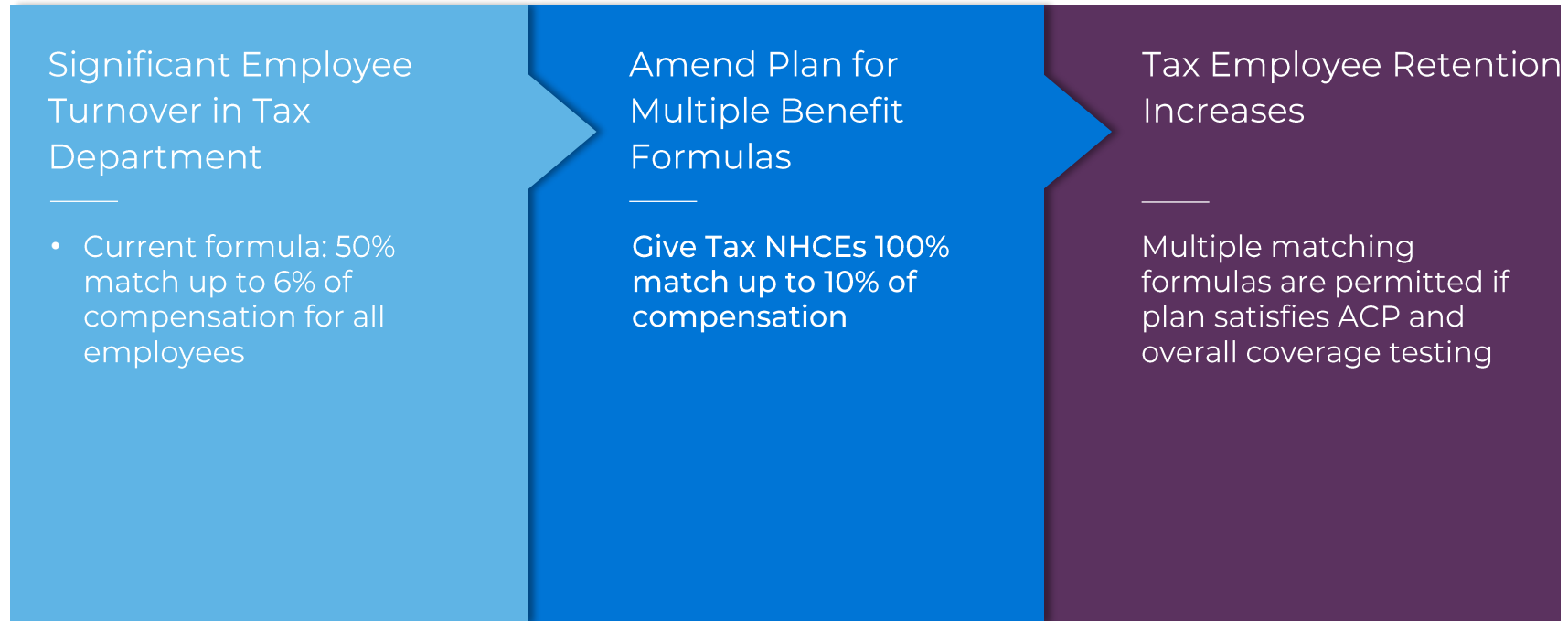
Augment matching contributions for certain employee groups to encourage retention and support recruiting



DESIGN SOLUTION

Utilize a plan document that permits multiple benefit structures

Example: MultiBen, Inc.



Profile 2: Multiple Benefit Structures

The multiple benefit structure approach has advantages and disadvantages.

PROS

- Targeted group receives additional matching contributions
- Plan sponsor attains goals

CONS

- Plan administration is more complex
- Higher costs due to increased matching contributions

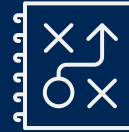
Profile 3



SPONSOR OBJECTIVES

Allow HCEs to make additional deferrals by improving ADP/ACP testing results

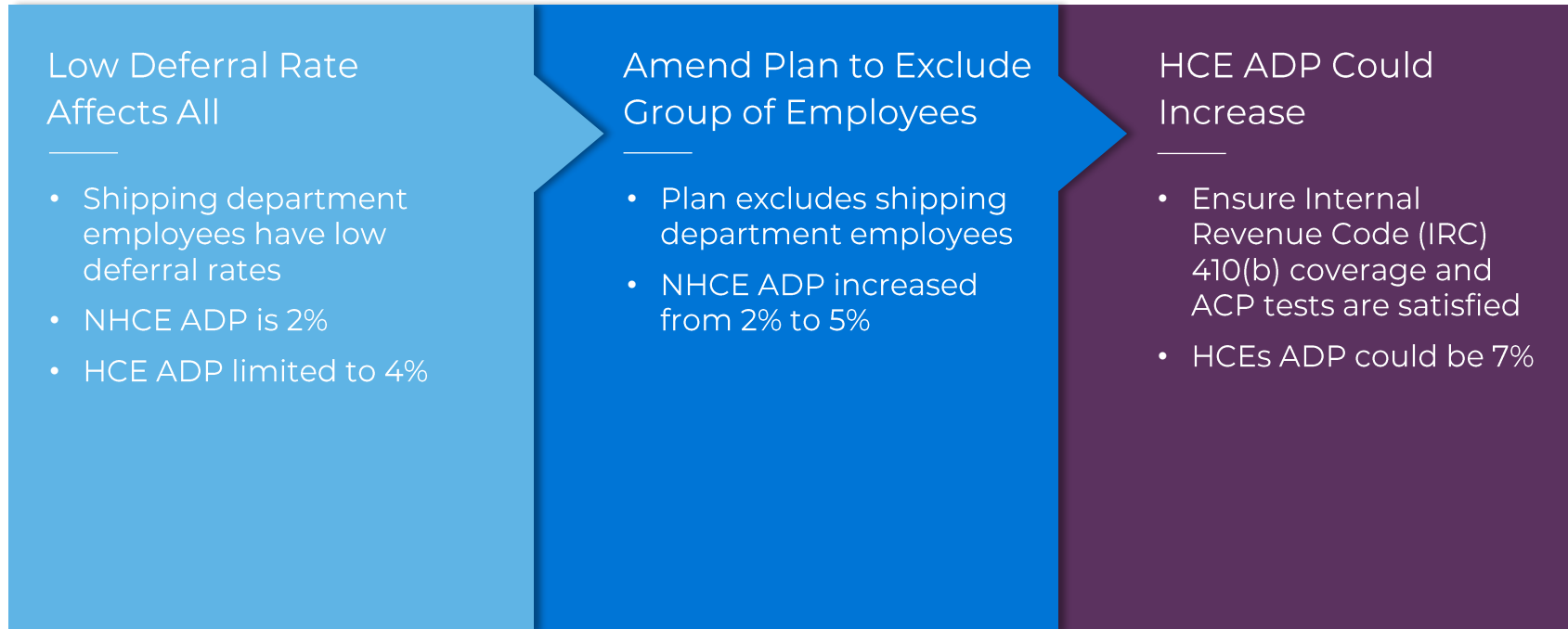
Reduce plan costs



DESIGN SOLUTION

Exclude one or more groups of NHCEs with low deferral rates

Example: Not All NHCE, Inc.



Profile 3: Exclude Groups of NHCEs

The exclusion approach has advantages and disadvantages.

PROS

- The ADP/ACP testing results improve.
- The low participating group is excluded.

CONS

- Compliance testing is more complex.
- There can be dissatisfaction within the excluded group.



QUIZ TIME!

Quiz Time

Which of the following is **TRUE** regarding a safe harbor 401(k) plan?

- A. Safe harbor designed plans allow HCEs to maximize deferrals.
- B. The ADP test is deemed to be satisfied.
- C. Employer contributions are required.
- D. All of the above
- E. A and B only

Quiz Time

Which of the following is **TRUE** regarding a safe harbor 401(k) plan?

- A. Safe harbor designed plans allow HCEs to maximize deferrals.
- B. The ADP test is deemed to be satisfied.
- C. Employer contributions are required.
- D. All of the above**
- E. A and B only



CASE STUDY

Case Study—Plan Design

Who: 401(k) plan sponsor

Problem: Company A is looking for ways to attract and retain employees by exploring changes to their 401(k)-profit sharing plan. Current plan provisions: profit sharing contribution with an eligibility requirement of 2 years of service and 100% vested immediately.

Changes to consider:

1. Remove the 2-year eligibility requirement
2. Change the vesting schedule to a 5-year graded schedule
3. Consider changing the profit-sharing allocation method from integrated to pro-rata

This presentation is intended for institutional plan sponsors and is not intended for retail clients or private individuals.

Case Study—Plan Design

CAPTRUST Solution:

- Completed benchmarking against competitors for eligibility and vesting provisions
- Provided consultation on changing the eligibility service requirement from 2 years to immediate
- Explained the current vesting schedule is a protected benefit and a new vesting schedule could only be added for employees hired on or after the change effective date

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Case Study—Plan Design

CAPTRUST Solution:

- Confirmed that change in the profit-sharing allocation method can occur.
 - Would need to be changed on the first day of the plan year, since participants had already accrued the right to a benefit by working 500 hours of service in the plan year.
- Outlined possibilities on addressing future forfeited funds for profit-sharing contributions and ensuring plan document describes forfeiture usage.
 - Pay plan expenses.
 - Offset future profit-sharing contributions.

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Case Study—Plan Design

Consultation Outcomes:

- Plan sponsor decided to change the eligibility service requirement from 2 years of service to 6 months of service to meet their financial constraints.
- Added a 5-year graded vesting schedule for profit sharing contributions for any employee hired on or after September 1, 2025. All participants hired before September 1, 2025, had their 100% vesting protected.
- Plan sponsor amended the profit-sharing allocation method to pro-rata as of January 1, 2026, which is the first day of the next plan year.

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PLAN AMENDMENTS

Discretionary Plan Amendment Timing

A discretionary plan amendment is a voluntary change of plan terms determined by the plan sponsor.

- Generally, the amendment must be adopted by the last day of the plan year that includes the effective date of the change.
- Safe harbor plans have stricter rules. Mid-year changes must comply with IRS rules. If the change impacts the language in the annual safe harbor notice content, then a supplemental notice must be provided 30–90 days before the change takes effect. (e.g., adding loans, hardship withdrawal provisions, entry date, and eligibility rule changes)

Note: Most document providers have a September to early October deadline for submitting plan amendments effective on January 1, 2026. Contact your document provider for their specific deadline.

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SUMMARY

Key Points

- Ideal plan design helps ensure a plan meets the sponsor's goals and objectives.
- Plan design has been de-emphasized over the last 10 years by platform providers and TPAs.
- Opportunity exists for plan sponsors, advisors, and consultants to excel with plan design strategies.
- Modern pre-approved plan documents are flexible and can accommodate most plan sponsors.
- Following a process facilitates plan design.
- Understanding sponsor goals and objectives is essential to beginning an effective plan design process.

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