FLORIDA
RETIREMENT CONSULTANTS

MAKING IT ACTIONABLE

A 401(k) is a very popular retirement plan. Like other plan designs, it allows your employees to take advantage of tax deferrals on contributions and earnings while their money accumulates for retirement. To justify this special tax status, the IRS put in place rules to assure your plan benefits rank-and-file employees, not just company owners and highly compensated employees. These are called "**nondiscrimination rules**." There are tests that must be performed each year to make sure your plan is benefiting everyone fairly.

To avoid uncertainty about nondiscrimination tests as you—a company owner—maximize your own retirement savings, you can choose to make additional contributions for your employees. These contributions give you a free pass on these tests. They're called "**Safe Harbor**" contributions.

There are several matching formulas or non-elective contributions an employer can make to satisfy a Safe Harbor requirement. In this document, we're discussing one specific option called a **Qualified Automatic Contribution Arrangement**, or **QACA** (pronounced "quacka") for short. The IRS introduced QACA as an option that both provides a Safe Harbor and encourages greater plan participation.

ACTION TO TAKE NOW

QACA has become a very popular Safe Harbor design. If you're considering a Safe Harbor plan design for your company, it's useful for you to understand the gist of how QACA works and the strengths of the QACA option. We want to help you make well-informed decisions at every opportunity.

How does QACA work?

1. Your plan must automatically enroll any eligible employee unless they choose to opt out.
2. Employee deferrals start automatically at a minimum of 3% of compensation unless they change this, and this rate increases 1% each year until it reaches at least 6%.

3. The plan must also include a qualified default investment for employees who don't make an investment election on their own.

4. The matching contribution formula for a QACA Safe Harbor Plan is a 100% match on the first 1% of compensation deferred and a 50% match on deferrals between 1% and 6%.

5. Unlike other Safe Harbor options, the match can be subject to a 2-year cliff vesting schedule. That means if an employee leaves the company inside of two years, they forfeit the match back to the plan.

Why choose a QACA plan provision?

1. Like all Safe Harbor plan designs, it can potentially reduce plan maintenance costs by eliminating annual nondiscrimination testing requirements.

2. Safe Harbor provisions allow you and other highly compensated employees to maximize your deferral to the annual limit.

3. Safe Harbor provisions relieve your plan's potential top-heavy status.

4. The matching or nonelective contributions you make towards a Safe Harbor provision represent additional competitive benefits to help recruit and retain employees.

5. QACA uniquely encourages automatic enrollment and automatic increases, which will put more people in your company on a path to save for their future.

6. QACA offers you, as an employer, the extra flexibility to include a vesting component to your plan.

We encourage you to get in touch with us if you'd like to learn a little more about how Safe Harbor options can help make your plan more successful.