Safe Harbor 401(k) Plan

Cost effective plans that allow owners to defer up to maximum amounts without regard to the deferrals of other employees.

Highlights

Ideal Candidates

Any small or medium-size business looking to start a new plan or upgrade an existing 401(k) Plan.

Plan Characteristics

- Allows owners to defer the maximum without regard to deferral rates of other employees.
- Provides a competitive benefit package for skilled Highly Compensated Employees who are generally not able to defer at the maximum rate in a basic 401(k) Plan.
- Avoids ADP Test failure, and subsequent return of deferrals to owners and other Highly Compensated Employees.
- Helps minimize company contributions to non-owner employees.
- Roth Deferrals available.
- Deferral Limits:
    - $23,000 – Deferral limit for those under age 50.
    - $30,500 – Deferral limit, including catch-up deferrals, for those age 50 or older.

[1] For existing 401(k) Plans, a Safe Harbor notice must be distributed at least 30 days before the beginning of the Plan Year. Companies not currently sponsoring a 401(k) Plan can establish a Safe Harbor 401(k) Plan at any time during the first three quarters (there must be at least 90 days left in the plan year).

[2] If no other employer contributions are allocated to employees, Safe Harbor Plans are deemed to pass the ADP/ACP Tests and are also deemed to be "not Top Heavy". However, other types of allocations, e.g., forfeitures, could trigger required Top Heavy contributions.

A basic 401(k) Plan provides companies with a competitive, flexible, and very cost-effective retirement plan that satisfies state requirements for companies to sponsor an employee savings program.

However, some owners find that their deferrals are limited by the **"ADP" test**, or that there is an unexpected "Top Heavy" required contribution to all "non-Key" participants in the plan.

Safe Harbor provisions are designed to satisfy these requirements so the owner of a business – as well as other Highly Compensated Employees – can take full advantage of deferrals under the plan.[1]

In exchange for committing to one of the Safe Harbor provisions, the employer can avoid the ADP Test and, in many cases, required Top Heavy contributions.[2]

Safe Harbor contributions are always 100% vested. However, a vesting schedule may be used for other company contributions.

Safe Harbor Design Options

- **Safe Harbor Match:** Company matching contributions go only to those employees who defer salary under the plan, and may be capped at 4% of compensation. Options include: Basic Match, Enhanced Match capped at 4%, and Enhanced Match Capped as high as 6%. An excellent option if a low deferral rate is expected among non-owner employees.
- **3% Safe Harbor Non-Elective Contribution ("NEC"):** A Safe Harbor NEC is allocated to all employees, even if they do not defer. This is the preferred option for a Tiered 401(k). With a Tiered 401(k), an owner may be able to receive up to the $69,000 contribution maximum ($76,500 if age 50 or older) for only a little more than the required Safe Harbor contribution.
- **QACA – Auto-enroll Safe Harbor:** This option uses a match capped at 3.5% of compensation. The basic formula is 100% on the first 1% deferred, then 50% on the next 5% deferred. Unlike a standard Safe Harbor Plan, a QACA may use a 2-year "cliff" vesting schedule.
- **Mid-year Addition of Safe Harbor NEC:** Established 401(k) Plans without Safe Harbor provisions may add a Safe Harbor 3% NEC up to 30 days before the end of the plan year. After this period, a 4% NEC may be used for the plan year in question up to the end of the next plan year.

Request a free contribution illustration

To find out if a Safe Harbor 401(k) is right for you or your client, contact your regional Benetech consultant, or call our consulting department at **800.310.6811**.