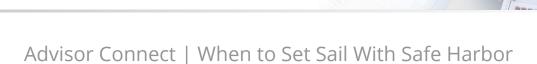
PENSION CONSULTANTS, PLAN ADMINISTRATORS AND ACTUARIES



MAKING IT ACTIONABLE

To enjoy favorable tax status with the IRS, 401(k) plans must demonstrate that they benefit rank and file employees and not just a company's owners and its highly compensated employees.

There are three nondiscrimination tests we use each year to determine whether a plan measures up:

- The ADP test ("Actual Deferral Percentage") compares the deferral rate for highly compensated employees to that of non-highly compensated employees. (Typically, the deferral percent for highly compensated employees can't be more than two percentage points more than that of the non-highly compensated employees to pass this test.)
- The ACP test ("Actual Contribution Percentage") compares employer matching contributions between these two groups.
- The Top-Heavy test determines if the account balances of key employees is greater than 60% of the total assets held by the plan.

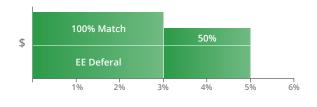
We know that the goal of many company owners is to maximize how much they can contribute each year to their retirement. So, to avoid uncertainty, many owners choose to make additional "**Safe Harbor**" contributions for their employees in order to get a free pass on these non-discrimination tests.

A company can make a Safe Harbor contribution either through a matching formula or by making a non-elective contribution to all of their employees.

Advisor Connect | When to Set Sail With Safe Harbor

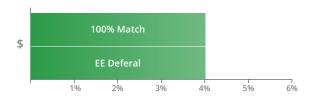
Safe Harbor Match

To satisfy the requirement and encourage plan participation, an employer may choose to offer a Safe Harbor match. The basic match formula provides a 100% match on the first 3% of deferral compensation, plus a 50% match on deferrals between 3% and 5%.



Enhanced Match

An enhanced match has to be at least as much as the Basic Match at all levels and is typically a match of 100% on the first 4% of deferral compensation.



Non-Elective Contribution

The other Safe Harbor option is to make a contribution of at least 3% of annual compensation for all eligible employees. This includes those employees who don't defer.

A quick note: Safe Harbor contributions must always be 100% vested. That means that employees can count these contributions in their balances without forfeiture upon termination of employment.

Adopting a Safe Harbor provision can help a plan in four important ways:

- It reduces plan maintenance costs by eliminating annual nondiscrimination testing requirements
- It allows highly compensated employees to maximize their deferrals
- lt relieves a plan's top-heavy status, and
- Its matching or nonelective contributions represent additional, competitive benefits for employees

Get in touch if you'd like to learn a little more about how Safe Harbor contributions can help make plans more successful.