

SAFE HARBOR 401(k) PLAN



What is a Safe Harbor 401(k) Plan?

A Safe Harbor 401(k) Plan is a type of employer-sponsored retirement savings plan in the United States that is designed to provide certain benefits and protections for both employers and employees. It is called *safe harbor* because it offers employers a safe harbor from some of the annual nondiscrimination testing requirements that traditional 401(k) plans are subject to.

Features of a Safe Harbor 401(k) Plan

+ CONTRIBUTION MATCHING

Employers are required to make contributions to employees' retirement account in one of two ways:

- **Basic Safe Harbor Match** – Employers must match employee contributions dollar for dollar up to 3% of an employee's compensation, and then 50% on the next 2% of compensation.
- **Enhanced Safe Harbor Match** – Employers can choose to provide a more generous matching contribution, such as a 4% match without any reduction on the first 5% of employee

+ NONDISCRIMINATION TESTING

One of the primary benefits of a Safe Harbor 401(k) Plan is that it allows employers to bypass certain annual nondiscrimination tests, such as the ADP and ACP tests, which can be complex and restrictive for traditional 401(k) plans. This makes it easier for highly compensated employees to make maximum contributions.

+ VESTING

Safe Harbor 401(k) Plans typically have a vesting schedule that determines when employees have full ownership of employer contributions. Vesting schedules can vary, but they must be at least as generous as the vesting schedules for traditional 401(k) plans.

+ EMPLOYEE BENEFITS

Employees benefit from Safe Harbor 401(k) Plans because they know they will receive employer contributions regardless of their participation level, making it a more attractive retirement savings option.

+ CONTRIBUTION LIMITS

Safe Harbor 401(k) Plans are subject to the same contribution limits as traditional 401(k) plans. As of the last known update in September 2021, the annual employee contribution limit was \$19,500 (plus an additional \$6,500 catch-up contribution for those aged 50 years and older). These limits are subject to change with inflation.

It is important to note that Safe Harbor 401(k) Plans come with certain administrative responsibilities and costs for employers, but they can be a valuable tool for businesses looking to provide retirement benefits to their employees while avoiding some of the complexities of traditional 401(k) plan compliance testing. However, the rules and regulations surrounding retirement plans can change over time, so it is advisable to consult with a qualified financial advisor or benefits expert to ensure compliance with current regulations and to understand how a Safe Harbor 401(k) plan may be beneficial for your specific situation.

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FRANK MULLADY, JR. • NATIONAL SALES DIRECTOR • HERITAGE ADMINISTRATIVE SERVICES, LLC.



631.659.1518



631.423.9656



FrankJR@HGTPA.com



HGTPA.com



100 Crossways Park Drive West, Suite 413
Woodbury, New York 11797