

# TOP-HEAVY PLANS

A PLAN IS CONSIDERED TOP HEAVY IF  
MORE THAN 60% OF THE ASSETS  
– AS OF THE BEGINNING OF THE PLAN YEAR –  
BELONG TO THE “KEY EMPLOYEES”

## DEFINITION OF KEY EMPLOYEE

- Anyone who owns – directly or indirectly – more than 5% of the company
- Anyone earning more than \$150,000 who owns more than 1% of the company
- An officer of the company earning more than \$150,000

## CONSEQUENCES OF BEING TOP HEAVY

- Required top-heavy minimum contribution – The lesser of:
  - \* 3% of each eligible employee’s compensation
  - \* The highest percentage allocation to any key employee,  
**Including employee 401(k) contributions**

The only way for a top-heavy plan to avoid the required minimum contribution is for none of the key employees to receive any allocation for the year, unless it can be reclassified as a “catch up” contribution.