



# Retirement Times

March 2020

## Considering a Traditional Safe Harbor Retirement Plan?



It may be advantageous for a plan sponsor to consider adopting a traditional safe harbor design for their retirement plan. Adopting a safe harbor retirement plan design permits an employer to essentially avoid discrimination testing (the testing is deemed met). Remember, this testing limits highly compensated employees' contributions based upon non-highly compensated employees' contributions. By making a safe harbor contribution highly compensated employees can defer the maximum amount allowed by their plan and Internal Revenue Code limits, without receiving any refunds. General rules for all safe harbor contributions include the following:

- Safe harbor contributions are 100 percent vested.
- There may be no allocation requirements imposed on safe harbor contributions, for example, a 1,000-hour service requirement or a last day employment rule.
- Safe harbor contributions may be used toward satisfying the top heavy plan minimum contribution requirement.
- All eligible participants must receive a written notice describing the applicable safe harbor provisions between 30 and 90 days before the beginning of the plan year. This notice must be provided for each year the plan will be safe harbored unless the plan is going to elect safe harbor treatment after commencement of the plan year and utilize nonelective contributions to meet the safe harbor contribution requirement per the SECURE Act, which passed in December, 2019.

Generally, there are two types of safe harbor contributions:

1. The non-elective contribution, which is a 3 percent contribution to all eligible participants (or 4 percent if safe harbor is going to be elected later than 30 days prior to plan year end, in accordance with the SECURE Act), or
2. A matching contribution to participants who are contributing to your plan.

There are two options from which to choose for the matching contribution, either the basic or the enhanced match. The basic safe harbor matching contribution is defined as a 100 percent match on the first 3 percent of compensation deferred and a 50 percent match on deferrals between 3 percent and 5 percent of compensation. Alternatively, the employer may choose an enhanced matching formula equal to at least the amount of the basic match; for example, 100 percent of the first 4 percent deferred. All that said, employers wishing to explore a safe harbor solution should also be aware that it may entail more cost if their present contribution structure is less than the required safe harbor required structure.

Alternatively a plan can adopt a qualified automatic contribution arrangement (QACA) design and receive the same safe harbor benefits with automatic enrollment and escalation features.

To learn if a traditional safe harbor feature is appropriate for your plan, or to explore the workings of QACA, contact your plan advisor.

## Is Your Turnover Rate Routine? What You Need to Know About Partial Plan Terminations



A partial plan termination is presumed by the IRS to occur when 20 percent or more of a company's employees are no longer eligible to participate in the plan in a determined span of time (typically one plan year, but it can be other spans of time based on facts and circumstances). Routine turnover during the year is generally not considered a partial plan termination.

To determine whether your turnover rate is routine, consider the following factors:

- What was your turnover rate during other periods and what was the extent to which terminated employees were actually replaced?

- Do the new employees perform the same functions as the previous employees? Do they have the same job classification or title? Do they have comparable compensation?

There is no requirement to notify the IRS of a partial plan termination, but all affected employees must be 100 percent vested in their account balance as of the date of their termination. If this hasn't happened, a Voluntary Correction Program would be appropriate.

For more information on partial plan terminations, please contact your plan advisor.

## Tips for Preventing Uncashed Retirement Checks



Managing uncashed retirement checks may be considered a nuisance by plan administrators. Nevertheless, the employer still has fiduciary responsibility when a former employee fails to cash their distribution. Search efforts to locate a missing plan participant consume time and money and may fail to locate the participant. Likewise, going through the process of turning over dormant accounts to the state can also consume time and resources.

Decrease the burden of uncashed checks by:

1. Discussing with terminating employees during the exit interview the options for their retirement plan. They may forget they have a company-sponsored retirement plan, or don't know how to manage it.
2. Reminding departing employees that they can roll over their retirement assets into their new employer's plan. Your plan's service provider or the new employer can answer questions the former employee may have about the rollover process.
3. Letting employees with an account balance of \$1,000 or less know they should expect to receive a check in the mail after a certain amount of time.
4. Having the employee verify their current address to where the check can be sent.

Remember, fiduciary responsibility and liability extends to terminated employees with assets in the plan. This responsibility includes delivery of all required distributions and all fiduciary prudence responsibilities. It's very important to stay in touch with this important group.

## This Month's Participant Memo

# Simple Secrets for Retirement Success



Retirement planning can often seem complicated and daunting. Really, though, most of the actions you need to take to work toward a confident retirement are very simple.

### **Follow a Plan**

Successful investors have a plan and they stick to it. You have access to a qualified plan like a 401(k). With that comes access to educational materials and often, personalized information about saving for retirement. Creating a retirement plan, assessing risk tolerance, and setting up an asset allocation are easy steps to take toward retirement, and can always be readjusted later as circumstances change.

### **Focus on Saving More than Spending**

Saving as much as possible is one of the most important steps for you to take. You should strive to live below your means and save the remainder. A qualified plan makes saving easy, since the money comes out before you receive it. Someone who starts saving 3 percent of income and increases that by 1 percent every six months will be saving 13 percent in five years.

### **Maximize Matching**

If your qualified plan matches contributions, you should take full advantage of it. In this situation, the top priority is to contribute enough to get the maximum matching contribution. This “free money” can add tens of thousands of dollars to your retirement portfolio.

### **Seek Tax Deferred Retirement Plans**

Tax-deferred plans are another huge boon to retirement savings. Money is contributed to the plan before taxes, and continues to grow and compound free of taxes, until withdrawal. This means that funds that would normally have gone to the government stay in your retirement account, boosting returns.

This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

Financial planning services are offered through Epstein Financial Services, a registered investment advisor.

Epstein Financial Services  
12 Somers Rd.  
East Longmeadow, MA 01028  
(413) 224-3606

ACR# 339464 01/20

A Proud Member of

