



FIDUCIARY EDUCATION

What is a 401(k) Safe Harbor and is it right for your plan?

Safe Harbor 401(k) plans can help employers maximize savings while avoiding the challenges of annual compliance testing. They may also boost plan participation and support employees in saving for retirement.

What is a Safe Harbor?

A Safe Harbor 401(k) plan is a type of retirement plan with an employer contribution that allows employers to **avoid most annual compliance tests**. With a Safe Harbor 401(k) plan, employers and highly compensated employees can **save up to the maximum amount each year**.

When a 401(k) includes a Safe Harbor provision, the employer commits to a minimum level of contribution per participant, either as a percentage of compensation or a specific match, and those contributions are vested immediately. In exchange, the employer can waive certain 401(k) compliance tests each year.

ANNUAL 401(K)
CONTRIBUTION
LIMIT FOR 2026

\$24,500

How does a Safe Harbor work?

Safe Harbor 401(k) plans require employers to choose one of three possible contribution options:

Non-Elective Contribution

Employer contributes **3%** of compensation, regardless of employees' 401(k) deferrals.

Basic Safe Harbor Match

Employer matches **100%** of the participant's first 3% of deferred compensation plus a 50% match on deferrals between 3% and 5% (4% total).

Enhanced Safe Harbor Match

Employer matches **100%** of the first 4% of each employee's contribution, not to exceed 6% of compensation deferred.

2 Primary Safe Harbor Requirements

1. Employers must make contributions on their employees' behalf, and
2. Those contributions are immediately vested.

Considering a QACA Safe Harbor Plan?

A Qualified Automatic Contribution Arrangement (QACA) Safe Harbor 401(k) automatically enrolls eligible employees at a minimum of 3%, with the option to increase contributions by at least 1% annually, up to 10%. Plans may also begin at 6% and opt out of auto-escalation. This structure aligns with Safe Harbor requirements and incorporates SECURE 2.0 provisions that support participation and retirement savings. Employer contributions follow a two-year vesting schedule.

Auto-enrollment

Eligible employees are automatically enrolled in the plan at a deferral rate between 3% and 6% of their annual compensation.

Auto-escalation

Plan participants' contributions automatically increase by 1% each year until reaching a maximum annual deferral of 10%.

Compliance

This plan design aligns with SECURE 2.0 requirements to support compliance and encourage retirement readiness.

Is a Safe Harbor right for our company?

A Safe Harbor retirement plan may be appropriate for your organization if:

- You want to help your employees save more for retirement.
- You plan to make employer contributions anyway.
- You have been forced to make previous employer contributions, or you have had to refund plan contributions.
- Your retirement plan has recently failed nondiscrimination testing.
- Your highly compensated employees (HCEs) aren't able to contribute the maximum to the plan due to the risk of failing compliance testing.
- Many of your HCEs don't contribute to the plan, and/or you have low participation among non-HCEs or non-key employees.

Safe Harbor 401(k) plans can be an effective way for employers to save the annual maximum amount while eliminating the administrative headaches of annual compliance testing. Additionally, it may improve plan participation and help your employees save more for retirement.

Whether you're starting a new plan or looking for ways to improve an existing one, it may be worth considering adding a Safe Harbor provision.

Contact us to learn more about how a Safe Harbor provision might benefit your plan and employees.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation.

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