

A Safe Harbor 401(k) plan may be a good option for businesses that have highly compensated employees (HCEs) who are not able to maximize their contributions to a traditional 401(k) plan due to low participation rates of non-HCEs. By including a mandatory employer contribution, Safe Harbor 401(k)s are not required to pass the same nondiscrimination tests that traditional 401(k) plans are subject to.

Advantages of a Safe Harbor 401(k)



High contribution limits: In 2025, according to the 415(c) limit the combination of employee deferrals and employer contributions may total up to the lesser of 100% of compensation or \$70,000. For 2026, it increases to \$72,000. These amounts do not include the catch-up contributions. See the IRS chart for catch-contributions if age 50 and older.



Flexibility: Permits employers to choose between a matching option and a non-elective option:

- **Matching option** — Requires the employer to match dollar-for-dollar on the first 3 percent of employee deferrals and 50 cents on the dollar for the next 2 percent of pay (4 percent match on 5 percent deferral). Employers can choose an enhanced match that is more generous than this formula.
- **QACA Safe Harbor** - Requires increasing employee deferrals starting at 3% year one and rising to 6% year 4. Employer must choose between a 3% non-elective or match the first 1% of deferrals and 50% of the next 5% (3.5% match on 6% deferral).
- **Non-elective option** — Requires the employer to contribute 3 percent of compensation for all eligible employees regardless of whether employees make salary deferrals match.

Other Safe Harbor 401(k) considerations

- All contributions to the 401(k) must be 100% vested immediately. Except in QACA where matching contributions must be 100% vested after a participant completes no more than two years of service.
- Profit sharing contributions can have their own vesting schedule, but would then be subject to testing.
- Minimum eligibility requirement is age 21 and one year of service (often described as 1,000 hours).
- Employer must satisfy certain notice requirements.
- Per SECURE 2.0 plans started after Dec. 29, 2022, and all new traditional and Safe Harbor 401k plans are required to automatically enroll participants at a deferral rate of 3-10% and auto-escalate at least 1% annually until reaching 10-15%, as determined by the plan. Plans must give participants the option to opt-out.
- Must be operational no later than October 1st so that employee deferrals can begin with first payroll of the month.

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