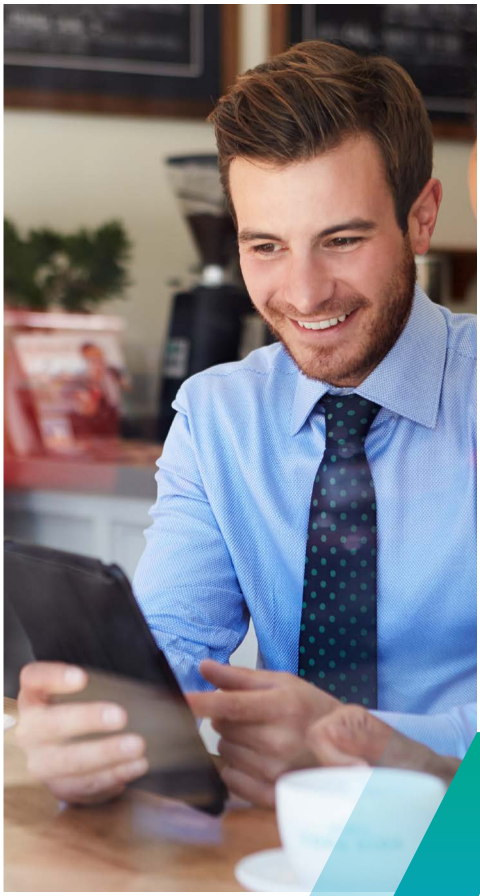
SAFE HARBOR

Choosing the right safe harbor contribution for your business

What you need to know

Many small businesses rely on safe harbor 401(k) plans to stay compliant with IRS regulations and allow owners and key employees to maximize their salary deferrals while providing retirement savings for all participants. Employers may select a match or nonelective safe harbor contribution to achieve their goals. Employee demographics play a significant role in determining the appropriate safe harbor option.

Notable safe harbor plan features

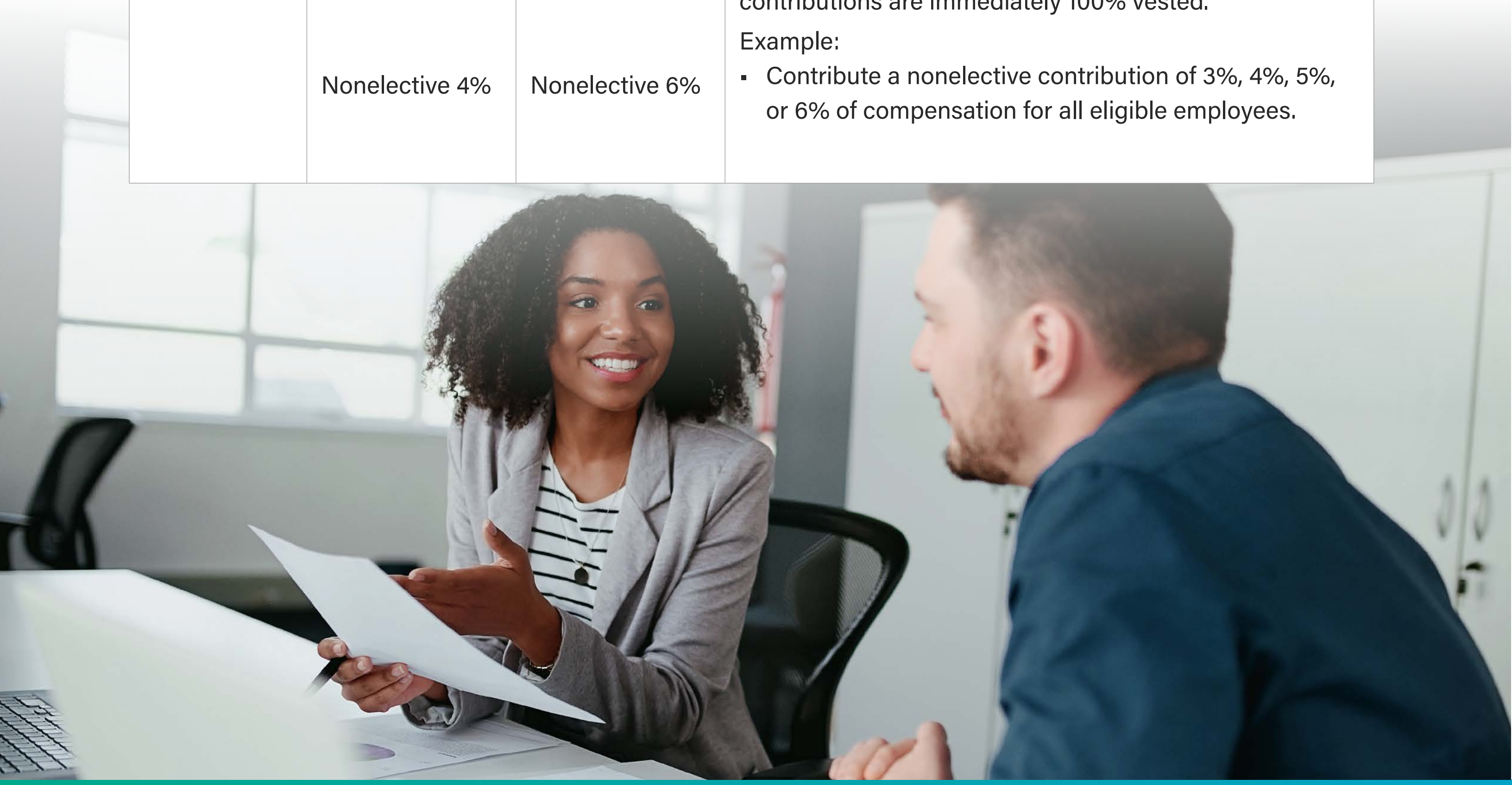


- Generally, plans that meet the safe harbor requirements will pass the following compliance ("nondiscrimination") tests:
  - The Actual Deferral Percentage (ADP) test
  - The Actual Contribution Percentage (ACP) test
  - The Top-Heavy test
- Safe harbor plans eliminate many restrictions on how much owners and highly compensated employees (HCEs) can contribute to their 401(k) plans.
- Employers may be able to reduce business taxes while helping employees save more for retirement.
- Employers may receive additional savings from the company's discretionary matching contribution.
- Any HCE (subject to certain limitations) may contribute the full 401(k) annual dollar limit ($24,500 for calendar year 2026), regardless of how much the other employees defer.

Safe harbor options

To provide automatic compliance with ADP and ACP tests, the employer must provide a matching or nonelective contribution. Safe harbor contributions must be 100 percent vested, and any additional non-safe harbor contributions must meet nondiscrimination rules. The following formulas are options to help meet these requirements:

Contribution Type	Formula Options		Calculation Description
Match	Basic	Enhanced 5%	Contribute a matching contribution percentage of each employee's compensation (as defined in the Adoption Agreement). An employee must contribute to receive an employer contribution. Safe harbor match contributions are immediately 100% vested. Examples: ▪ **Basic:** Contribute a match of 100% on the first 3% of employee's deferrals and 50% on the next 2% of deferrals. ▪ **Enhanced:** Contribute a match of 100% on 4%, 5%, or 6% of employees' deferrals.
	Enhanced 4%	Enhanced 6%	
Nonelective	Nonelective 3%	Nonelective 5%	Contribute a percentage of each eligible employee's compensation (as defined in the Adoption Agreement). An employee does not need to contribute to receive an employer contribution. Safe harbor nonelective contributions are immediately 100% vested. Example: ▪ Contribute a nonelective contribution of 3%, 4%, 5%, or 6% of compensation for all eligible employees.
	Nonelective 4%	Nonelective 6%	



Safe harbor FAQs

Who is considered an HCE?

HCEs are generally defined as individuals with more than 5 percent ownership, certain family members of a more than 5 percent owner (spouse, parents, children, or grandchildren), or employees who earned more than $160,000 in the previous calendar year. (2026 limit; subject to IRS cost of living adjustments.)

What will I be limited to as an owner if I don't have a safe harbor plan?

Generally, all HCEs will be limited to defer only about 2 percent more than the average of all eligible non-highly compensated employes (NHCE). If the plan does not have any eligible NHCEs participating in the 401(k) plan, then none of the HCEs would be able to participate either.

NHCE average	Calculation
Between 0%-2%	Multiply that number by two to determine the maximum average for the HCEs.
Between 2%-8%	Add two to that number to determine the maximum average for the HCEs.
Greater than 8%	Multiply that number by 1.25 to determine the maximum average for HCEs.

Interested in a safe harbor 401(k) retirement plan? Contact the CoPilot sales team for more information or to request a plan proposal.

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