

A Guide to 401(k)s

Safe Harbor Plan Designs

GUIDE TO SAFE HARBOR 401(K)S

A Safe Harbor 401(k) plan has an employer contribution that allows you to avoid most annual compliance tests. If a 401(k) includes a Safe Harbor provision, the employer makes annual contributions on behalf of employees, and those contributions are vested immediately. Two of the three types of Safe Harbors involve employer matches, so you may sometimes here people refer to a “Safe Harbor Match.”

What is a Safe Harbor?

A Safe Harbor is an employer contribution and can be set up in one of three ways; a NonElective Safe Harbor, a Basic Safe Harbor Match, or an Enhanced Safe Harbor Match. A Safe Harbor is a form of mandatory employer contribution.

The three types of mandatory employer contributions:

| NON-ELECTIVE SAFE HARBOR | BASIC SAFE HARBOR MATCH | QACA SAFE HARBOR MATCH |
|--|---|---|
| Eligible employees get an annual employer contribution of 3% of their salary. This amount is immediately fully vested and the employee gets it whether or not they contribute to the plan. | The employer matches 100% of the first 3% of each employee’s contribution and 50% of the next 2%. Employees are required to contribute to their 401(k) in order to get the match. | A QACA is a type of safe harbor 401(k) plan that includes an automatic enrollment feature. The employer makes 100% match on the first 1% of compensation deferred and a 50% match on deferrals between 1% and 6% (3.5% total). Like a Basic Safe Harbor Match, employees are required to defer money to their 401(k) in order to qualify for the match. |

The Benefits of Adding a Safe Harbor Provision to Your Company’s Plan

- By adding a Safe Harbor provision to your 401(k), your highly compensated employees will likely be able to max out their retirement contributions.
 - Highly compensated employees are people that work at your company and own at least 5% of the company, are family of someone who owns at least 5% of the company, or who earn more than \$155,000 (as of 2024).
- Exempts your 401(k) plan from most annual compliance testing.
- Optimizes you and your highly compensated employees’ personal retirement savings because you’ll be able to contribute the maximum to your 401(k).
- As with any employer contribution, employer contributions reduce an employer’s taxable income.

If your plan fails compliance testing, and you don’t add a Safe Harbor provision, then the top earning employees may be significantly limited in what they can contribute toward their 401(k) plan. In fact, a general rule of thumb is that they can’t contribute more than 2% more than the average of all employees who are not highly compensated.