guideline

Thanks for considering Guideline

Here is some information your company may find helpful in deciding how to customize its Guideline 401(k) plan.[1]

If you'd like to discuss further, please give us a call at (888) 588-4698, or schedule some time with your Guideline Rep.

Default deferral rate

Automatic enrollment is a core plan design feature of every Guideline 401(k) plan. If eligible employees do not opt out of participating in their company plan, they will automatically start contributing to their 401(k) at a default deferral rate set by the company.

Eligible employees have the option of changing their deferral rate or opting out at any time.

The default deferral rate can be set as low as 1% or as high as 10% with Guideline.

Profit sharing

Profit sharing is a discretionary year-end employer contribution that enables companies to give a bonus to their eligible employees through the 401(k). Eligible employees are not required to make their own personal deferrals to receive a profit share. With Guideline, a profit sharing pool can be allocated based upon a percentage of eligible employees' salary (pro rata), a flat dollar amount, or a more custom formula that typically favors older employees (new comparability calculation.) Please note that this is only available for Core & Enterprise plans with Guideline.

Eligibility requirements

Companies can choose when employees become eligible to participate in a Guideline 401(k) based on two factors:

- Minimum age: Must be age 18, 19, 20, or 21
- Length of employment: date of hire or after they've been employed for 3, 6, or 12 months

Guideline tracks employee eligibility and will automatically invite employees to the plan once they become eligible.

Vesting

Non-Traditional Safe Harbor employer contributions (matching and profit sharing) can be subject to a vesting schedule. Guideline can accommodate different vesting schedules for all non-Safe Harbor employer contribution types:

1, 2, or 3 year cliff

Employer contributions do not vest until the employee reaches 1, 2, or 3 years of service. At that point, the employee will become 100% vested in the contributions.

2, 3, 4, 5, or 6-year graded

Employer contributions are vested evenly each year, until the maximum year is reached. For example, with 2-year graded vesting, contributions will be 50% vested after 1 year of service, and 100% vested after 2 years of service. With 6-year graded vesting, contributions vest 20% each year, starting with year 2.

[1] This content is for informational purposes only and is not intended to be construed as tax advice. You should consult a tax professional to determine the best tax advantaged retirement plan for you.

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Traditional Safe Harbor plans[2]

A Traditional Safe Harbor plan is exempt from IRS nondiscrimination testing. It requires the company to contribute to their employees' 401(k) accounts to encourage more employees to participate.

With a Safe Harbor plan, owners and officers can make deferrals up to the maximum limit ($23,000 in 2024; catch-up contributions of $7500 available to those age 50 or over, for a total amount of $30,500 in 2023) without the plan being subject to nondiscrimination testing. All Safe Harbor contributions are immediately vested. With Guideline, a company can choose one of the following:

Basic match

Your company matches 100% of each employee's 401(k) contributions, up to 3% of an employee's compensation, plus a 50% match of the next 2% of their compensation.

Enhanced match

Your company matches at least 100% of each employee's 401(k) contributions, up to a minimum 4%, and a maximum 6%, of their compensation.

Non-elective contribution

Your company contributes at least 3% of each employee's compensation to their 401(k), regardless of whether employees make contributions themselves.

Discretionary plans

Discretionary matching is any match formula that does not meet Safe Harbor requirements. A company has flexibility to adjust the matching formula as business needs change.

Examples of common discretionary matching formulas:

- 25% on the first 4% of deferred compensation (1% maximum employer contribution)
- 50% on the first 4% of deferred compensation (2% maximum employer contribution)
- 100% on the first 3% of deferred compensation (3% maximum employer contribution)through the 401(k). Eligible employees are not required to make their own personal deferrals to receive a profit share.

QACA Safe Harbor Plans

A QACA (short for Qualified Automatic Contribution Arrangement) Safe Harbor plan differs from a traditional Safe Harbor plan in that it also includes an automatic contribution arrangement, in exchange for a slightly lower employer matching contribution and a short vesting schedule option.

Like the name suggests, QACAs require an automatic contribution arrangement that starts at an initial default deferral rate of at least 3%, increasing at least 1% annually to no less than 6% and no more than 15%. However, if the default deferral rate is 6% or more, no escalation is required.

Like traditional Safe Harbor plans, QACA plans must make specific employer contributions and also have specific notice requirements.

- A QACA basic match requires the employer to match 100% of employee deferrals up to 1% of compensation, plus 50% from 2 to 6% of deferrals. This gives a total maximum match of 3.5% provided an employee defers at least 5%. Compared to a traditional safe harbor a participant will have to defer an additional 1% to get the full match and that match will be .5% lower than a traditional safe harbor basic match.
- The QACA enhanced match must be at least as much as the QACA basic match at each tier of the match formula, and cannot match on deferrals over 6% of compensation. For example, 100% of deferrals up to 3.5% of compensation would be a valid QACA enhanced match.
- The QACA nonelective follows the same rules as the traditional safe harbor nonelective formula, requiring employers to contribute at least 3% of each eligible employee's compensation, regardless of whether or not the employee contributes themselves.

QACA contributions also differ from Traditional Safe Harbor contributions because they can be subject to a 2 year vesting schedule, as opposed to being immediately vested. (Vesting is available in Guideline's Core & Enterprise Tiers.)

Both types of safe harbor allow highly compensated employees (often officers and owners) to max out their own deferrals without having to make corrective contributions to other plan participants. Additionally, if an employer choses a Safe Harbor Matching formula, they will only be making matching contributions for employees who are enrolled and participating.

[2] In general, Safe Harbor 401(k) plans automatically satisfy Top Heavy requirements. One exception is for plan years in which the employer makes discretionary contributions (such as profit sharing contributions) in addition to Safe Harbor contributions. Removing Safe Harbor contributions mid-year will also require plans be subject to all compliance testing. All plans of related entities must be administered by Guideline in order to provide compliance testing.