HUNTER BENEFITS

Many small businesses rely on Safe Harbor 401(k) plans to stay compliant with the IRS and to allow owners and key employees to maximize their salary deferrals while providing meaningful retirement savings for all participants. Plan sponsors may select a match or non-elective Safe Harbor contribution to achieve their individualized goals. Employee demographics play a significant role in determining the appropriate Safe Harbor option.

Safe Harbor Plan Features

- Safe Harbor plans provide an automatic pass for ADP/ACP nondiscrimination testing and top-heavy requirements, if the only employer contributions to the plan are Safe Harbor contributions.
- Employers may exclude Highly Compensated Employees (HCEs) from Safe Harbor contributions.
- Safe Harbor contributions require no allocation conditions and are generally 100% vested.

Safe Harbor Options and Key Benefits

Basic Safe Harbor Match:

- In this scenario, the employer only contributes to participants who make employee deferrals. The basic formula is 100% match for the first 3% deferred, and an additional 50% match for the next 2% deferred. The maximum match that any participant receives is 4% of eligible compensation only if they contribute at least 5% of their own pay.
- The most notable benefit to choosing the basic matching option is that it only benefits employees who actively participate. The match typically costs less than alternative designs for larger employers with employees who are less likely to participate in the plan.
- This option is also appropriate for employers who would like to maximize owner and key staff salary deferrals of $23,000 ($30,500 for participants age 50 or over) but are not planning on making any additional new comparability profit sharing contributions.
- A Safe Harbor matching formula typically works best for employer demographics with younger owners, and owners with limited income.

Enhanced Safe Harbor Match:

- An alternative matching formula to the basic match formula.
- Employers can choose to provide a more generous match of up to 6% of eligible compensation.
- The enhanced match is at least as favorable as the basic match formula.
- The rate of match must not increase as an employee’s deferrals increase.
- The rate of matching contributions for an HCE may not be greater than for any eligible NHCE at the same level of deferral.

Safe Harbor 3% Non-elective:

- The employer makes a non-elective contribution of at least three percent of pay to all eligible non-highly compensated employees (NHCEs), regardless of whether an employee actively defers from pay or not. It differs from a match because participants will receive this employer contribution without needing to make their own contributions into the plan.
- The value of a 3% non-elective formula is that it can work double duty. It provides the automatic pass for an ADP test, and if a profit-sharing contribution is made, the 3% Safe Harbor contributions are used to help satisfy the minimum contribution
    - requirement (generally 5%). Employers generally choose this Safe Harbor option when the owners and other key personnel are looking to maximize their own annual contributions at the current $69,000 limit ($76,500 for participants aged 50 or over).
    - If owners and other key personnel are substantially older than most of the staff, they generally can receive 6% in profit sharing contributions (in addition to the 3% Safe Harbor) without additional contributions to the staff.
- Further, consider an employer who must make a 5% contribution to staff in order to maximize contributions for owners and key personnel. The 3% Safe Harbor contribution counts towards the 5% needed, so the employer only needs to contribute an additional 2% at year end. In a basic Safe Harbor match, the owner would have to contribute up to 4% as a match PLUS 5% as a profit-sharing contribution, resulting in potentially 9% to employees who receive the full match.
- This Safe Harbor appeals to employers who want to benefit all eligible employees and are likely to contribute profit sharing each year. Demographics impact the profit-sharing component and favor older, higher-earning owners vs. younger rank-and-file staff.

QACA (Qualified Automatic Contribution Arrangement) Safe Harbor Match or 3% Non-elective:

- Employers looking to increase plan participation may consider choosing a Safe Harbor option that also contains an automatic enrollment feature. This type of Safe Harbor is available in either match or non-elective formulas.
    - If eligible participants do not make an affirmative election, they become automatically enrolled to contribute 4%, or more, of their salary into the plan.
- This 4% is automatically increased each year by 1%, increasing to at least 10% but no more than 15%.
    - QACA Basic Match - 100% match for the first 1% deferred, and an additional 50% match for the next 5% deferred. The maximum match is 3.5% of eligible compensation only if the participant contributes at least 6% of their own pay or more.
    - QACA Enhanced Match - at least as favorable as the basic match formula.
    - QACA Non-elective – 3% of pay or more, which works in the same cost-efficient manner when combined with Profit Sharing contributions as the basic Safe Harbor 3% non-elective.
- If initial automatic enrollment percentage is 6%, automatic increase isn’t required.
- The most notable benefit to choosing a QACA Safe Harbor option is the ability to require two years of service to vest at 100%.
- Additionally, employers enjoy an additional tax credit for implementing a Safe Harbor option with an automatic enrollment feature.
- This Safe Harbor appeals to employers who want increased employee participation and would like to have forfeitures available to reduce cost due to high turnover inside the first two years of service.