

# 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:
  - \$24,500 - Deferral limit for those under age 50.
  - \$32,500 - Deferral limit, including catch-up deferrals, for those age 50 or older.
  - \$35,750 - Deferral limit, including catch-up deferrals, for those ages 60-63.

<sup>1</sup> 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).

<sup>2</sup> 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.<sup>1</sup>

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.<sup>2</sup>

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 \$72,000 contribution maximum (\$80,000 if age 50 or older and \$83,250 for those ages 60-63) 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**.

