

Safe Harbor 401(k) Plans

Safe Harbor 401(k) Plans eliminate the need for the annual deferral percentage (ADP) and annual contribution percentage (ACP) test that are normally required in 401(k) plans. These nondiscrimination tests sometimes make it impossible for the highly compensated employees in a plan to defer the maximum amount of \$19,500. Additionally, a Safe Harbor Plan design may eliminate the need for the top-heavy nondiscrimination test.

THE BENEFITS OF A SAFE HARBOR PLAN DESIGN INCLUDE:

- Fewer complicated compliance tests.
- Increased deferral opportunities for the employees.
- Key employees may increase their balances without requiring the employer to make additional contributions.

CONSIDER A SAFE HARBOR 401(K) PLAN IF YOUR COMPANY:

- Routinely fails the ADP/ACP tests.
- Currently has a plan that is top-heavy with low participation.

THE SAFE HARBOR PLAN DESIGN REQUIRES:

- That the employer must provide either of the following:
 1. A matching contribution of 100% of the first 3% of elective deferrals and 50% of the next 2% of elective deferrals.
 2. An employer non-elective contribution of at least 3% of compensation for each non-highly compensated employee eligible to make a salary deferral.
- Highly compensated employees may receive either of the above structured contributions.
- The employer Safe Harbor contributions are fully vested immediately.
- The plan document must provide for the Safe Harbor provisions.

PLAN CONTRIBUTION LIMITS

- For 2021, the salary deferral limit is \$19,500 with a catch-up contribution limit of \$6,500 for those who are age 50+.
- The maximum overall contribution limit for 2021 is \$58,000 or 100% of compensation.
- Maximum employer tax-deductible limit on employer contributions is 25% of participant's compensation.

WITHDRAWAL RESTRICTIONS

- Safe Harbor contributions may only be withdrawn upon the attainment of age 59½, severance from employment, disability, death, or plan termination. They are not available for hardship distributions.
- Distributions are taxed as ordinary income and may be subject to an early distribution penalty tax of 10%.

ADMINISTRATION

- No ADP or ACP test on salary deferral or Safe Harbor employer matching contributions.
- No top-heavy testing required if the non-elective Safe Harbor contributions are provided.
- A 30 to 90-day advanced annual notice must be given to all eligible employees.

To learn more about Safe Harbor 401(k) Plans, we invite you to contact the Davenport & Company office nearest you and speak with one of our Financial Advisors.

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