

The Retirement Times

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Safe Harbor Options



401(k) plans are intended to provide comparable advantages for all employees, and there are numerous safeguards in place to make sure their benefits are allocated equitably. U.S. regulatory measures ensure that a company's plan does not disproportionately benefit some employees over others, regardless of their income or ownership status. To evaluate whether the plan is administered in an even-handed manner, the IRS conducts annual nondiscrimination tests. Failure of any of these tests can result in significant — and costly — additional contributions or required corrective distributions to some employees.

Nondiscrimination Testing

There are three primary tests most people think of when they hear “nondiscrimination tests:” the Actual Deferral Percentage test, the Top-Heavy test, and the Actual Contribution Percentage test. All three tests judge a plan's overall fairness toward the employees served, but they use different metrics, and measure different plan items (different types of contributions or account balances) to make these determinations. By comparing deferral rates, contributions and asset balances among highly compensated and non-highly compensated employees, they assess whether plans disproportionately benefit higher paid employees, such as management and owners.

Safe Harbor Plans

Failure of nondiscrimination testing can result in the plan having to make qualified nonelective contributions for employees that are not highly compensated. Your plan might even lose its qualified status — and the tax benefits that go along with it if rules are not met in terms of passing testing or taking proper corrective actions. Fortunately, safe harbor plans can help you avoid these tests by preemptively meeting requirements for fairness through the plan design itself. There are four different types of deferrals that employers can make through safe harbor plans: nonelective, basic, enhanced and qualified automatic contribution agreement (QACA). Adopting safe harbor design results in less administrative burdens, and as a result often results with lower administrative costs for the plan.

Nonelective. A nonelective safe harbor plan requires employers to make automatic contributions to their employees' plans that are

equal to or greater than 3% of annual compensation for every employee eligible to participate. This type of plan benefits employees whether they choose to defer or not. If a plan sponsor wants to adopt a safe harbor design retroactively they can do so after the plan year (within certain parameters) if they raise the nonelective contribution to 4% of annual compensation for all eligible employees.

Basic. A basic safe harbor plan features what's known as a basic match. This means that employers simply match 100% of their employees' contributions, up to 3% of their annual compensation plus 50% match on employee contributions on the next 2% of pay (for a total potential match of 4% on 5% of pay).

Enhanced. An enhanced contribution is any contribution that's greater than those offered by a basic safe harbor plan. This is typically a 100% match of up to 4% of an employee's contribution. For growing businesses, these types of plans can be especially attractive to new talent with several competitive job offers under consideration. Vesting is immediate for nonelective, basic and enhanced match plans.

Qualified Automatic Contribution Arrangement. QACA plans automatically enroll eligible workers (who can opt out) and employ an auto-escalation feature that increases employee contributions by 1% annually until they reach 6%. To qualify for this type of plan — and avoid nondiscrimination tests — employers must select one of two options. The first is for employers to match 100% of an employee's contribution up to 2% of their annual compensation, plus 50% of the employee's contributions on the next 3% of compensation (for a potential total of a 3.5% match on 5% of compensation). The second option is to provide a nonelective contribution of 3% of annual compensation to all eligible employees, including employees who do not contribute. Vesting must take place within two years of employee service.

Why You Should Consider Safe Harbor

In addition to potentially saving you administrative work and your plan participants some administrative cost, safe harbor can also unlock savings opportunities for your highly compensated employees that may be presently limited while concurrently helping all of your employees save for retirement. For employees, most types of safe harbor plans guarantee fast or immediate vesting and allow them to potentially grow their nest eggs more quickly due to the provision of matching contributions. For employers, these attractive plans can fuel recruitment initiatives and boost employee morale by empowering workers with more robust tools to improve their financial wellness. Sponsors must weigh the tradeoff of increased payroll costs in light of lower administrative burdens and the eliminated risk of penalties resulting from failed nondiscrimination testing. Especially if you're planning on offering a match anyway, you should consider the advantages a safe harbor plan offers.

That said, it is important to also consider alternative ways to meet your organizations' goals. Safe harbor plan design can be a blunt, and sometimes limited, instrument that's more expensive than necessary if the organization's goal is really to ensure compensation replacement for a class of highly compensated employees. In many instances creation of a non-qualified plan may be a more precise tool to accomplish your organizational goals . . . and many times it's much less expensive than the safe harbor design options. Regardless, it's worthwhile to explore all of your options with your plan advisor.

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5 Ways You Can Benefit from Partnering with a Retirement Plan Advisor

From decoding key ERISA regulations to keeping abreast of fees and providing educational support to workers, there are many responsibilities that sponsors possess. Some business owners even forgo offering a 401(k) to their employees because they fear they don't have the time or expertise to manage a plan.

However, whether it's helping to attract and retain top talent or providing valuable tax advantages, a robust retirement offering is a major asset to an organization. To take advantage of these benefits, but still have time to run day-to-day operations, sponsors can avail themselves of an invaluable resource — a retirement plan advisor. Here are a few reasons to consider bringing in an expert.



Plan Design and Upkeep

There isn't (or shouldn't be) a one-size-fits-all approach to plan design. Factors such as business size, participant needs, and employee pay levels can all affect what kind of plan might be optimal for you. An advisor can design a plan that meets your business goals and customize your fund lineup, set vesting schedules and procedures, incorporate or omit revenue sharing features, determine qualified default investment alternatives and more.

Plans can also be tailored to meet the needs of your employees. For example, new hires who have recently graduated with high student loan debt may have different objectives and concerns than highly tenured individuals. Growing businesses can also benefit from an advisor because they can find options that will keep fees reasonable and help prevent your plan from running afoul of ERISA regulations.

Participant Outreach

One of the key steps to promote positive plan outcomes is by encouraging a high participation rate. This helps your plan avoid becoming top-heavy and assists with passing required nondiscrimination testing. Skilled and experienced advisors leverage plan design features and multiple outreach methods to encourage employee participation. Seminars, one-on-one consultations, and educational content can help them feel motivated to contribute and empowered to save for retirement.

Reduced Fiduciary Risk

An advisor can help mitigate fiduciary risk by assuming some of the responsibility. A 3(21) fiduciary will share fiduciary responsibility and make recommendations for selecting and replacing investment options, while a 3(38) fiduciary is delegated the actual responsibility to manage plan assets. However, the sponsor is ultimately responsible for ensuring that the fiduciary is properly appointed and monitored. Which type of fiduciary you choose to work with will depend on your needs, but either way, hiring an advisor can help you keep your fees transparent and reasonable — and ensure investments perform well enough to merit continued inclusion in the fund lineup. Excessive

fee litigation is becoming more commonplace, and it can be costly. You want to do all you can to avoid finding yourself in the crosshairs of a 401(k) lawsuit, and in the unhappy circumstance that you do find yourself there, you want the confidence that you understood prudent processes and have the proper documentation of same.

Compliance Support

Sponsors who run their own plans have their work cut out for them to maintain compliance. By working in conjunction with your other service providers and retirement plan committee, advisors can help ease administrative burdens. Market changes, mergers and acquisitions, and regulatory changes could affect plan design and investment lineup decisions. A retirement plan advisor can help you stay abreast of any developments that may affect your organization.

The Advisor Advantage

The upkeep of a retirement plan can feel overwhelming at times. Though some sponsors attempt to run their plans on their own, those who hire advisors have a built-in support system that can help ensure their retirement plan is a net benefit, instead of a burden.

Have You Met Your Match?



Just how important is a 401(k) match to your employees? It appears to be top of mind, according to Principal's 2021 Retirement Security Survey. The study's results show that the match matters most, as the top retirement plan considerations of survey participants when considering a new job are as follows: employer match (91%), eligibility requirements (80%), vesting requirements (74%), investment options (73%) and withdrawal options at job change or retirement (70%).

Moreover, one in four respondents indicated that they were considering retiring from their job or looking for a new one over the next 12 to 18 months. In an especially tight labor market, this

means employers need to do all they can to attract top talent to their organizations.

How Do You Stack Up?

With employer match on the minds of workers, and many considering making a career move in the near future, it makes the following question all the more important: "What are your competitors doing to assist their workers in planning for retirement?" Here's a roundup of some recent data on employer trends.

Employer contributions. According to U.S. News & World Report, the average 401(k) employee contributions for Vanguard retirement plans in 2020 was 7%, with employers contributing an additional 4% to their accounts. Still, total contributions continue to fall short of the goal of 15% of annual income frequently recommended by many financial advisors.

Match formulas. T. Rowe Price's Reference Point benchmarking report of 674 retirement plans, published in June 2021 details the top five employer-match formulas for their defined contribution plans in 2020:

50% up to 5% (20%)

100% up to 3% + 50% up to the next 2% (19%)

100% up to 4% (12%)

100% up to 6% (11%)

100% up to 5% (9%)

Vesting schedules. XpertHr's 2021 Employee Benefit Survey, as reported by CNBC, asked 452 U.S. employers how long their matches take to vest. Results were as follows: immediate (28%), one year (13%), two years (7%), three years (14%), four years (6%), five years (17%), six years (10%) and unknown (5%).

Show Them the Money

According to CNBC, more than 40% of workers say it would take "a miracle" for them to be financially prepared for retirement. At this time, it's advisable to look at your retention numbers and peruse your exit interviews. Are many human resource losses likely related to a perceived weakness in your retirement plan? Compare your defined contribution offering, especially in the above spheres, to what other organizations in your industry and area are doing. Because it's more than likely that, if you don't, at least some of your current employees will be in the near future.

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Participant Corner

We know you are ready for summer! But how's your retirement plan doing?

Summer can serve as a preview of your retirement — long days in the sun and spending time with your loved ones! So, what better time to do a routine check-up on your retirement plan! Protect your loved ones and ensure you are keeping up to date with your retirement plan with our summer homework assignments!

- Update or Assign Beneficiaries**
Did you experience a major life change this year, such as marriage, divorce, birth or death? It's important to consider updating your beneficiaries when you go through a major life change.
- Review Cyber Security Best Practices**
Retirement plans are a major target for cyber attacks. Retirement plan participants often have weak passwords and can unknowingly fall for phishing schemes. It's important to educate yourself on cyber security best practices to ensure you are keeping your information and assets safe. Make sure to use multi-authentication where available!
- Increase Contributions**
Raise your plan contributions once a year by an amount that's easy to handle, on a date that's easy to remember—for example, 2 percent every Fourth of July. Thanks to the power of compounding (the earnings on your earnings), even small, regular increases in your plan contributions can make a big difference over time.
- Revisit Asset Allocation**
Rebalance your portfolio back to the original asset allocation that took into account your risk tolerance and time horizon, this ensures you adhere to your investment strategy. You rebalance by selling assets that make up too much of your portfolio and use the proceeds to buy back those that now make up too little of your portfolio.
- Remember Sunscreen!**
Wearing sunscreen reduces your risk of developing skin cancer, it keeps your skin looking younger and protects you from UVB rays. What other reasons do you need to wear it?



For assistance with any of these homework assignments (except the sunscreen), please contact your financial professional Kevin Donahue AIF[®], CRPC[®] at kevin@risenfinancial.com or call 813.512.2746.

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To remove yourself from this list, or to add a colleague, please email us at kevin@risensonfinancial.com or 813-512-2746
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Our Mission

Risen Son Financial strives to help employers reduce the cost of their retirement plans and the liability of their responsibilities by naming ourselves as fiduciaries to the plan and participants. We believe this builds the foundation to help employees reach their ideal financial future, through one-on-one education, risk analysis, and financial planning.

Why Us?

Based in Land O' Lakes, Florida, Risen Son Financial serves as retirement plan partners and investment fiduciaries for large and small businesses across the nation. Fulfilling the duties of good faith and trust, clients choose us knowing we will go above and beyond. As an Independent Financial Advisor, Risen Son Financial represents clients to the marketplace without any bias or conflicts of interest. We're accountable to you and your best interests. Risen Son Financial serves as a named fiduciary for both the plan and participants. As your Plan Fiduciary, we evaluate plan design, mitigate risks, conduct reviews, and offer solutions helping to improve performance. As Participant Counselors, we also serve as fiduciaries providing customizable advice and resources for the participants.

Our Process

At Risen Son Financial, our first step is to review the current cost and value being received by the plan. We can do this by reviewing the 404(a)(5) (participant fees) and 408(b)(2) (plan fees) disclosures that plans are required to distribute and receive from vendors. If these are not readily available, we can also review fund lineups and statements.

We meticulously review the retirement plan, including these 4 costs:

- 1. Recordkeepers** – Receive funds from the employer and employee paycheck. Their main responsibility is to keep record of the contributions a participant receives and investment gains. Additionally, recordkeepers do the buying and selling of investments that the participant chooses, while also providing a website and quarterly statements.
- 2. Administrators** – Make sure the plan meets the requirements set forth in the IRS code. They handle, testing, compliance, vesting, eligibility, loans, and withdrawals. Many times, administrators are "bundled" with the recordkeeper.
- 3. Investments** – Contributions are deposited into investments. They have their normal expense ratio; however, these often come loaded with internal fees like 12b-1, sub-TA, concession and wrap. This is called "indirect compensation" or "revenue sharing." Often, an investment company will pay the recordkeeper a fee to be included in the investment lineup.
- 4. Advisors or Brokers** – There is a difference. As a named fiduciary to the plan and participants, Advisors give advice, recommendations, and/or have discretionary control of investments, along with being the quarterback of the plan. This includes benchmarking all fees paid to vendors and shopping plan costs to keep fees reasonable. Advisors are held to the best interest standard. In contrast, Brokers are held to the suitability standard. Brokers can't give advice nor can they name themselves as a fiduciary to the plan. Brokers sell a product as a representative of a larger entity.

Once all fees are known, we benchmark those fees and services being received to the open market. We then use this benchmarking to get the cost of the plan reduced. We accomplish this by either going to the current provider to have them reduce the cost or moving the plan to a platform that will, along with providing for the needs of the plan. Being completely independent we can work with all providers which allows us to provide bias-free advice.



About Kevin Donahue, CRPC®, AIF®

Kevin Donahue is the owner of Risen Son Financial. After serving four years in the United States Navy, he graduated from Florida State University in 2004 earning a bachelor's in Computer Science and a minor in Mathematics. Seeing firsthand, the impact of retirement saving and planning with his own parents, Kevin entered the financial services business to pursue his passion of helping clients meet and exceed their financial goals and visions. Kevin has passed and currently holds the Series 65 license along with obtaining Chartered Retirement Planning Counselor (CRPC) designation from the College for Financial Planning. This designation encompasses pre-and post-retirement needs, wealth management, estate planning, and the entire retirement planning process. Additionally, he holds the Accredited Investment Fiduciary (AIF), which empowers investment professionals with the fiduciary knowledge and tools they need to serve each client's best interests.

Kevin resides in Land O' Lakes with his twin boys Andrew and Noah.