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401(K) PLAN NEWSLETTER




EMPLOYER CONTRIBUTIONS:
UNDERSTANDING YOUR CHOICES

MATCHING CONTRIBUTIONS

One of the best ways to encourage participation in your plan is to offer matching contributions to those participants that contribute their own money into your plan.

- You can choose your matching rate as well as the maximum deferral percentage you will match. A common matching formula is $.50 on each $1 contributed up to 6% of compensation. With this formula, an employee that defers 6% will receive a match of 3% of compensation. But you can choose whatever formula you prefer – any matching rate is an instant return for your employees.
- You can also place a maximum dollar amount on your contributions on each person to ensure that your match stays within your budget.
- Matching contributions are discretionary and can be stopped at any time if your situation or objectives change by simply amending your plan.
- Your matching contributions can also be subject to a vesting schedule so that employees that leave must forfeit any unvested portions. These forfeitures can be used by you to reduce your future matching expenses.

PROFIT SHARING CONTRIBUTIONS

Non-elective profit sharing contributions are made to all eligible participants. But how much you allocate to each participant is up to you.

- You can allocate your contribution **pro rata**, so that each eligible participant receives the same dollar amount or the same percentage of compensation.
- Your contribution can be **integrated** with social security, so that participants that earn more than a specified dollar amount ("the integration level") receive a larger percentage of the contribution than those who earn less.
- Or your contribution can be **cross-tested**, so that you can contribute a different amount to each participant depending on what "group" they are in. Groups can be defined by all sorts of criteria, including job description, merit, or status. Profit sharing contributions are a great way to reward your hard-working employees and to maximize the contributions received by owners and key employees.
- Profit sharing contributions can be subject to a vesting schedule, so if your employees leave, they forfeit any unvested portion of their contribution. You can also add a "year-end condition" to your contribution so that only those employees that are employed at the end of the year receive the contribution. Best of all, non-elective contributions are discretionary so you choose when and if to make it.

SAFE HARBOR MATCHING CONTRIBUTIONS

A safe harbor matching contribution is likely the most cost-effective way for you to ensure that company owners and key personnel can take full advantage of your retirement plan.

- If you make safe harbor matching contributions, your Plan is not subject to the Average Deferral Percentage (ADP) test and is likely not subject to the ACP or Top Heavy Tests either. This means that your Highly Compensated Employees (HCEs) can max out their deferrals each year regardless of the contribution rate of your Non-Highly Compensated Employees (NHCES). If your HCEs have received refunds in the past for excess contributions, a safe harbor matching plan may be for you.
- Like other matching designs, only those employees that contribute to your Plan receive the matching contributions. For the match to be considered a safe harbor match, your match must be at least as generous as the basic matching formula of $1 for $1 up to 3% of pay and then $.50 on the $1 for the next 2%. This means that if your employee defers 5% of her compensation, you'll provide a matching contribution of 4%. You can also utilize an enhanced safe harbor matching formula of $1 for $1 up to 4% of pay.
- Safe harbor matching contributions are fully vested as soon as they are funded.
- To minimize the costs of a safe harbor matching contribution, you can restrict eligibility to those employees that have at least One Year of Service with your company.

SAFE HARBOR NONELECTIVE CONTRIBUTIONS

A safe harbor non-elective (SHNE) contribution is a non-discretionary 3% profit sharing contribution provided to all eligible employees.

- Why make a SHNE contribution when you could potentially have more flexibility with a straight profit sharing contribution? By promising to make this contribution to your employees, the government provides you with some important benefits. Your plan is no longer subject to the ADP non-discrimination test or the Top Heavy Test. This means that your key management team and company owners can max out their contributions each year and take full advantage of your retirement plan.
- Plus, the SHNE contribution is often the foundation for a tiered profit sharing contribution that allows the owners or other select groups to receive as much as $53,000 in their retirement plan each year. By pairing a SHNE contribution with a cross-tested profit sharing contribution, owners can use the 401(k) as part of a strategic benefits package that allows them to minimize their personal and corporate tax liability.
- Like the safe harbor matching contribution, a SHNE contribution is fully vested as soon as it is funded.

Employer Contributions At-A-Glance

	Discretionary Match	Discretionary Profit Sharing	Safe Harbor Match	Safe Harbor Non-Elective
Contribute only to those that defer	✓		✓	
Vesting schedules allowed	✓	✓		
Able to impose a service or year-end requirement	✓	✓		
Execs/owners can max out deferrals regardless of others' participation			✓	✓
Different contributions to different groups (subject to nondiscrimination requirements)	✓	✓		
Automatic pass on Top Heavy Test			✓	✓
Discretionary contributions and formulas	✓	✓		