

SAFE HARBOR REQUIREMENTS FOR DEFINED CONTRIBUTION PLANS

May Allow a Plan to Satisfy

- ADP/ACP tests
- Top Heavy requirements
- 401(a)(4) for cross-tested plans

Requirements

- Mandatory employer contribution
- 100% immediate vesting of safe harbor funds (unless automatic enrollment is implemented)
- An annual notice for all plan participants

TYPES OF SAFE HARBOR CONTRIBUTIONS

1. SH Nonelective Contribution

A safe harbor nonelective requires at least a 3% safe harbor contribution to all eligible plan participants. A nonelective contribution is often the most cost-effective option for plans that are top heavy and make additional annual employer contributions.

Example

Sheila earns \$50,000. She receives a contribution equal to 3% of her compensation, or \$1500. Sheila receives this contribution even if she isn't deferring.

2. Basic SH Matching Contribution

A basic safe harbor matching formula requires a match rate of 100% of employee deferrals up to 3% of compensation plus 50% of employee deferrals between 3% - 5% of compensation, for a maximum match of 4% of eligible compensation.

Example

If Sheila earns \$50,000 and defers 4% of compensation, her match would be:

$$\text{\$1500} = (3\% \times \text{\$50,000}) \times 100\%$$

$$+ \text{\$250} = (1\% \times \text{\$50,000}) \times 50\%$$

$$\text{\$1750} = \text{Total Basic SH Match (which is a total of } 3.5\% \times \text{\$50,000)}$$

Note: Only employees deferring will receive a match contribution.

3. Enhanced SH Matching Contribution

An enhanced matching formula must also provide a benefit equal to or greater than the maximum allowable basic safe harbor matching contribution (i.e., 4%). For instance, a match equal to 100% of deferrals up to 4% of compensation meets the enhanced safe harbor matching requirements.

Example

If the employer chose a match equal to 100% of deferrals up to 4% of compensation, using the same example above, Sheila's match would be:

$$\text{\$2000} = (4\% \times \text{\$50,000})$$

Note: Only employees deferring will receive a match contribution.

TYPES OF SAFE HARBOR CONTRIBUTIONS

4. Qualified Automatic Contribution Arrangement (QACA)

An automatic enrollment feature automatically enrolls any eligible employee that fails to make an affirmative enrollment election in the plan at a specified deferral rate.

Participant Requirements

A QACA must have a minimum specified automatic contribution percentage that cannot exceed 10% in any year:

A) Annual Escalated Deferrals

First Year of Participation: 3%

Second Year of Participation: 4%

Third Year of Participation: 5%

Fourth (and all future) Years of Participation: 6%

OR

B) an employer may require 6% in all years

Employer Requirements

Employers must make EITHER a matching contribution or a nonelective contribution:

A) Matching Contribution of at Least:

100% of the first 1% deferred, plus 50% of the next 5% deferred (maximum match of 3.5% on 6% deferred)

OR

B) 3% Nonelective Safe Harbor Contribution

Unlike standard safe harbor plans, the automatic enrollment feature does not require immediate vesting until a participant earns 2 years of vested service.

Please contact Watkins Ross if you have questions or would like to discuss implementing a safe harbor provision into your defined contribution plan.