



Safe Harbor 401(k) Guide for Your Small Business

Saving for the future has never been easier.

Your retirement future is our *priority*

Safe Harbor plans are a great asset to offset administration costs, increase employee satisfaction, and gain peace of mind because they automatically satisfy certain annual IRS compliance tests each year in exchange for a mandatory employer contribution.

To ensure your plan benefits everyone within your company equally and not just key stakeholders (referred to as "highly compensated employees" or HCEs by the IRS), the IRS conducts three annual, mandatory compliance tests:

✓ **Actual Deferral Percentage (ADP) Test**

This limits the compensation percentage that HCEs can put into their 401(k) based on the average contribution rates of the non-highly paid employees. This is the test that is most likely to impact small business plans.

✓ **Actual Contribution Percentage (ACP) Test**

This ensures that the employer matching contributions and any after-tax employee contributions contributed for HCEs are not disproportionately higher as compared to non-highly paid employees.

✓ **Top-Heavy Test**

This ensures that "key employees" cumulatively hold less than 60% of the total plan balance. Key employees are identified through a number of factors including ownership status, officer status, and compensation.

If you fail a compliance test

You will be given instructions to correct it, but failures can be expensive due to IRS penalty fees and very time consuming. So, it's important to **not** fail your compliance test if you can help it.

Gain peace of mind with a Safe Harbor 401(k)

How are you exempt from certain compliance tests? In exchange for bypassing the ADP and ACP tests and eliminating the tedious administrative duties that go with the testing process, business owners must make a minimum contribution to all eligible employees in the plan each year— which must be immediately 100% vested (i.e., non-forfeitable).

The best part is by contributing on behalf of your employees, everyone benefits fairly from the plan and can maximize their savings, and **your contributions are tax-deductible**.



Employers have different contribution opportunities depending on if a Safe Harbor plan has automatic enrollment or not:

Plans With Automatic Enrollment

- ✦ Employer matches 100% (dollar for dollar) on the first 1% of compensation contributed by employees, plus a 50% match on the next 5% of compensation contributed by employees.
- ✦ Employer matches 100% (dollar for dollar) on contributions of up to a certain percent (between 3.5-6%) of compensation contributed by employees.
- ✦ Employer contributes at least 3% of total compensation for all employees that meet the plan's eligibility rules, regardless of whether or not they contribute to the plan.

Plans Without Automatic Enrollment

- ✓ Employer matches 100% (dollar for dollar) on the first 3% of compensation contributed by employees, plus a 50% match on the next 2% of compensation contributed by employees.
- ✓ Employer matches 100% (dollar for dollar) on contributions of up to a certain percent (between 4-6%) of compensation contributed by employees.
- ✓ Employer contributes at least 3% of total compensation for all employees that meet the plan's eligibility rules, regardless of whether or not they contribute to the plan.



What's your deadline for Safe Harbor?

You have until **October 1st, 2025** to set up your Ubiquity Safe Harbor 401(k) plan for the existing year.