safe harbor 401(k)

A plan for maximizing salary deferral contributions

We think business owners and their employees should have the opportunity to enjoy life at its very best, especially in their retirement years. Adding a retirement plan to your benefits package can be a great way to help build financial security for the future.

By committing to make a minimum contribution on behalf of your employees, highly compensated employees can maximize their own personal contributions to the plan.

Popular Choice

A Safe Harbor plan makes it easier for business owners to maximize contributions to their own accounts while reducing some of the complicated testing requirements that normally apply to traditional 401(k) plans. In addition, matching contributions to employee accounts are tax deductible (within IRS limits) for the business.

A Safe Harbor plan:

- Maximizes deferrals of highly compensated employees
- Satisfies non-discrimination and top-heavy testing requirements

Keep in mind that the business must make contributions to the business owner, to highly compensated employees and to non-highly compensated employees. In general, Safe Harbor plans work well for companies that have a consistent stream of revenue.

Plan Requirements

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

Vesting

All contributions must be fully vested. They cannot be dependent on an allocation condition, such as 1,000 hours of service or employment status on the last day of the plan year.

Employer Contributions

The rate of matching contributions for any highly compensated employees cannot be greater than the rate of matching contributions for non-highly compensated employees. Deferrals may not exceed 6% of compensation that is matched. Employers may choose either non-elective or matching contributions.

- **Non-Elective Contribution.** The employer contributes at least 3% of each eligible participant's annual compensation. The contribution may be made pursuant to a definitive or a contingent notice. For the contingent notice, as long as appropriate notices are given to employees, the employer has 30 days before the end of the plan year to decide to make this contribution. Employers who do not make the contribution are subject to non-discrimination testing and top-heavy testing.

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- **Matching Contribution.** Employers can choose between the basic or enhanced match.
  - **Basic Match:** The employer matches 100% of the first 3% of compensation deferred, plus a 50% match of the next 2% of compensation deferred.
  - **Enhanced Match:** The most common match is 100% of the first 4% of compensation deferred. However, the employer may choose to match at any rate that at least equals the basic match formula.

Notification Requirements

The plan must provide written notice to employees. Ameritas will prepare the following on behalf of the plan.

- A description of Safe Harbor contributions, as well as information about employee deferrals, employer contributions, withdrawals and vesting.
- An annual Safe Harbor notice to be distributed to employees at least 30 days (but no more than 90 days) prior to the first day of each plan year.
- A notice to any employee who will become eligible for the plan after distribution of the annual Safe Harbor notice. The employee must receive the notice prior to his or her eligibility date.

Withdrawals

Withdrawals of Safe Harbor contributions are limited to death, disability, separation of service or attainment of age 59½, if permitted in the plan document, similar to the distribution events for elective deferrals.

Implementing the Plan

An employer with an existing 401(k) plan must implement a Safe Harbor 401(k) plan at the beginning of the plan year. However, employers with a new 401(k) or existing profit-sharing-only plan may implement a Safe Harbor plan during the plan year as long as certain requirements are met. Generally, three months of deferrals are required.

Please note that Ameritas Life Insurance Corp. is not authorized to give tax or other legal advice. For specific information, consult your attorney or tax professional.

More Information

Contact your Ameritas financial professional to learn more about a Safe Harbor 401(k) plan. See if it is a good choice for you and your business.

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Ameritas Life Insurance Corp.
Retirement Plans Division
5900 O Street
Lincoln, NE 68510
800-923-2732
ameritas.com