FISHER INVESTMENTS®
401(k) SOLUTIONS

SAFE HARBOR CASE STUDY

How three partners can increase their annual 401(k) contribution by 6x

Increase in annual 401(k) contribution

+$76,500

AT A GLANCE

Situation

- Three 50+ year old partner/owners of law firm.
- Own a firm with ten employees.
- Practice has a traditional 401(k) with no employer contribution.
- Non-partner employees contribute little to no funds into their retirement.
- The owners' 401(k) contributions are limited to $5,000 annually per owner.
- The partners want to maximize their personal contributions up to the $30,500 maximum.

Possible Benefits

- Increases contribution from $5,000 to $30,500 for each partner.
- Passes compliance testing.
- No corrective distributions to the partners.

CHALLENGE

Consider three partners of a successful law firm, all are 50+ years old. The firm sponsors a 401(k) plan for the partners, and their ten employees.

The 401(k) plan doesn't have much uptake among the rank and file employees, most contribute little to no funds into the plan. This makes it very difficult for the partners to contribute to the plan, and still pass annual compliance testing. As a result, the three partners are only able to contribute ~$5,000 each per year into their retirement accounts. In years when they contribute more, they receive corrective distributions from the plan, causing major administrative and tax headaches.

The objective of all three partners is well-defined. They seek to maximize their personal annual contributions to the plan, and enjoy the tax benefits of the retirement plan.

OBJECTIVE

The firm offers a 401(k) plan to their employees, which the partners participate in. However, due to low participation among the rank and file employees, the partners aren't able to maximize their contribution, or their tax benefits in the plan.

All three partners have very clear near-term objectives:

1. Maximize their annual personal contributions in the 401(k) plan
2. Enjoy the tax advantages of their 401(k) plan
3. Avoid failed compliance testing and corrective distributions

SOLUTION

The firm consults with Fisher Investments, who teaches them about how adding a Safe Harbor component to their existing plan could help them achieve their objectives.

Adding a Safe Harbor component automatically deems the plan to pass compliance testing and eliminates the need for corrective distributions.

It also enables each partner to maximize their annual contribution to their retirement accounts. Their total allowable contribution jumps from $5,000 to $30,500 each per year.[1] A 6x improvement over their prior contribution limit!

IN SUMMARY:

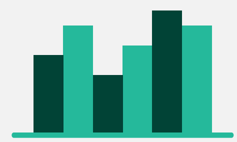
Adding a Safe Harbor component to the existing 401(k) allows each partner to maximize their annual personal contributions to the plan, without worrying about corrective distributions or failed testing.

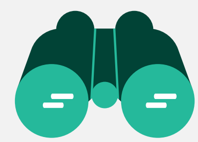
$25.5K

Savings increase per partner

$183K

Per partner retirement savings over 6 years





RESULTS

- **Increases contribution from $5,000 to $30,500 for each partner.**
- **Passes annual compliance testing.**
- **No corrective distributions to the partners.**

Compliance testing

Annual compliance testing is required for all 401(k) plans. These tests confirm that highly compensated employees (anybody making over $155k/year for 2024, or a 5%+ owner of the company) do not receive a significantly higher benefit than non-highly compensated employees.

If a plan fails compliance testing, the company may be required to make non-elective employer contributions to eligible employees. Sometimes highly compensated employees may be subject to corrective distributions, which can be costly, and an administrative burden.

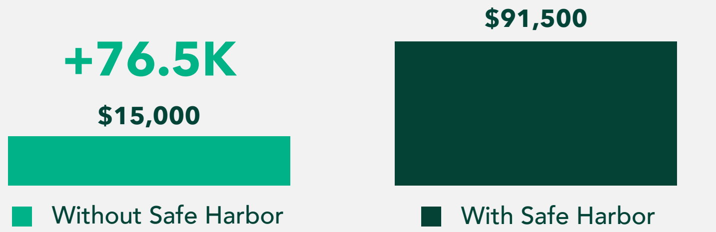
[1]This is based on three 50+ year old business owner maximizing their contribution for 2024 including a catch-up contribution. Savings are tax-deferred until withdrawn in retirement. Safe harbor isn't a good fit for every business. Consult with a professional to help determine if the benefits of safe harbor outweigh the costs for your specific business.

Tax-Advantaged Retirement Plan Contributions

Owners: 3

Total Employees: 10

Owner Goal:
Maximize Personal Plan Contributions



	Before (without Safe Harbor)	After (with Safe Harbor)
Can owner's contribute maximum contribution amount of $30,500 annually?	No	Yes
Are owner's making safe harbor contributions to employees?	No	Yes
Does plan pass compliance testing?	No	Yes
Does plan make corrective distributions to owner's?	Yes	No

ARE YOU A FIT FOR SAFE HARBOR?

	Better Fit	Poorer Fit
Are Owners Currently Able to Maximize their Personal Contributions in the Plan?	No	Yes
Has the Plan Ever Had Corrective Distributions or Failed Compliance Testing?	Yes	No
Employee Count	Less than 75	More than 74
Is the Employer Willing to Provide An Employer Contribution of ~3% to Employees?	Yes	No

SAFE HARBOR BENEFITS AND RISKS

Benefits

- Enables plans to automatically pass compliance testing, allowing owners to maximize their salary deferral
- Employer contribution is a tax-reducing business expense
- Offers flexible contribution options

Risks

- Can be expensive because it requires the employer to provide an annual contribution to eligible employees
- Employer contributions are fully vested immediately

HELPFUL RESOURCES

Tax Savings Guide

Learn how to unlock the IRS tax benefits available to you by downloading our free Tax Savings Guide.

Safe Harbor 101

What you need to know about starting a Safe Harbor 401(k), all on one helpful page.

Solutions for Top Heavy 401(k) Plans

In this article, we lay out the challenges and solutions for 'top heavy' retirement plans.

Give us fifteen minutes and we'll consult on an actionable plan to help owners and 401(k) plan participants contribute the maximum personal deferral to their retirement plan. Up to $23,000 per year, or $30,500 if over age 50. It could be the most profitable 15 minutes you spend all year.

CONTACT US

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