

Money Matters

The Independent Press
September 2, 2009 - Revised

Question of the Month: How safe is a 'Safe Harbor'?

By Aaron Skloff

Q: My company is considering offering a Safe Harbor 401(k) plan. What is a Safe Harbor 401(k) plan, and how does it differ from a plain 401(k)?

A plain 401(k) will fail its annual compliance testing if officers with incomes of \$160,000 or more, and key owners (owing 5% or more) are credited with more than 60% of the assets of the plan. With a Safe Harbor 401(k) plan, all employees can maximize contributions to the plan each year, even if lower paid employees do not contribute or contribute very little.

A Safe Harbor 401(k) requires the employer to match employee contributions in one of three ways:

Option 1: A dollar-for-dollar match on salary deferrals up to 3% of compensation and 50 cents on the dollar for deferrals between 3% and 5%.

Option 2: A dollar-for-dollar match on salary deferrals up to 4% of compensation.

Option 3: A minimum 3% nonelective contribution to all employees eligible to make elective deferrals to the plan.

Beyond the required matching, employers can add a profit sharing component to the plan to allow for additional contributions by the employer. Maximum tax-deductible employer contributions are limited to 25% of compensation on the first \$245,000.

An employer offering a Safe Harbor 401(k) plan is providing an incentive for employees to contribute to their own retirement, through the form of a guaranteed match.

Employee contributions limits are the same in plain and Safe Harbor 401(k)s: \$16,500 for those age under the age of 50 and \$22,000 for those 50 and older.

Employers with 100 or fewer employees who start a retirement plan may be eligible for a tax credit. The credit equals 50% of the cost to set up and administer the plan and educate employees about the plan, up to a maximum of \$500 per year for each of the first three years of the plan.

The deadline to establish a Safe Harbor 401(k) plan for 2009 is Oct. 1.

What action can an employee take? Encourage implementation of a Safe Harbor 401(k) Plan. Your company can reduce its administrative concerns and simultaneously provide a powerful benefit to all eligible employees.

Editor's Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group in Berkeley Heights. He can be contacted at www.skloff.com or 908- 464-3060.