

Traditional vs. Safe Harbor

at a Glance

What each 401(k) design requires, what it costs, and when to act

A traditional 401(k) leaves company contributions up to the company and has to pass yearly IRS tests. A safe harbor 401(k) requires a contribution every year and skips those tests. This page holds the rules and the dates in one place.

Side by side

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Feature	Traditional 401(k)	Safe harbor 401(k)
Eligibility	Set by the plan document. No more than one year of service to join.	Same rule.
Company contributions	Optional. Match, contribute for everyone, both, or nothing.	Required. A flat 3% of pay for each eligible employee who isn't highly compensated, or a qualifying match.
Vesting	Company contributions can follow a vesting schedule.	Employees own the safe harbor contribution as soon as it's deposited. A QACA can require up to two years. Other company contributions can vest.
Yearly IRS tests	ADP test every year, plus the ACP test if the plan matches.	No ADP test. No ACP test when the match stays within the limits below.
Top-heavy rules	Apply. A top-heavy plan may have to make minimum company contributions for certain employees.	Exempt in any year the plan makes no other company contributions.
Automatic enrollment	Required for plans established on or after December 29, 2022, unless an exception applies.	Same rule.

The three safe harbor contributions

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Flat contribution. 3% of pay for each eligible employee who isn't highly compensated, whether or not the employee contributes.

Basic match. Every dollar an employee contributes up to 3% of pay, plus half of each dollar on the next 2%. That comes to 4% of pay for an employee contributing 5%.

QACA match. Every dollar up to 1% of pay, plus half of each dollar on the next 5%, which maxes out at 3.5% of pay. A QACA requires automatic enrollment and can make employees wait up to two years to own the contribution.

Limits on a safe harbor match

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A more generous match has to give each employee at least as much as the basic formula at every contribution level, and its match rate can't rise as employees contribute more. No highly compensated employee can get a higher match rate than an employee who isn't highly compensated contributing the same percentage of pay. To skip the ACP test as well: no match on employee contributions above 6% of pay, and any discretionary match capped at 4% of pay.

Dates for a calendar-year plan

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October 1. Last start date for a new safe harbor plan, because the first plan year generally has to run at least 3 months.

30 to 90 days before January 1. Window for the safe harbor notice when the plan matches.

November 30. Last date to add a 3% flat contribution for the current year.

December 30 of the following year. Last date to add a 4% flat contribution for a year that has already ended.

Ask your plan's administrator

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- ☐ Did the plan pass its yearly tests in each of the last three years, and how was any failure corrected?
- ☐ Is the plan top-heavy today?
- ☐ What would each safe harbor contribution have cost last year, using our actual payroll?
- ☐ Does the automatic enrollment requirement apply to our plan?
- ☐ When does the safe harbor notice have to go out for next plan year?

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