Is a Safe Harbor Plan the Best Choice for Your Employees?

If key employees are getting refunds on their 401(k) contributions or missing out on part of their match each year, your plan might not be working as you hoped.

This usually happens when other employees are not participating or saving as much. Because of this, highly paid employees may be able to contribute only a small portion of their pay.

For example, an executive making $150,000 might only be able to save $4,500 to $6,000 each year. This is well below the legal limit and often insufficient for long-term retirement needs.

A safe harbor plan can help fix this problem

When you make the required employer contribution, your plan automatically meets certain yearly tests. This means highly paid employees can contribute up to the legal limit, no matter how much others save.

Understanding safe harbor options

Safe harbor plans require employer contributions that are immediately 100 percent vested. There are two main ways to do this:

- **Matching contribution.**
  You match what employees put in, usually up to a certain percentage of their pay. Only employees who contribute get this match.
- **Non-elective contribution.**
  You give a set percentage of pay to all eligible employees, even if they don't put in their own money.

Both options support employee retirement and help your plan meet required tests. You must also send yearly notices to employees to maintain safe harbor status.

If you're worried about cost, you can make your plan more flexible. Changing who is eligible or excluding certain employee groups can lower costs while still meeting your goals.

A plan design specialist can help you look at these choices and find what works best for your company.

You can manage plan costs by changing who is eligible or by excluding certain groups.

A safe harbor plan allows key employees to contribute up to plan limits while also helping all employees work toward better retirement outcomes.

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Aligning your plan with your goals

Employers often sponsor retirement plans to:

- Attract and retain talent.
- Support employee retirement readiness.
- Maximize benefits for owners and leadership.

Your plan should match these goals and fit your budget.

If your current plan isn't working as you hoped, it might be time to review your approach and look for changes that better align with your goals.

For more information, contact:
Michael Lahurd, Retirement Plan Sales Contact
ASCPA Retirement Savings Plan
Email: Michael.lahurd@vindexfinancialpartners.com
Abrs-adoptersales@ameritas.com

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