PENSION & PROFIT SHARING

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YEARS IN BUSINESS
THIRD GENERATION OF
FAMILY OWNERSHIP

Safe Harbor 401(k) Plans

Navigating Safe Harbor 401(k) Plans

What is a Safe Harbor 401(k) Plan?

A Safe Harbor 401(k) Plan is actually a traditional 401(k) Plan that includes certain "Safe Harbor" provisions. Employees may contribute a portion of their income to the Plan on a pre-tax (traditional) or Roth (after tax) basis. With a Safe Harbor 401(k), there are certain contributions which an Employer is required to make on behalf of their Employees. Because of these required contributions, the Safe Harbor 401(k) is not subject to many of the complex non-discrimination testing that apply to traditional 401(k) Plans.

The contributions required to be made are as follows:

- 3% of pay to all eligible Employees

    OR
- 100% match of Employees contributions up to 4% of pay

    OR
- 100% match of the first 3% contributed and 50% match on the next 2%

(These contributions must be 100% vested.)

This design also allows the Employer to make an additional profit sharing contribution. These additional contributions may be subject to a vesting schedule.

Existing traditional 401(k) Plans can only be converted to a Safe Harbor Plan on the first day of the Plan Year. A new Safe Harbor 401(k) Plan can be established at any time during the year. The only requirement is that it must be established prior to the 10th month of the Plan Year.

WHY WOULD AN EMPLOYER WANT A SAFE HARBOR 401(K) PLAN?

- Attract and retain qualified Employees.
- Provide a low cost, visible benefit for Employees.
- Not subject to many of the complex nondiscrimination tests. These tests generally restrict the amount of 401(k) Deferrals the owners and highly compensated Employees may contribute.

HOW MUCH CAN BE CONTIBUTED TO A SAFE HARBOR 401(K) PLAN?

An Employee can choose whether to make their contribution on a pre-tax (Traditional) or after-tax (Roth) basis.

The limit for 2018 for participants under the age of 50 is $18,500 and $24,500 for those age 50+.

The Employer can fund and deduct up to 25% of eligible compensation in Employer contributions.