



SAFE HARBOR CONTRIBUTIONS

Simplifying Retirement Plans for Business

An employer may make either a Safe Harbor Non-Elective Contribution or a Safe Harbor Matching Contribution to satisfy the 401(k) non-discrimination tests required by IRS regulations. A safe harbor contribution must apply to at least all eligible non-highly compensated employees (NHCE). The plan may exclude highly compensated employees (HCE) from the allocation.

Safe Harbor Non-Elective Contribution

A non-elective contribution will satisfy the safe harbor contribution requirement if it equals at least 3% of the employee's compensation. The 3% non-elective contribution is 100% vested and allocated to all eligible participants (whether or not they defer). As long as the 3% requirement is satisfied, the plan may provide for additional contributions at the employer's discretion. A Safe Harbor Notice must be provided to all employees at least 30 days before the start of the plan year. The employer may amend the plan to discontinue the safe harbor non-elective contribution during the plan year, however, a supplemental notice must be provided to all employees no less than 30 days before the contribution is discontinued and the employer must make the contribution through the effective date of the amendment and perform nondiscrimination tests for the entire plan year.

Safe Harbor Matching Contribution

A matching contribution will satisfy the safe harbor contribution requirement if it is no less than the following "basic" formula:

Basic Safe Harbor Match Formula

100% match on the first 3% of compensation deferred
plus
50% match on the next 2% of compensation deferred

The maximum match under this "basic" formula is 4% of compensation. A match of that amount would apply to any participant who defers at least 5% of compensation.

Enhanced Safe Harbor Match Formulas

- ◆ 100% of each Participant's Elective Deferrals up to 4% of compensation
- ◆ 100% of each Participant's Elective Deferrals up to 5% of compensation
- ◆ 100% of each Participant's Elective Deferrals up to 6% of compensation

All safe harbor matching contributions are 100% vested. A Safe Harbor Notice must be provided to all employees at least 30 days before the start of the plan year. The contribution may be calculated annually or each payroll period. The employer may amend the plan to discontinue the safe harbor matching contribution during the plan year, however, a supplemental notice must be provided to all employees no less than 30 days before the contribution is discontinued and the employer must make the contribution through the effective date of the amendment and perform nondiscrimination tests for the entire plan year.