Advisor Connect | Encourage Greater Participation with a QACA Safe Harbor Plan

MAKING IT ACTIONABLE

Using a Safe Harbor provision in retirement plan design helps to fulfill the goals of many company owners. They can reduce plan maintenance costs, allow owners and highly-compensated employees to maximize their retirement deferrals, and may even help to attract and retain quality employees. Most importantly, a Safe Harbor provision allows the plan to receive a free pass from the standard non-descrimination testing requirements. There are several matching formulas or non-elective contributions an employer can make to satisfy the Safe Harbor requirement.

The IRS has also introduced one specific plan design option that both provides a Safe Harbor and encourages greater plan participation. It's called a **Qualified Automatic Contribution Arrangement**, or **QACA** ("quacka") for short. It's a funny name, but it's become a popular Safe Harbor design because it encourages more people to save for their future.

This plan design encourages automatic enrollment and automatic increases, which can help drive financial wellness among employees. It also gives employers more flexibility.

ACTION TO TAKE NOW

As an advisor, it's important to understand the ins-and-outs of all Safe Harbor options so you can give the most informed and expert advice to clients who may benefit from adding this provision, and guide them towards a QACA option in the event that it suits their individual situations.

Familiarize yourself with the specific characteristics of QACA plans and how they work:

1. The 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.

We encourage you to get in touch if you'd like to learn a little more about how Safe Harbor contributions can help make your clients' plans more successful.