The “Safe Harbor” plan is our most popular 401(k) retirement plan for businesses with employees. Safe Harbor plans make it easy for business owners to maximize contributions to their own accounts while reducing some of the limitations associated with adhering to IRS non-discrimination testing.

The Safe Harbor Plan Allows You to:

• Contribute up to the maximum annual deferral amount ($18,000) to your own 401(k) plan
• Receive additional value from your company's matching contributions (you're an “employee” too!)
• Minimize the hassles of IRS non-discrimination testing

Tax Deductions for Matching Contributions

More good news: come tax time, your business may be able to deduct all matching contributions (within the deductibility limitations imposed by the IRS) to employee accounts. And don’t forget, matching contributions may increase retention of current employees, and are a great recruiting tool for prospective hires.

Satisfy IRS Testing

To satisfy non-discrimination testing, your business will need to contribute to both your 401(k) account and your employees’ accounts. Companies that choose a Safe Harbor plan must either:

a. Make a dollar-for-dollar matching contribution for all participating employees, on the first 4% of each employee’s compensation (this is the most popular option), OR

b. Contribute 3% of the employee’s compensation for each eligible employee, regardless of whether the employee chooses to participate in the plan.

Safe Harbor plans work particularly well for companies that have consistent streams of revenue. Businesses finding it difficult to maintain matching funds year-round might find that a 401(k) plan without Safe Harbor may make more sense.
Frequently Asked Questions About Safe Harbor

Q: What is a Safe Harbor 401(k) plan?
A: A Safe Harbor 401(k) plan generally satisfies the non-discrimination rules for elective deferrals and employer matching contributions. For a 401(k) plan to be considered a Safe Harbor plan, employers must satisfy certain contribution, vesting, and notice requirements.

So, let’s say you have 25 employees, but only a third of them choose to put money into the plan. There’s a formula that limits the amount you can personally contribute to a traditional, non-Safe Harbor plan. Under a Safe Harbor 401(k), if you’re willing to make a minimum contribution on behalf of your employees, you’ll be able to maximize your own personal contributions to the plan.

Q: Is a Safe Harbor 401(k) plan right for me?
A: Find out with a free online needs assessment by going to www.sharebuilder401k.com and answering a few simple questions about your business.

Q: What are the IRS non-discrimination rules all about?
A: Generally, the U.S. Government wants to ensure that 401(k) plans do not favor Highly Compensated Employees (HCEs) over Non-Highly Compensated Employees (NHCEs). The government has established required compliance tests to verify all employees have fair representation in a plan. The Safe Harbor plan helps you automatically pass the non-discrimination testing by making contributions on behalf of your employees.

Q: What is required from me, the employer?
A: Employers may choose between two Safe Harbor contribution options:
   a. An employer matching contribution of 100% of employee elective contributions (both pre-tax and Roth) on the first 4%, 5%, or 6% of compensation, OR
   b. An employer non-elective contribution of 3% of compensation for all eligible employees.

These accounts are 100% vested and must be funded on a per-pay-period basis.

Q: What is non-discrimination testing?
A: There are generally three main types of compliance tests required to be performed on a 401(k) plan to ensure you do not establish a plan that treats your employees unfairly:
   • Actual Deferral Percentage (ADP) test — Compares the deferral percentage of HCEs and NHCEs. (Generally, the HCE deferral amount cannot be more than two percentage points higher than the non-HCEs’ average.)
   • Actual Contribution Percentage (ACP) test — Compares employer matching contributions between the HCEs and NHCEs.
   • Top-Heavy test — Determines if the account balances of key employees is greater than 60% of the total assets of the plan.

Q: Who is considered a highly compensated employee (HCE)?
A: Highly compensated employees are generally defined as individual(s) with more than 5% ownership, family members of a more than 5% owner (spouse, parents, children or grandparents), or employees who earned more than $120,000 in the previous calendar year.

Q: What will I be limited to as an owner if I don't have a Safe Harbor plan?
A: Generally, all HCEs will be limited to defer only about 2% more than the average of all eligible Non-Highly Compensated Employees (NHCEs). If the plan does not have any eligible NHCEs participating in the 401(k) plan then none of the HCEs would be able to participate either.

Q: When does the plan need to be established?
A: Safe Harbor plans are required to be set up 3 months prior to the plan year-end date. It typically takes 2–3 weeks from the purchase date to be able to install your plan. (Plan installation date requirements are contingent upon the plan type being adopted and whether it is an existing or startup plan. Specific deadlines are set for each year.)