

# Safe Harbor plans.

## A SMART SOLUTION FOR SMBS



A lot of small businesses want to offer a 401(k), but nondiscrimination testing rules can make it complicated, especially when participation isn't evenly spread across the team.

Safe Harbor 401(k) plans were designed with small employers in mind. Their unique design helps satisfy key IRS nondiscrimination rules. The result is a plan that's easier to manage and more predictable for both employees and owners.

### What is Nondiscrimination Testing?

Nondiscrimination testing is a set of annual IRS-required checks to make sure a 401(k) doesn't favor highly compensated employees (HCEs) over everyone else. It looks at whether deferrals and employer contributions are shared fairly across the workforce.

In small businesses, problems often pop up when owners or key employees contribute heavily but the rest of the team participates less, triggering refunds or other fixes. Safe Harbor 401(k) plans are designed to prevent that by adding required (typically vested) employer contributions that satisfy most testing requirements, making results more predictable and administration smoother.



If a plan fails nondiscrimination tests, the employer may be required to return contributions to highly-compensated employees (HCEs), or make additional contributions to non-HCEs, to bring the plan into compliance.

### Small Businesses Love Safe Harbor 401(k)s.

#### ✓ **Avoid IRS hassles.**

Safe Harbor plans automatically pass key IRS nondiscrimination tests, saving you time, paperwork, and the risk of costly corrections.

#### ✓ **Enjoy tax savings.**

Employer contributions are tax deductible, and your business may qualify for up to \$16,500 in tax credits for starting a new plan.

#### ✓ **Maximize your contributions.**

Owners and highly compensated employees can contribute the full IRS limits without worrying about failing tests due to low employee participation.

#### ✓ **Easy to administer.**

With pre-approved plan designs and clear guidelines, Safe Harbor 401(k)s take the guesswork out of retirement planning for small businesses.

To qualify for Safe Harbor treatment, the plan must provide a required employer contribution and meet certain timing or notice rules so employees understand the benefit. It is the employer contribution that provides the testing relief, because it offers meaningful value to employees even if they don't defer much on their own.

### Safe Harbor Contribution Options

#### Basic

An employer match that follows a set formula—typically structured to reward employees who contribute.

#### Example:

100% match on the first 3% deferred  
50% match on the next 2% deferred

#### Enhanced

Employers have options of how to set up the matching contributions. This is considered a very rich plan type.

#### Example:

100% match on either the first 4%, 5% or 6% deferred

#### QACA

A Safe Harbor design that includes automatic enrollment features plus required employer contributions.

#### Example:

100% match on the first 1% deferred  
50% match on the next 5% deferred

#### Guaranteed Contribution

A set employer contribution is made to eligible employees whether or not they contribute.

#### Example:

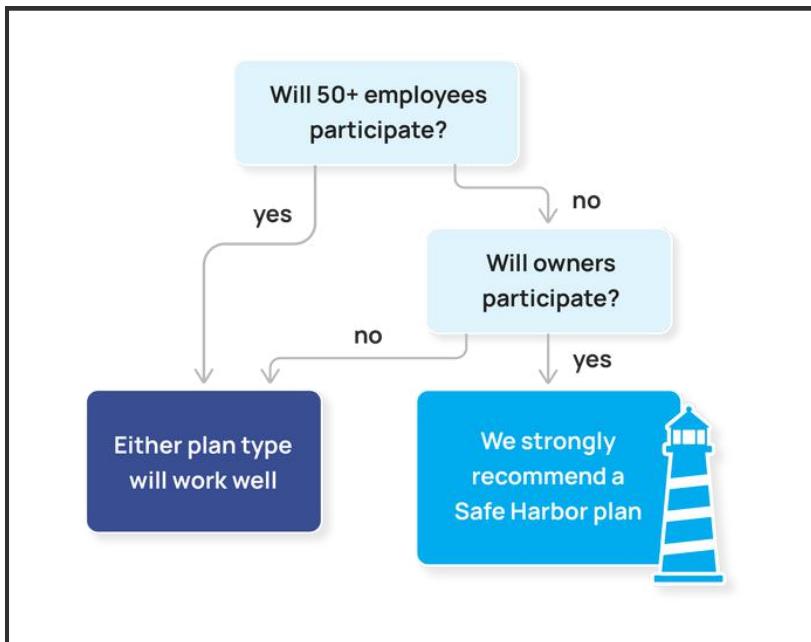
3% of employees' pay, regardless of whether the employee contributes

#### What about vesting?

All Safe Harbor plan types require immediate vesting, except the QACA type. This type allows for a 2-year cliff schedule, meaning matching contributions are 0% vested until the participant reaches 2 years of service.



Safe Harbor plans are a perfect solution for small companies with fewer than 50 employees and a small amount of owners or highly-compensated employees who wish to participate. They are also useful for other businesses who wish to avoid nondiscrimination testing.



A Safe Harbor 401(k) may be a strong fit if:

- ✓ Owners/HCEs want to maximize their 401(k) contributions
- ✓ The plan has uneven participation (or you're worried it will)
- ✓ You want predictable outcomes and fewer compliance surprises
- ✓ You're trying to make the plan more competitive for recruiting/retention



Safe Harbor plans are not right for every business. It's smart to seek advice before making a decision.

### Ready to see if Safe Harbor is right for you?

Let's run a quick plan checkup and compare:

- expected employer cost
- participation impact
- owner/HCE savings potential
- best design option

Safe Harbor plans must be active by

## October 1

so plan ahead to maximize your benefits.

### We're here to help.

No one wants customer service from a robot. Our industry-leading live support is included in every plan.

