



Qualified Automatic Contribution Arrangement (QACA)

With the enactment of the Pension Protection Act of 2006 (PPA) a new safe harbor plan appeared. A Qualified Automatic Contribution Arrangement (QACA) is a new safe harbor automatic enrollment program available for 401(k) plans beginning January 1, 2008. If the following QACA requirements are met, a 401(k) plan is deemed to have passed the annual required ADP 401(k) non-discrimination test:

- **Minimum 401(k) Percentages:** The automatic 401(k) enrollment percentage must be between 3% and 10% of a participant's compensation.
- **Automatic 401(k) Percentage Increases:** If the initial automatic 401(k) enrollment percentage is less than 6% of a participant's compensation, the percentage must increase 1% point each subsequent plan year until 6% of compensation is attained. The maximum automatic 401(k) percentage cannot exceed 10% of compensation under a QACA.
- **Employer Minimum Contributions:** The employer must contribute either:
 - Matching Contribution Formula: To participants who defer
 - 100% of the first 1% of compensation deferred
plus
 - 50% of the next 5% deferred
 - Non-Elective Contribution: To all eligible participants
 - 3% of compensation
- **Vesting:** The employer minimum contribution must be 100% vested after an employee has completed two years of service.
- **Eligibility:** The automatic enrollment feature applies to all employees eligible to defer except:
 - Participants who are currently deferring
 - Participants with a completed election not to defer
- **90 Day Revocation:** Participants may receive a distribution within 90 days of the first deferral if the participant elects to stop deferring and requests a distribution.
- **Qualified Default Investment Alternative (QDIA):** Fiduciary relief is available with the use of QDIA as a default investment option under a plan. QDIA must be one of three types of investments, with characteristics usually found in balanced, lifestyle, targeted funds, or managed accounts.
- **Notice Requirement:** Notice must be provided to employees eligible to participate within a reasonable time before the beginning of the plan year and 30 days before becoming eligible. The notice must explain the employee's right to stop or change their 401(k) contribution percentage.

Please contact us regarding your plan's design or any other questions regarding your 401(k) plan.

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