

403(b) Safe harbor plan design

Is it suitable for your plan?

One method of satisfying the actual contribution percentage (ACP) test is to adopt a safe harbor plan design. A safe harbor 403(b) is a specific type of 403(b) retirement plan designed to encourage employee contributions and participation.

A safe harbor plan design offers a plan sponsor many advantages such as exemption from ACP testing provided that non-safe harbor matching contributions do not exceed certain limitations and no allocation conditions are applied. Safe harbor plans are still subject to coverage testing and annual additions limit testing.

Plan design options

There are two types of safe harbor plan designs. One type is the 403(b) safe harbor non-elective plan design. Generally, a 3 percent contribution is provided to all employees eligible to make elective deferrals to the plan. The guaranteed contribution requires that a 3 percent employer contribution be made each plan year, unless the plan sponsor amends the plan and removes the provision before the start of the new plan year. The safe harbor contribution is immediately 100 percent vested.

The other type of 403(b) safe harbor plan requires a matching contribution. There are two options: the basic match or the enhanced match.

Matching contributions

Basic safe harbor match	Enhanced safe harbor match
100% match on the first deferred	100% of the first 4% deferred OR
50% match on deferrals between 3% and 5%	150% of the first 3% deferred

Note: An enhanced matching formula must be at least equal to the basic safe harbor match. Matching contributions, including the enhanced match, cannot exceed 6 percent of pay, and any discretionary match contributions cannot exceed 4 percent of pay to avoid ACP testing.

Tracking and eligibility

Safe harbor contributions must be tracked separately from other matching or discretionary employer contributions because distributions of safe harbor contributions are restricted, eligibility to receive non-safe harbor contributions may be different, and the safe harbor contributions must be 100 percent vested. Additionally, all eligible employees must be allowed to participate in the plan.

Important considerations

The Internal Revenue Service (IRS) requires employers to provide a safe harbor notice to each eligible participant 30 days prior to the beginning of the plan year in which safe harbor contributions will be made.

There are other methods available to satisfy ACP testing. Each plan sponsor's goals, contribution sources and demographics form a unique scenario which the plan sponsor will want to discuss with their plan provider or financial professional before making a decision to implement a 403(b) safe harbor design.

Safe harbor plans enable highly compensated employees to defer greater dollar amounts in plans with lower participation levels. Contact us to learn more about the 403(b) safe harbor plan design and see if your plan would benefit.

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