

WATKINS ROSS

SAFE HARBOR REQUIREMENTS FOR DEFINED CONTRIBUTION PLANS

| May Allow the Plan to Satisfy | Requirements |
|----------------------------------|---|
| ADP/ACP Tests | Mandatory Employer Contribution |
| Top Heavy Requirements | 100% Immediate Vesting of Safe Harbor Funds (unless automatic enrollment implemented) |
| 401(a)(4) for Cross-Tested Plans | An Annual Notice for all Plan Participants |

Types of Safe Harbor Contributions

- SH Nonelective Contribution** A safe harbor nonelective requires at least a 3% safe harbor contribution to all eligible plan participants. A nonelective contribute 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.*
- 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:*

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

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

$$\$1750 = \text{Total Basic SH Match (which is a total of } 3.5\% \times \$50,000)$$
Note: only employees deferring will receive this match contribution
- 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: \$2000 = (4% x \$50,000). Note: only employees who defer will receive this match contribution.*
- 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 | Employer Requirements |
|---|---|
| A QACA must have a minimum specified automatic contribution percentage that cannot exceed 10% in any year: <ul style="list-style-type: none"> A) Annual Escalated Deferrals <ul style="list-style-type: none"> 1st Year of Participation: 3% 2nd Year of Participation: 4% 3rd Year of Participation: 5% 4th (and all future) Year of Participation: 6% OR B) An employer may require 6% in all years | Employers must make EITHER a matching contribution or a nonelective contribution: <ul style="list-style-type: none"> A) Matching Contribution of at Least: <ul style="list-style-type: none"> 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. |