Safe Harbor 401(k) Retirement Plans

A Safe Harbor 401(k) plan is a flexible retirement plan design that is funded through a combination of employee deferrals and employer contributions. The primary advantage of a Safe Harbor 401(k) plan design is that it automatically passes plan tests (in most cases). This allows owners and other highly compensated employees to maximize contributions while satisfying top heavy and nondiscrimination testing. A Safe Harbor 401(k) also offers:

- Higher contribution limits than a SIMPLE IRA
- Tax-deductible contributions for both the employer and employee
- Availability of loans

Ideal Employer Profile

Business owners who:

- Want to maximize their own salary deferrals
- Are willing to provide employees a 100% vested contribution. Safe Harbor requires a 4% match or a 3% non-elective contribution (to all eligible employees) in order to automatically pass plan testing
- Would like a well-known type of retirement plan to attract and retain employees.
- Are willing to pay annual administration and reporting costs

Eligibility

Plan sponsors must offer the plan to employees who are at least 21 years of age and have worked one (1) year with at least 1,000 hours of service. A plan can allow more lenient eligibility requirements.

Contributions

- Employees may contribute 100% of compensation up to $18,500. If an employee is over 50 years of age or turns 50 during the calendar year, they may elect to make an additional $6,000 “catch up” contribution.\(^1\) Salary deferrals are immediately 100% vested.
- A Safe Harbor employer contribution must be made one of two ways:
  - A 4% match structured at least as favorable as follows: A dollar for dollar match on the first 3% of compensation and a 50 cents per dollar match on the next two percent of compensation or,
  - A 3% non-elective contribution to all eligible employees
- A discretionary Profit Sharing contribution may also be made. The overall limit combining salary deferrals and employer contributions is 100% of compensation up to $55,000 ($61,000 for individuals qualifying for catch-up contributions). Compensation is capped at $275,000.\(^2\)
Plan Administration
Although a Safe Harbor 401(k) plan may be designed to pass virtually all testing requirements, administration and IRS Form 5500 filing is still required. Baird can assist in locating a suitable plan administrator.

Investment Flexibility
A Safe Harbor 401(k) Plan can offer a vast array of investment choices. Your Baird Financial Advisor can recommend a Safe Harbor 401(k) provider that meets your needs.

For more information about Safe Harbor 401(k) plans, contact your Baird Financial Advisor.

1 Salary deferral contribution limit for 2018 is the lesser of 100% of compensation or $18,500. If the owner is age 50 or older, “catch-up” contributions of $6,000 to a 401(k) plan are allowed for a total of $24,500.

2 The 2018 maximum tax-deductible profit sharing contribution is 25% of compensation, up to $55,000.