guideline

Find the right 401(k) for your business

The differences between Starter, Safe Harbor, and Traditional 401(k) plans

Consider these key questions when trying to decide whether a Starter 401(k) or a standard 401(k) plan—Safe Harbor or Traditional—might be a better fit for your business:[1]

1. Are you setting up a new 401(k) for your business or are you changing providers?

Generally speaking, Starter is only available to businesses setting up a 401(k) for the first time.

2. Do you want to offer an employer contribution?

If you would like to offer a match, you'll need to consider a standard 401(k) like a Safe Harbor or Traditional plan.

Safe Harbor plans require that employers choose from a set of particular match formulas in order to satisfy non-discrimination tests. Meanwhile, Traditional plans can offer more flexibility in match formulas but will be subject to non-discrimination tests (NDT) by the IRS that could entail penalties if not passed.

If you are not looking to offer an employer match, you can opt for either Starter or a Traditional 401(k) without an employer match. As mentioned above, a Traditional 401(k) will need to pass annual NDT to be compliant. Not passing those tests could mean end of year employer contributions to make the plan compliant. Starter 401(k) plans do not require NDT and therefore will not have any surprise end of year employer contributions.

3. Do you want you and your team to have the maximum allowable savings limit?

If so, you'll need to consider a standard 401(k). Starter has a $6,000 contribution limit, compared to a $22,500 employee contribution limit with a standard 401(k). Additionally, when accounting for both employee and employer contributions, a standard 401(k) allows up to $66,000 in tax-advantaged savings.[2]

4. Do you want more flexibility in plan design?

If so, you'll need to consider a standard 401(k). Starter is designed to be simple to administer, and in doing so, limits the customization possible with a standard 401(k) like eligibility requirements, profit sharing and loans.

[1] This content is for informational purposes only and is not intended to be construed as tax advice. You should consult a tax professional.

[2] Starter 401(k) annual limit is for 2024 and may be adjusted annually. Standard 401(k) annual limit is for 2023 and may be adjusted annually by the IRS to account for cost-of-living adjustments. Learn more.

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Guideline 401(k) plan types

	Starter 401(k)	Safe Harbor 401(k)	Traditional 401(k)
Contribution limits			
Employee contribution limit[2]	$6,000	$22,500	$22,500
Catch up contribution limit ages 50+	$1,000	$7,500	$7,500
Employer contribution	No	Required, can be a match or nonelective contribution	Optional
Profit Sharing	No	Optional	Optional
Total possible savings limits (Employee + Employer)[2]	$6,000 ($7,000 if 50+)	$66,000 ($73,500 if 50+)	$66,000 ($73,500 if 50+)
Plan features			
Compliance testing	Exempt	Plans satisfy most non-discrimination tests[3] ("NDT")	Included, but does not automatically pass tests
Eligibility service and age requirements	No, all employees 18+ are eligible	Yes	Yes
Vesting schedules	Not applicable, since there are no employer contributions	Only if a QACA plan design selected or for non-safe harbor contributions (e.g., profit sharing)	Yes
Support for legally related groups[4]	Yes	Yes, with Enterprise	Yes, with Enterprise
Automatic enrollment Now required on many new plans by 2025	Yes	Yes	Yes
Consolidation and distributions			
401(k) Loans	No	Yes	Yes
Rollovers	Yes	Yes	Yes
Hardship withdrawals	Yes	Yes	Yes
Guideline plan tier			
	Starter $39/month + $4 per active participant[5]	**Choice of Core or Enterprise** Starting at $89/month + active participant fee[5]	

[3] 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 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.

[4] A group of employers, often related by common ownership, that must be treated as a single employer for 401k purposes for most audits, compliance testing, compensation, eligibility, profit sharing, and vesting requirements.

[5] See our Form ADV 2A Brochure for more information regarding fees.

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