Defined Contribution Legislative and Regulatory Update

OCTOBER 2018

We are committed to providing you with the information and tools you need to help you meet your fiduciary responsibilities as a plan sponsor and offer your employees an exceptional retirement plan. This newsletter is designed to inform you about the latest legislative and regulatory developments that may affect your plan.

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From the Hill

Family and Savings Act of 2018

As part of the "Tax Reform 2.0" legislative initiative the House of Representatives recently passed a bill, the Family and Savings Act of 2018 (FSA), that would make a number of changes to retirement plan rules. Following are highlights of the parts of the FSA that impact defined contribution plans. The FSA also contains provisions impacting defined benefit plans, IRAs and Section 529 plans.

Enhanced availability of multiple-employer plans: Multiple-employer plans allow individual employers to join a pooled plan arrangement that typically offers reduced cost, time and fiduciary liability to participating employers compared to an individual plan. Currently, regulatory barriers limit the availability and attractiveness of these types of plans. The FSA would remove those barriers and create a new designation of "pooled plan provider" to enhance the protections for plan participants in these arrangements.

Portability of lifetime income investments: The FSA would give participants the ability to transfer a lifetime income investment to another plan or an IRA in the event the investment can no longer be held in their current plan.

Fiduciary Safe Harbor for Selection of Lifetime Income Products: Amends ERISA to allow plan fiduciaries to rely on the determinations of state insurance commissioners about the financial stability of an annuity provider when selecting certain guaranteed income products for their plan.

Changes to required minimum distribution rules: The FSA would not require distributions for individuals with an aggregated retirement plan and an IRA balance of $50,000 or less.

Election of 401(k) safe harbor status: The FSA would add some flexibility to the process.

Prohibition on credit card loans: The FSA would prevent the distribution of plan loans through credit cards.

Penalty- free withdrawals for birth or adoption: The FSA would permit plans to make tax-free distributions of up to $7,500 with a repayment option for the birth or adoption of a child.

Extended date for plan adoption: The FSA would allow plans to be treated as adopted for a tax year if adopted before the due date (including extensions) of the tax return for that year.

Other provisions impacting defined contribution plans include allowing military reservists to maximize benefits in both private sector and reservist plans, creating a new option for governmental plan participants when two benefit formulas are available, and clarifying who can be covered in plans maintained by church-controlled organizations, and the treatment of custodial accounts upon termination of a Section 403(b) plan.

The FSA would also create a new savings vehicle called a universal savings account through which individuals could contribute up to $2,500 annually to a trust and take a distribution from the trust at any time and for any purpose without paying tax on earnings generated in the account.

While these changes may be of great interest to many, it is important to keep the FSA in perspective. In order to become law this bill would need to be passed by the House and the Senate and signed by the president. At this point the Senate does not have a companion bill under consideration. There is a bill in the Senate, the Retirement Enhancement Security Act of 2018 (RESA,) which contains some of the same provisions as the FSA, so it's possible the House and the Senate could collaborate in a conference committee and produce final legislation that would pass both houses. It remains to be seen whether or when that will happen and what the final bill will say. We will keep you apprised of any significant developments as they occur.

Practical implications

Both President Trump and Congress are currently focused on retirement issues. We have not seen major retirement legislation since the Pension Protection Act of 2006 and, while the FSA is not likely to be the final word, many of its provisions have already garnered support in both the House and Senate so it is worth keeping an eye on.

Recent retirement legislative initiatives

In July, Senators Tom Cotton (R-AR), Todd Young (R-IN), Heidi Heitkamp (R-ND) and Cory Booker (D-NJ) introduced a series of four bills aimed at increasing access and coverage of workplace retirement saving arrangements and helping workers establish emergency savings accounts. The bills drew from recommendations made by the Bipartisan Policy Center in its June 2016 Report of the Commission on Retirement Security and Personal Savings. Each of the senators in the bipartisan

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group served as the lead sponsor on one of the bills and as co-sponsors on the others. The bills would provide as follows:

The Small Business Employees Retirement Enhancement Act (S.3219) – Lead Sponsor: Senator Tom Cotton

This bill incorporates many of the provisions from the Retirement Enhancement and Savings Act (RESA) around "open" multiple-employer plans (MEPs). RESA was first introduced in 2016 and received unanimous bipartisan support from the Senate Finance Committee. The bill would encourage open MEPs by eliminating the Department of Labor (DOL) rule that participating employers must share a common nexus and the IRS rule holding that if a single employer violates a qualification requirement under the plan, the entire plan is disqualified (commonly known as the "one bad apple" rule). In order to take advantage of these relaxed requirements, the open MEP would have to be administered by a "pooled plan provider" who acts as a named fiduciary and assumes many of the day-to-day administrative duties.

In a departure from RESA, Senator Cotton's bill would provide for a limitation on employer fiduciary liability in certain circumstances in which the employers are participating in a "registered pooled employer" plan. The requirements include:

- Each participating employer must have no more than 100 employees who received compensation in excess of $5,000 for the preceding year.
- The plan must be registered on a DOL website that allows interested employers to select a plan from it.
- The pooled plan provider:
  - Must be a named fiduciary under the plan.
  - Must have fiduciary liability insurance of at least the greater of 5% of plan assets or $1 million or be a bank, savings and loan, insurance company, or registered investment adviser subject to regulatory oversight and meeting certain capital requirements and asset levels.
- The provider must receive no more than reasonable compensation.

If these requirements are met, the participating employer is relieved of fiduciary responsibility, including the selection and monitoring of investments under the plan. The employer does retain responsibility for monitoring enrollment requirements and remitting contributions in a timely manner.

The Retirement Security Flexibility Act (S.3221) – Lead Sponsor: Senator Todd Young

Senator Young's bill would create a new automatic enrollment/acceleration safe harbor for non-discrimination testing. The current automatic enrollment/acceleration safe harbor provides for employees to be automatically enrolled at a deferral rate of at least 3%, and that would be increased by 1% increments until it hit a deferral rate of at least 6%. An employee may be enrolled at a higher deferral rate up to a maximum limit of 10%. There are required matching contributions for non-highly compensated employees (NHCEs) of at least 100% on the first 1% of deferrals and 50% on the next 5% of deferrals. The safe harbor could also be satisfied by a qualified non-elective contribution (QNEC) of 3% of all the NHCE's compensation.

The Young bill would also raise the maximum limit on automatic enrollment deferrals from 10% to 15%. The bill would allow sponsors to lower or even eliminate the need for any employer contribution, but doing so would lower the amount participants could contribute. In 2018 the limit is $18,500 with the ability to make an additional $6,000 catch-up contribution at age 50 or older. The table below illustrates the newly proposed safe harbor:

AMOUNT OF EMPLOYER CONTRIBUTION	LIMIT ON EMPLOYEE DEFERRALS
No employer contributions	Employees may defer 40% of the applicable limit
100% match on first 1% of deferrals and 50% match on next 1% of deferrals or a 1% QNEC	Employees may defer 60% of the applicable limit
100% match on first 1% of deferrals and 50% match on next 3% of deferrals or a 2% QNEC	Employees may defer 80% of the applicable limit

The bill also provides for automatically reenrolling eligible employees who are not participating or are deferring at a rate of less than 3% once every three years. These employees would be automatically reenrolled at the plan's default rate.

Strengthening Financial Security Through Short-Term Savings Act (S.3218) – Lead Sponsor: Senator Heidi Heitkamp

Senator Heitkamp's proposal would allow employers to help employees establish an emergency savings account. The bill would extend the current preemption of any state laws restricting automatic enrollment 401(k) plans to short-term savings account programs that an employer could elect to offer.

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There could be no fees associated with the accounts, and the maximum balance would be limited to $10,000.

The bill would also direct the Department of the Treasury to, within one year, issue guidance facilitating offering short-term savings accounts as part of a 401(k) plan.

The Refund to Rainy Day Savings Act (S.3220) – Lead Sponsor: Senator Cory Booker

While Senator Booker's bill would not have the direct, or even indirect, nexus that the other bills would have, it is part of the overall package introduced in July. The bill would allow taxpayers to defer 20% of any tax refunds due to them. The monies would accumulate interest in an account managed by the U.S. Treasury, and each participating taxpayer's deferred funds, plus interest, would be transferred to their designated savings account after six months.

At best these four bills would be considered after the passage of RESA. As far as retirement reform is concerned, the Senate remains focused on getting RESA signed into law. We will continue to keep you apprised of any new developments.

Presidential Executive Order

On August 31, 2018, President Trump signed an executive order (EO) directing the Department of Labor and Treasury to review and consider modifying or eliminating certain rules related to retirement savings. Specifically the EO addressed:

- Expanding access to multiple-employer plans.
- Improving the effectiveness and decreasing the cost of required notices and disclosures.
- Updating the age 70½ required minimum distribution rule.

The Department of Labor sent its proposal to the Office of Management and Budget for review on September 23, 2018.

More information may be found here: Instant Insights

From the Courts

Participants may continue to make 401(k) contributions after bankruptcy

A U.S. district court recently held that the U.S. Bankruptcy Code allows participants to continue to make salary deferral contributions to an employer 401(k) plan after filing for personal bankruptcy. In this case, the participant and his spouse filed for voluntary Chapter 13 bankruptcy. As part of their filing, the participant proposed that he be allowed to continue to make monthly contributions to his employer's 401(k) plan at the same rate of 12% that he had been making prior to the bankruptcy filing. The bankruptcy court rejected the proposal, stating that post-bankruptcy contribution rates should be limited to 3% and requests for contribution rates greater than 3% would only be considered by the court on a case-by-case basis. The participant appealed the ruling to the district court.

The district court reviewed the U.S. Bankruptcy Code and relevant case law and noted there are highly divergent interpretations of the Bankruptcy Code among federal courts regarding voluntary 401(k) contributions post-bankruptcy. Certain courts have determined 401(k) contributions can be made post-bankruptcy whereas others have concluded such contributions cannot be made.

In this case, the court determined the plain language of the Bankruptcy Code provides that when a person files for bankruptcy, the individual's property subject to the filing does not include amounts withheld from wages as contributions to an employee benefit plan and that, as a result, such amounts do not constitute income available to pay creditors. Based on the language, the court concluded that Congress clearly intended under the Bankruptcy Code to exclude all retirement contributions from the determination of an individual's post-bankruptcy income that would be available to pay creditors.

Finally, the court noted that an individual's bankruptcy plan must be proposed in good faith, and the Bankruptcy Court must consider the rate of 401(k) contributions the individual proposes to make post-bankruptcy in its determination of good faith. Accordingly, the court reversed the Bankruptcy Court's decision to reject the participant's plan to continue 401(k) contributions post-bankruptcy and directed the Bankruptcy Court to reconsider the proposal based on its opinion.

From the Courts

State law cannot invalidate an ERISA plan beneficiary designation

A U.S. district court recently held that an ex-spouse's claims under state divorce law cannot invalidate a participant's beneficiary designation under a plan subject to ERISA. In this case, the participant and his spouse divorced and the participant died shortly thereafter. At the time of his death, the participant had a balance in two ERISA plans maintained by his employer, a 401(k) plan and a pension plan. Under the divorce decree, the ex-spouse was entitled to 50% of the participant's balance in the 401(k) plan. The divorce decree did not address the pension plan.

After the participant's death, the ex-spouse claimed the participant did not disclose the existence of his balance in the pension plan and, as a result, she had a right under state law to a portion of his pension plan balance. Under the terms of the pension plan, a participant's benefit in the plan is payable to their designated beneficiaries at the time of the participant's death. Prior to his death, this participant had designated his sister as the beneficiary of his pension plan benefit. As result of the dispute, the plan sponsor filed an interpleader with the court to determine the appropriate distribution of the pension plan benefit.

The ex-spouse's claim was based on an allegation the participant intentionally deceived her during the divorce process and that, as a result, she had the right under state law to pursue a division of the undisclosed property. In review of the case, the court noted that as the pension plan is subject to ERISA, the division, transfer, assignment or award of ERISA-regulated assets can only be made according to the federal regulations governing such transfers. Therefore, even if the ex-spouse's allegations were true and she were to prevail under state law, ERISA would preempt any ruling by the state court to assign the participant's benefit in the pension plan to anyone other than his designated beneficiary. The court concluded that even when the distribution of an ERISA asset may be arguably unfair, the plan documents must be followed and the participant's benefits distributed to the designated beneficiary under the plan.

Practical considerations

This case addresses the potential discrepancies between state and federal law and the application of state law to ERISA-governed plans. In general, ERISA preempts "any and all state laws insofar as they may now or hereafter relate to any employee benefit plans." With respect to divorce proceedings, ERISA prohibits the transfer of a participant's benefit to anyone other than the participant and their beneficiaries other than in accordance with a qualified domestic relations order. Although an ex-spouse may have a valid claim to a participant's plan benefit under state law, a plan sponsor should generally only segregate a participant's benefit to an ex-spouse pursuant to a valid qualified domestic relations order.

From the Regulatory Services Team

Administrative complexities regarding student loan repayment: IRS Private Letter Ruling guidance

Early this year student loan debt in the United States officially topped out at $1.5 trillion, overtaking both consumer credit card and auto loan debt according to the Federal Reserve, with the mean level of student loan debt rising to nearly $33,000 per American worker.

In response employers are beginning to look for new ways to help employees manage mounting student loan debt while also finding new ways to attract and retain talent. One such effort took the form of a novel plan design that sought to explore student loan repayment options through a 401(k) plan and was the subject of a recent Private Letter Ruling by the IRS.

Private Letter Ruling (PLR) 201833012, released August 17, 2018, examined one proposed employer plan design providing for an employer contribution in lieu of a company match for employees in active repayment of student loans.

Unfortunately, for sponsors who would like to follow suit and set up a similar plan structure, PLRs are strictly limited in their scope to only apply to the plan and situation raised in the related letter request. That means that, while this PLR provides a valuable window into IRS thinking, it cannot be used as precedent to support any other plan or its design or situation. The IRS may only provide specific and targeted responses to questions and fact patterns posed by the drafting party (typically a plan sponsor), often yielding only limited information and guidance for the industry and plan sponsors to rely upon.

Within days of the release of this PLR's August 17, 2018, publication, industry leaders released public requests urging the IRS to issue additional guidance in an official, more expansive ruling on the topic.

The proposed plan structure in the PLR

It is first important to understand the plan proposed in the PLR would not provide employees with cash in hand to service student loan debt. Rather, it would allow employees to continue to capture maximum employer contributions through their retirement plans without having to make elective deferrals as well as student loan payments. The intent is to help employees strike a balance between paying loan servicers and saving for their retirement.

The PLR request contemplates the following specific plan design: Any eligible employee who makes an elective deferral of at least 2% of eligible compensation is entitled to a 5% employer match per payroll period. Under the proposed student loan repayment (SLR) program, an employee making a student loan repayment during a pay period of at least 2% of eligible compensation would be entitled to a 5% nonelective contribution. The nonelective contribution would be made "as soon as practicable" after the plan year.

The voluntary program would require an employee to opt in, although it would not be necessary for the employee to make a qualified student loan payment each pay period. If the employee does not, yet still makes an elective contribution of at least 2% of compensation during the pay period, the employer would make a "true-up" matching contribution equal to the 5% matching contribution for the pay period.

Employer contributions would remain subject to any last day and vesting requirements consistent with the plan design.

The contingent benefit prohibition

The PLR primarily focused on a single issue: whether the proposed SLR plan would violate the "contingent benefit prohibition" under IRC 401(k)(4)(A) and 401(k)-1(e)(6) of the Income Tax Regulations. These provisions prohibit an employer from withholding or limiting employer contributions on the condition that the employee contributes elective deferrals under the plan. Employer-matching contributions on elective deferrals are the clear exception to this rule.

The IRS opined that the proposed plan design did not violate the contingent benefit prohibition because it preserved the ability of the employee to make elective contributions to the plan, which is not conditioned on whether the employee is making student loan repayments during the pay period. In other words, the plan design must not limit the ability of the employee to contribute to their 401(k) account because they are receiving the SLR contributions. The IRS also stipulated that the ruling was based on the assumption that the employer will not extend any student loans directly to employees.

Testing issues

The PLR notes that annual plan testing is required, but no detailed guidance is provided other than to state that the SLR nonelective contribution is not treated as a matching contribution for testing purposes. On top of the normal

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actual contribution percentage (ACP) nondiscrimination test generally required of a plan with a match feature, a plan that implements the nonelective contribution will likely need to incorporate that contribution into other testing such as 410(b) coverage testing and possibly the 401(a)(4) general test for non-elective contributions.

Plan sponsors will want to consider testing impact questions, including but not limited to the following:

- Will we have a plan testing issue if the majority of the employees receiving the SLR nonelective contribution are highly compensated employees?
- If employees receive the SLR nonelective contribution at different levels of their compensation, are we prepared for the additional plan testing requirements that are present when contributions are not uniform among highly and non-highly compensated employees?
- Are we inadvertently creating a 401(k) match testing issue as employees who would have received a match are now being reflected in the ACP test as receiving 0% match?

Practical considerations and unanswered questions

While the PLR has jump-started industry-wide discussions on the topic of employee student loan debt burdens, it falls short of firm guidance in several crucial administrative, logistical and practical areas, leaving industry leaders and plan sponsors unsure whether to explore similar plan designs.

The IRS has avoided discussing any specific substantiation or verification requirements of the proposed SLR plan. It is unclear at this point whether employers will bear the burden of obtaining third-party documentation evidencing the payment of student loans and, if they do, at what frequency and to what extent.

Additional guidance is also needed to determine whether student loan repayments on behalf of a spouse, child, beneficiary or otherwise qualified dependent would be considered permissible as well.

Plan sponsors would also likely need to revisit any plan enrollment materials in order to satisfy the opt-in requirements referenced in the PLR and amend any existing plan documentation and summary plan descriptions. Such requirements may cause headaches for all plans with regard to both prototype and custom documents.

Plan sponsors offering automatic enrollment and/or safe harbor plan designs also may face administrative hurdles with regard to notice timing and language requirements as they strive to incorporate the proposed plan design.

Conclusion

Though presently in its infancy, student loan repayment programs within 401(k) plans are certainly something the industry will watch closely in coming months and years. It is important to consider a plan's current design and the impact of adding such a feature on the many aspects of the plan when determining whether or not to add such a provision. Additional guidance — whether in the form of additional private letter rulings, revenue rulings by the IRS or legislation — can only help shape the future of these programs for plan sponsors.

From the Regulatory Services Team

IRS finalizes regulations allowing forfeitures to fund QNECs and QMACs

As we discussed in our in our first-quarter 2017 legal and regulatory quarterly update, on January 28, 2017, the IRS issued proposed regulations that would allow the use of forfeitures to fund qualified nonelective contributions and qualified matching contributions. As was anticipated, the IRS issued final regulations on July 20, 2018, that affirmed the proposed regulations.

Similar to the proposed regulations, the final regulations allow 401(k) plans to use forfeitures to fund qualified nonelective contributions (QNECs) and qualified matching contributions (QMACs). QNECs and QMACs are types of employer contributions commonly used to correct nondiscrimination testing failures. Plans may also use forfeitures to fund safe harbor contributions.

Prior to last year, when the proposed regulations were issued, the IRS had held the position that forfeitures could not be used to fund QNECs or QMACs. The IRS had stated these types of nonelective and matching contributions were only considered as "qualified" if they were nonforfeitable, or fully vested, when contributed to a plan.

The proposed and final regulations changed the definitions of QNECs and QMACs to provide that these contributions must be nonforfeitable, or fully vested, at the time they are allocated to participants' accounts rather than when they are contributed to a plan. As a result of these changes, amounts in the plan's forfeiture account may be used to fund QNECs and QMACs as well as safe harbor contributions.

The final regulations apply to plan years ending on or after July 20, 2018. However, plans have been allowed to rely on the new rules since the proposed regulations were issued last year.

To incorporate the new regulations, Great-West Financial® adopted an amendment that was effective January 1, 2017, on behalf of the sponsors who use the Great-West IRS-approved plan document to allow for this capability. However, a plan may still need an individual amendment in order to use forfeitures to fund QNECs, QMACs or safe harbor contributions. This would depend on whether a plan lists specific contribution types that are eligible to be offset by a forfeiture.

Sponsors of individually designed plans who want the flexibility to use forfeitures to fund their QNECs, QMACs or safe harbor contributions should review their plan document with their plan document provider and make any amendments as necessary. Here is an example of an opportunity for forfeitures to help out with testing:

Plan A is a traditional 401(k) plan with 100 participants, 10 of whom are HCEs. The plan uses a six-year graded vesting schedule for the employer's discretionary profit-sharing contribution, and the plan document provides that actual deferral perecentage (ADP) testing is performed using the current year method and ADP test failures may be corrected by using QNECs. The plan allows for forfeitures to fund QNECs. In the 2018 plan year, five employees terminated employment prior to being fully vested, resulting in $20,000 of forfeitures. For plan year 2018, Plan A may provide that the $20,000 in forfeitures will be used as a QNEC to the extent necessary for Plan A to pass the ADP test.

Plan sponsor consideration:

With this capability, plan sponsors should review their plan provisions regarding the use of forfeitures to see if they have the capability to use such forfeitures to offset QNECs, QMACs or safe harbor contributions.

From the Regulatory Services Team

Automatic contribution options: So many choices!

We all know automatic contribution arrangements play a significant role in raising participation and savings rates in defined contribution plans. But when it comes to designing the automatic contribution arrangement, plan sponsors and committees can sometimes get overwhelmed when deciding which arrangement is appropriate for their plan and circumstances. The charts below are intended to provide an overview of some of the distinctions across the three types of automatic contribution arrangements and how automatic contribution arrangements affect safe-harbor plans.

Automatic contribution arrangement comparison chart

DESIGN TOPIC	AUTOMATIC CONTRIBUTION ARRANGEMENT (ACA)	ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA)	QUALIFIED AUTOMATIC CONTRIBUTION ARRANGEMENT (QACA)
What laws and/or rulings apply to the respective automatic enrollment arrangements?	Revenue Rulings 2000-8 and 2009-30 provide limited guidance on ACAs. *Note: The final regulations for EACA and QACA do not apply to a plan that is not an EACA or a QACA (but may be followed).*	Internal Revenue Code Section 414(w)	Internal Revenue Code Section 401(k)(13)
When can the arrangement begin?	Anytime during the plan year. If the plan is a traditional safe harbor plan (not a QACA), a revised safe harbor notice may be needed.	Generally must start at the beginning of the plan year.	Generally must start at the beginning of the plan year.
Which employees must be covered and therefore automatically enrolled?	A plan may elect to cover new hires only, apply automatic enrollment to all employees eligible to make a deferral election under the plan or generally cover any sub-grouping the employer desires.	A plan may cover new hires only or apply automatic enrollment to all employees eligible to make a deferral election under the plan. *Note: A plan must cover all eligible employees to take advantage of the six-month ADP/ACP correction rule.*	A plan must cover those employees without a previous affirmative deferral election. A plan may provide for affirmative deferral elections to expire on a specific date.
What are the initial notice timing requirements? *Note: Generally, employees must have a "reasonable" period between the receipt of the notice and the first deferral in order to opt-out or elect another rate.*	Not specified, but generally 30 days' prior notice is acceptable	Notice must be supplied within a "reasonable" period prior to eligibility; at least 30 but no more than 90 days, and generally no later than the date the employee becomes eligible. With immediate eligibility, notice must be provided prior to the pay date for the payroll period that includes the date the employee becomes eligible. *Note: This may be very challenging for immediate or short eligibility periods.*	Notice must be supplied within a "reasonable" period prior to eligibility; at least 30 but no more than 90 days and generally no later than the date the employee becomes eligible. With immediate eligibility, notice must be provided prior to the pay date for the payroll period that includes the date the employee becomes eligible. *Note: This may be very challenging for immediate or short eligibility periods.*
What rate is required initially for employee deferrals, and to whom must it apply?	No required rate	No required rate *Note: EACA plans may have multiple EACAs within one plan, as long as the different groups may be disaggregated under IRC 410(b) coverage testing; e.g., collective bargaining units.*	Mandatory provision – 3% minimum deferral rate *Note: Any participants previously automatically enrolled at less than 3% must be increased to 3% if an affirmative deferral election has not been made.*
When must the first default contribution be deducted from pay?	Not specified, but participant must receive notice and have a reasonable period of time (prior to the compensation becoming currently available) to make a different election.	While the regulations do not specifically set out these rules for EACA, the IRS has informally indicated that the QACA rules (see QACA column) apply to EACAs. *Note: This may be very challenging for immediate or short eligibility periods.*	Default contribution must begin no later than the earlier of: 1) the pay date for the second payroll that begins after the notice is provided; or 2) the first pay date that occurs at least 30 days after the notice is provided. *Note: This may be very challenging for immediate or short eligibility periods.*

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Automatic contribution arrangement comparison chart *(continued)*

DESIGN TOPIC	AUTOMATIC CONTRIBUTION ARRANGEMENT (ACA)	ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA)	QUALIFIED AUTOMATIC CONTRIBUTION ARRANGEMENT (QACA)
How is automatic increase applied?	Optional provision	Optional provision	Mandatory provision: The rate must increase for those automatically enrolled by at least one percentage point each year to at least 6% but not to exceed 10%.
When must automatic increases be applied?	No required date	Uniformity requirements point to a single day in the plan year to increase deferral rates.	Uniformity requirements point to a single day in the plan year to increase deferral rates.
Is a qualified default investment alternative (QDIA) required?	Optional *Note: If used, notice requirements apply and may be combined with other required notices.*	Optional *Note: If used, notice requirements apply and may be combined with other required notices.*	Optional *Note: If used, notice requirements apply and may be combined with other required notices.*
What are the annual notice timing requirements?	Not specified, but a participant must receive notice and have a reasonable period of time before the compensation is currently available (please note that 30-90 days prior to the beginning of each plan year is deemed reasonable).	At least 30 but no more than 90 days prior to the beginning of each plan year.	At least 30 but no more than 90 days prior to the beginning of each plan year.
Is the 90-day permissible withdrawal available?	Not allowed	Optional provision: If the plan allows, participants may request a withdrawal of default contributions made in the first 90 days (or as few as 30 days) after the first default contribution would have been included in pay. Any associated match is forfeited. *Note: Refunds are taxable to participants in the year distributed; 10% penalty does not apply.*	Not specifically allowed, unless the plan is also an EACA, in which case the EACA rules apply.
Are employer contributions required?	No	No	No
How does the arrangement affect ADP/ACP Testing?	Testing required: As with a plan not containing any automatic enrollment provisions, refunds for a failed test not made within two and a half months after the end of the plan year are subject to a 10% employer excise tax.	Testing required: Refunds for a failed test not made within six months after the end of the plan year are subject to a 10% employer excise tax. *Note: If all eligible employees are not covered, the two-and-a-half month rule applies.*	Safe harbor: ADP/ACP testing is generally not required. See requirements in the safe harbor design comparison chart below.

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Safe harbor design comparison chart

Many plan sponsors design their plans to comply with the safe harbor contribution rules in order to eliminate the need to perform the ADP test, the ACP test or both. It is possible to comply with the safe harbor rules and implement an automatic contribution arrangement. In fact, safe harbor status is part of the equation if QACA rules are followed. Traditional safe harbor status is also available as a plan design option for ACA and EACA plans. The chart below outlines a few key considerations when combining a safe harbor plan with an automatic contribution arrangement.

DESIGN TOPIC	AUTOMATIC CONTRIBUTION ARRANGEMENT (ACA)	ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA)	QUALIFIED AUTOMATIC CONTRIBUTION ARRANGEMENT (QACA)
What are the minimum safe harbor employer contribution requirements? *Note: Enhanced formulas are available if match rates do not increase as the deferral rates increase and no deferral greater than 6% receives a match.*	Match of 100% on the first 3% plus 50% on the next 2% deferred or a 3% nonelective contribution (QNEC) *Note: Plan cannot require 1,000 hours of service in the plan year or last day of employment for allocation eligibility; catch-up contributions must be matched.*		Match of 100% on the first 1% plus 50% on the next 5% deferred or a 3% nonelective contribution *Note: Plan cannot require 1,000 hours of service in the plan year or last day of employment for allocation eligibility; catch-up contributions must be matched.*
What are the safe harbor vesting requirements?	100% immediate		100% after two years (may be more generous)
Are there in-service withdrawal restrictions on the employer safe harbor contributions?	Safe harbor contributions may not be withdrawn prior to age 59½ and then only if the plan permits. (Cannot be withdrawn for hardships.) *Note: As of the first plan year beginning after December 31, 2018, plans may be amended to permit the withdrawal of safe harbor contributions, and earnings on those contributions, for hardships.*		
When can safe harbor status be made effective?	Generally, a plan must be safe harbor for an entire plan year, so the amendment must be made prospectively and effective at the beginning of the plan year.		