Safe Harbor 401(k) Plans

AMERICAN NATIONAL®

Help owners and highly paid employees save more with a Safe Harbor 401(k) plan.

Safe Harbor 401(k)s are designed to allow owners and highly compensated employees (generally owners and those making over $120,000) to contribute up to the maximum dollar limit as their 401(k) elective deferral without regard to what other employees contribute. The maximum deferral for 2019 is $25,000 if a participant is age 50 or over.

Safe Harbor 401(k) vs. Traditional 401(k)

Safe Harbor 401(k) Solution	Traditional 401(k) Problem
Allows the owner and other highly paid employees to contribute the maximum deferral allowed by law no matter how much (or how little) the other employees contribute.	Traditional 401(k) plans are required to ensure that all employees are treated equally under the plan, regardless of the pay level. Highly compensated employees' contributions may be limited dependent upon what all other employees contribute as elective deferrals to the plan under the annual ADP/ACP test.
A Safe Harbor 401(k) will be deemed to have automatically met the top heavy requirements regardless of the percentage of the plan assets in the key empoyees' accounts.	When the balances of the key employees of the company are at least 60% of the total plan assets, the plan is considered top heavy. If key employees continue to contribute salary deferrals to the plan, the company is required by law to make a contribution of at least 3% of pay to all other employees in the plan. This is very likely to occur in a small company's 401(k) plan since key employees are likely to make the largest contribution to the plan.

A safe harbor plan solves these 401(k) plan problems often encountered by a small employer making it a very attractive plan for the small business owner.

There are two methods of meeting the safe harbor requirements.

1. The business matches each employee's contribution to the plan.

The match must be at least equal to 100% of the first 3% of contribution deferred and 50% of the next 2% deferred by the employee. Any matching contribution would be 100% vested in the employee at all times.

Example 1:
If an employee didn't defer anything, the firm would not have to contribute anything for the employee.

Example 2:
If an employee defers 1% of pay, the firm must also contribute 1% of pay.

Example 3:
If the employee defers 5% of pay (or more), the firm must contribute 4%. This will be the maximum the firm would have to contribute for any employee.

2. The business contributes 3% of pay into the plan for all employees

This additional 3% contribution would be 100% vested in the employee at all times. There is an advantage to this approach if the firm is interested in trying to benefit the key employees to a larger degree. An additional profit sharing contribution could be made to the plan that allocates a large percentage of the contribution to the company's owners and other highly paid employees. The contribution would be allocated in the same manner as a New Comparability profit sharing plan, which allows the older company owners to receive larger contributions than the younger rank and file employees. But best of all, the 3% contribution the employer makes to non-owners to avoid the deferral percentage testing can do "double duty" and allow the owners to receive as much as 9% additional contributions from the employer.

If the firm is concerned only in minimizing the employer outlay for employees in a 401(k), the matching method may be the best method. But if they have additional funds available in the business and would consider making additional contributions that could be allocated primarily to the owners or key people, they will want to explore the 3% method of meeting the safe harbor requirements.

How can a custom plan favor the business owner?

Hypothetical Example

	Age	Salary	3% Vested Employer Contribution	401(k) Employee Elective Deferral	Total Allocation
Owner	60	$120,000	$3,600	$25,000	$28,600
Employee	33	33,000	990	0	990
Employee	34	31,000	930	0	930
Employee	54	29,000	870	0	870
Employee	42	23,000	690	0	690
		$236,000	$7,080	$25,000	$32,080

A custom plan from American National is focused on your retirement goals and needs.

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American National Insurance Company, Galveston, Texas.