

## **Safe Harbor 401(k) Plan**

A Safe Harbor arrangement often works best for companies that have owners or highly compensated employees that desire to participate in the 401(k) plan. Adopting a Safe Harbor arrangement can help your company's plan avoid potential refunds or penalties due to non-discrimination testing.

### **Matching Options**

The employer provides a matching contribution of up to 4% to each employee who is eligible and actively participating in the plan. The matching contribution is 100% vested immediately.

- Safe Harbor Enhanced Match
  - o 100% of the first 4%. \$1.00 for \$1.00 matching contribution up to the first 4% of compensation that an employee contributes to their account
    - Example 1: If an employee contributes 1% of their compensation, the match would be 1%. If they contribute 2% of their compensation, the match would be 2%, etc.
    - Example 2: If an employee contributes 4% or more of their compensation, the match would be capped at 4%
- Safe Harbor Basic Match
  - o 100% of the first 3%, plus 50% of the next 2%. \$1.00 for \$1.00 matching contribution on the first 3% of compensation that an employee contributes to their account, plus \$.50 for every \$1.00 matching contribution on the next 2% they contribute
    - Example 1: If an employee contributes 4% of their compensation, their match would be 3.5%
    - Example 2: If an employee contributes 5% or more of their compensation, their match would be capped at 4%

### **Non-Elective Option**

The employer provides a minimum of a 3% non-elective contribution to each eligible employee whether or not they actively contribute a portion of their own compensation. The non-elective contribution is 100% vested immediately.

- Example: Once an employee meets the eligibility requirements and enters the plan, they would begin receiving a 3% contribution from the employer

### **Automatic Enrollment Option (Qualified Automatic Contribution Arrangement - QACA)**

The employer automatically enrolls the employees in the 401(k) plan for a pre-tax contribution between 3% to 6%. If the initial auto-enroll contribution rate is less than 6%, the employee's contribution would automatically increase 1% each calendar year until they reach 6%. Employees have 90 days to opt-out of the automatic enrollment and receive a full refund of their contributions. A Safe Harbor QACA arrangement allows the company to implement a vesting schedule of up to 2 years on the matching or non-elective contributions.

- Safe Harbor QACA Match
  - o 100% of the first 1%, plus 50% of the next 5%. \$1.00 for \$1.00 matching contribution on the first 1% of compensation that an employee contributes, plus \$.50 for every \$1.00 matching contribution on the next 5% they contribute
    - Example 1: If an employee contributes 4% of their compensation, their match would be 2.5%
    - Example 2: If an employee contributes 6% or more of their compensation, their match would 3.5%
- Safe Harbor QACA Non-Elective
  - o A minimum of a 3% employer non-elective contribution for each employee whether or not they actively contribute a portion of their own compensation
    - Example: Once an employee meets the eligibility requirements and enters the plan, they would begin receiving a 3% contribution from the employer