



Employer Connect | When to Set Sail With Safe Harbor

MAKING IT ACTIONABLE

You already know that a 401(k) is a very popular retirement plan. It allows your employees to take advantage of tax deferrals on contributions and earnings while their money accumulates for retirement.

To enjoy the benefits of a 401(k) plan, a company must follow rules the IRS enforces to ensure your plan benefits rank-and-file employees, not just company owners and highly compensated employees. These are called “**nondiscrimination rules**.”

As a company owner, your goal may be to maximize how much you can contribute each year to your retirement. To avoid uncertainty about nondiscrimination rules, you can choose to make additional contributions for your employees in order to get a free pass on these tests. These are called “**Safe Harbor**” contributions.

ACTION TO TAKE NOW

Review four important ways adopting a Safe Harbor provision can help your plan:

- 1 | It can potentially reduce plan maintenance costs by eliminating annual nondiscrimination testing requirements.
- 2 | It allows you and other highly compensated employees to maximize your deferral to the annual limit.
- 3 | It relieves your plan’s potential top-heavy status.
- 4 | The matching or non-elective contributions represent additional competitive benefits to help recruit and retain employees.

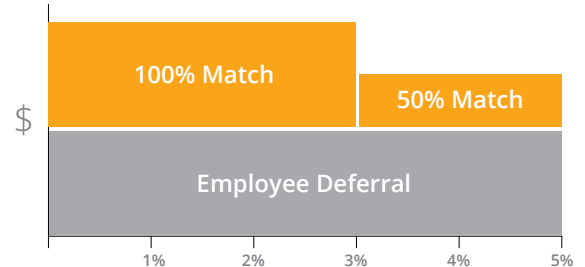
You can make Safe Harbor contributions either through a **matching formula** or by making a **non-elective contribution** to all of your employees.

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Review ways to make Safe Harbor contributions:

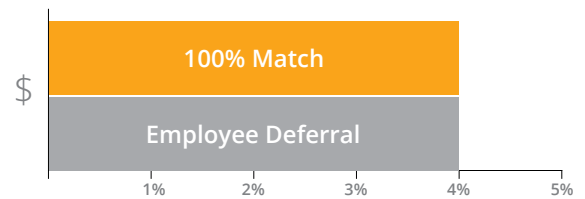
Safe Harbor Match

To satisfy the requirement and encourage plan participation, you may choose to offer a Safe Harbor Match. The Basic Match formula provides a 100% match on the first 3% of deferral compensation, plus a 50% match on deferrals between 3% and 5%.



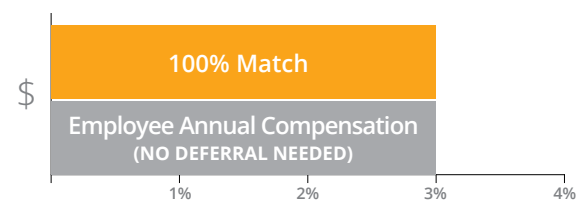
Enhanced Match

An Enhanced Match has to be at least as much as the Basic Match at all levels and is typically a match of 100% on the first 4% of deferral compensation.



Non-Elective Contribution

The other Safe Harbor option is to make a contribution of at least 3% of annual compensation for all eligible employees. This includes those employees who don't defer.



A quick note: Safe Harbor contributions noted above must always be 100% vested. That means that employees can count these contributions in their balances without forfeiture upon termination of employment.

The IRS also introduced another Safe Harbor option that not only relieves nondiscrimination testing requirements, it also encourages greater plan participation. It's called a **Qualified Automatic Contribution Arrangement**, or **QACA** ("quacka") for short. It's become a very popular Safe Harbor design because it encourages more people to save for their future.

Review how a QACA works:

- 1 | Your plan must automatically enroll any eligible employee unless they choose to opt out.
- 2 | Employee deferrals start automatically at a minimum of 3% of compensation unless they change this, and this rate increases 1% each year until it reaches at least 6%.



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- 3** | The plan must also include a qualified default investment for employees who don't make an investment election on their own.
- 4** | The matching contribution formula for a QACA Safe Harbor Plan is a 100% match on the first 1% of compensation deferred and a 50% match on deferrals between 1% and 6%.
- 5** | Unlike other Safe Harbor options, the match can be subject to a 2-year cliff vesting schedule. That means if an employee leaves the company inside of two years, they forfeit the match back to the plan.

We encourage you to get in touch with us if you'd like to learn a little more about how Safe Harbor contributions can help make your plan more successful.