HAYNES BENEFITS GUIDE TO SURVIVE

Does Your 401(k) Plan Fit Your Business Objectives?

Consider Adding Safe Harbor or Automatic Enrollment to Your 401(k) Plan

Your 401(k) plan should be designed to fit your objectives as an employer. This article explains some 401(k) plan alternatives that may match your objectives. Please note that some of these plan features must be in place at the start of the plan's fiscal year, and require adequate notice to employees. **If your plan year is the same as the calendar year, you need to be ready to implement certain features before December 1 of this year!**

The first alternative is a safe harbor 401(k) plan design that enables highly compensated employees to contribute the maximum employee elective deferral (currently $17,500) without nondiscrimination testing.

The second alternative is a qualified automatic contribution arrangement ("QACA") 401(k) plan design that provides for the automatic enrollment of all eligible employees. A QACA 401(k) plan design also enables highly compensated employees to contribute the current maximum $17,500 elective deferral without nondiscrimination testing.

Listed below are examples of employer objectives and the type of 401(k) plan design that might be the "best fit" for that objective.

Employer Objective	Traditional 401(k)	Safe Harbor 401(k)	QACA 401(k)
Minimize employer obligations by making employer contributions discretionary	✓		
Reward long-term employment by implementing a vesting schedule	✓		✓
Maximize tax-deferrals for management and highly-paid employees		✓	✓
Provide a retirement savings benefit for employees	✓	✓	✓

Listed below are other key differences between a traditional 401(k) plan, a Safe Harbor 401(k) plan and a QACA 401(k) plan.

Key Differences			
	Traditional 401(k) Plan	**Safe Harbor 401(k) Plan**	**QACA 401(k) Plan**
Employee Elective Deferrals	May be elected	May be elected	Automatic at a percentage of pay specified in the plan (e.g., 3%), unless another percentage of pay is elected; may accelerate annually in one percent increments (e.g., to 6% or 10% of pay)
Employer Contributions	Permitted	Either a minimum matching or a minimum nonelective employer contribution is required <u>Minimum Matching Contribution</u> 100% of elective deferrals up to 3% of pay, plus 50% of deferrals in excess of 3% of pay up to 5% of pay <u>Minimum Nonelective Contribution</u> 3% of pay for all eligible employees	Either a minimum matching or a minimum nonelective employer contribution is required <u>Minimum Matching Contribution</u> 100% of elective deferrals up to 1% of pay, plus 50% of deferrals in excess of 1% up to 6% of pay <u>Minimum Nonelective Contribution</u> 3% of pay for all eligible employees
Vesting of Employer Contributions	Employer contributions vest according to the plan's vesting schedule	Safe Harbor Matching Employer Contributions are fully vested Non-Safe Harbor Employer Contributions may vest according to the plan's vesting schedule	A two year vesting schedule permitted for Safe Harbor Employer Contributions Non-Safe Harbor Employer Contributions may vest according to the plan's vesting schedule
Ninety-Day Withdrawal Option for Automatic Elective Deferrals	Not applicable	Not applicable	Permitted election for an employee's first elective deferrals only
Initial and Annual Notice to Employees Requirement	A summary plan description and deferral election form must be provided to all eligible employees, but no initial or annual notice to employees is required	A summary plan description and deferral election form must be provided to all eligible employees, plus a safe harbor notice before initial eligibility and each plan year	A summary plan description and deferral election form must be provided to all eligible employees, plus a safe harbor notice before initial eligibility and each plan year. The notice must include a description of the default deferral and default investment features of the plan

Please let us know if we can help you design a 401(k) Plan that best fits your objectives.

Written by: Thomas C. Graves
Dated: October 23, 2014