



QUALIFIED
PENSION SERVICES, INC.
DESIGNING TODAY'S RETIREMENT PLANS

SAFE HARBOR 401(K) PLANS

Safe harbor 401(k) Plans are 401(k) Plans designed to permit business owners and other Highly Compensated Employees to contribute larger amounts from their salaries than might be possible in a traditional 401(k) Plan.

HOW MUCH CAN I CONTRIBUTE?

Employees can contribute whatever could otherwise be contributed into a traditional 401(k) Plan, up to 100% of employee compensation.

ARE EMPLOYEE CONTRIBUTIONS REQUIRED?

No. Employee contributions (salary deferrals) into these plans are discretionary, and can be increased, decreased, or eliminated in future years. This makes safe harbor 401(k) plans very flexible in handling fluctuating contributions from year to year.

WHAT ARE THE REQUIREMENTS?

In order for 401(k) plans to qualify as a Safe Harbor 401(k) plan certain requirements must be met. The plan sponsor must give written notice, within a reasonable time frame, to each eligible employee. This written notice will need to stipulate his/her rights and obligations under the plan.

Contributions are required. The plan must satisfy one of the two following alternatives:

Option 1 – Safe Harbor Match:

The plan sponsor will provide a basic safe harbor matching contribution rate on all employee deferrals equal to 100% of the first 3% of compensation and at least 50% on the next 2% of compensation. Plan sponsors may instead use an “enhanced” safe harbor matching formula which states that the employer will match 100% of the first 4% - the enhanced match is easier to explain to participants and setup on payroll systems.

A safe harbor matching formula only goes to those employees who actually defer themselves. If they do not defer you do not match them at all. If they defer 8% you match up to 4%. If they defer 2% then you match only the 2% they defer.

Options 2 – Safe Harbor Profit Sharing:

The employer will provide a non-elective contribution, better known as an employer profit sharing contribution, of at least 3% of compensation. This contribution must be made for *each* employee eligible to participate in the 401(k) plan, regardless of whether or not that employee chooses to make employee deferrals.

WHAT ARE THE VESTING REQUIREMENTS?

All safe harbor contributions are 100% fully vested at all times.

CAN EMPLOYERS CONTRIBUTE MORE?

Yes, Employers can contribute more than the minimum required under safe harbor contributions. Additional discretionary profit sharing contributions may be made and they are subject to a vesting schedule and requirements such as 1,000 hours of service and/or employment on the last day of the plan year.

HOW DO THESE DIFFER FROM SIMPLE PLANS?

401(k) Plans have several differences

Employees can contribute up to \$19,500 in 2021 rather than the \$13,500 limit for SIMPLE Plans. Employers may also make additional discretionary contributions in 401(k) Plans with a maximum individual contribution limit of \$58,000 plus an additional \$6,500 if they are age 50 and above. SIMPLE Plans do not allow additional employer contributions over the Safe Harbor amount.

SIMPLE Plans do not allow after-tax employee Roth Deferrals or loan features.

Employees are allowed free access to their SIMPLE money but funds are restricted in a 401(k) plan.

WILL THIS PLAN WORK FOR ME?

To see if safe harbor 401(k) Plans is appropriate for your business, please contact Qualified Pension Services, Inc. for a free consultation. Faith Irmen 417-522-7526 x102

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