



# Safe Harbor 401(k) Plans

## What's a Safe Harbor 401(k) plan?

A Safe Harbor Plan 401(k) plan has a unique employer contribution feature with incentives that help all employees save for retirement by requiring companies to contribute to their employees' accounts. When employers take this step to encourage more employees to participate, the IRS offers them "safe harbor" from the nondiscrimination testing process that is implemented in traditional 401(k) plans to ensure that highly compensated employees (HCEs) aren't being favored over others. A Safe Harbor plan also allows companies to avoid the consequences of failure, which include expensive corrections, heavy administrative work, and even refunding 401(k) contributions.

Nondiscrimination tests include:

- The Actual Deferral Percentage (ADP) test, which measures how much income HCEs contribute to their 401(k), compared to non-HCEs.
- The Actual Contribution Percentage (ACP) test is similar, but it compares employer contributions to HCEs with everyone else.
- The Top-Heavy test looks at individuals the IRS defines as "key employees" and measures the value of the assets in their 401(k) accounts, compared to all assets held in the 401(k) plan.

## What companies tend to benefit from Safe Harbor 401(k) plans?

In general, Safe Harbor plans are a good choice for companies that:

- Are looking to build advanced profit sharing and/or increased tax savings
- Plan to match employee contributions anyway
- Worry about passing nondiscrimination testing
- Have low participation among non-HCEs and non-key employees
- Have highly compensated employees getting money back and unable to maximize IRS contribution deferral levels

The biggest downside to offering a Safe Harbor plan is that the cost of company contributions could increase overall payroll by 3% or more if all employees participate. Many business owners, however, think the benefits of a Safe Harbor plan outweigh the costs due to tax savings, certainty that plans won't fail testing, and more retirement savings for everyone. At MAP Retirement, we're here to make the process as easy as possible.

## What about making mid-year changes to a Safe Harbor plan?

For employers that already offer a Safe Harbor 401(k) plan but would like to make changes, such as increasing future Safe Harbor non-elective contributions from 3% to 4%, or changing the plan entry date for eligible employees from quarterly to monthly, there are special rules that need to be followed. These include:

- Giving employees an updated Safe Harbor notice that describes any changes. Notice should be given 30 to 90 days before the changes go into effect.
- Giving each notified employee at least 30 days to change their cash or deferral election.

Several types of changes are not permissible during the year, however, so employers must review the rules carefully if they wish to amend their plan.

## What does the setup of a Safe Harbor 401(k) plan entail?

The main requirement for a traditional Safe Harbor 401(k) is that the employer must make contributions and those contributions must vest immediately.

Contributions can take three different forms:

- **Basic matching** – The company matches 100% of all employee 401(k) contributions, up to 3% of their compensation, plus a 50% match of the next 2% of their compensation.
- **Enhanced matching** – The company matches at least 100% of all employee 401(k) contributions, up to 4% of their compensation (not to exceed 6% of compensation).
- **Non-elective contribution** – The company contributes at least 3% of each employee’s compensation, regardless of whether employees make contributions.

To get a better idea of what this looks like, consider the following options for an employee who earns \$150,000 annually:

## What other requirements exist for setting up a Safe Harbor plan?

Each eligible employee must be notified in writing about their rights and obligations under the plan annually. Notice must be given within a reasonable amount of time before the beginning of the plan year (at least 30, but not more than 90 days).

Employers need to ensure they meet the following deadlines specific to Safe Harbor plans:

- **October 1st**  
Deadline for setting up a brand-new Safe Harbor 401(k) plan for the year.
- **December 1st**  
30-day notice must be sent to employees for existing safe harbor plans



EMPLOYEE DEFERRAL	EMPLOYER SAFE HARBOR CONTRIBUTION MINIMUMS		
Percentage W-2 Income (Amount of deferral)	1. Basic Matching	2. Enhanced Matching	3. Nonelective Contribution
0% (\$0)	0% (\$0)	0% (\$0)	3% of W-2 income (\$4,500) required even if employee makes no contribution
1% (\$1,500)	100% match Total: 1% = \$1,500	100% match Total: 1% = \$1,500	No additional contribution required
2% (\$3,000)	100% match Total: 2% = \$3,000	100% match Total: 2% = \$3,000	
3% (\$4,500)	100% match Total: 3% = \$4,500	100% match Total: 3% = \$4,500	
4% (\$6,000)	100% up to 3% 50% of the next 1% match Total: 3.5% = \$5,250	100% match Total: 4% = \$6,000	
5% (\$7,500)	100% up to 3% 50% of the next 2% match Total: 4% = \$6,000	No additional contribution required	
6% (\$9,000)	No additional contribution required		