



2026 401(k) NONDISCRIMINATION TESTS

Qualified retirement plans are subject to certain IRS mandated tests called nondiscrimination tests. Their purpose is to ensure the plan is set up for the benefit of all employees. These tests must be performed each year.

ADP Test & ACP Test:

These tests compare the average of employee salary deferral and employer match percentages for highly compensated employees (HCE) to the average of employee salary deferral and employer match percentages for non-highly compensated employees (NHCE). As a general rule, the HCE average cannot exceed the NHCE average by more than 2%. There are more restrictive rules if the NHCE average is less than 2% or greater than 8%.

If the tests are not satisfied, a correction must be made. The most common method of correction is issuing corrective distributions (refunds) to the HCEs to lower the HCE average so that the test passes.

For 2026, the HCE definition is as follows:

- A greater than 5% owner employee of the company at any time during 2025 or 2026,
- Any employee that earned greater than \$160,000 (indexed) in 2025, or
- Certain family members of a greater than 5% owner employee (e.g. spouse, child, parent, or grandparent).

Top Heavy Test:

This test determines whether your plan is top heavy. A qualified retirement plan is top heavy if greater than 60% of the plan assets belong to key employees. If your plan is determined to be top heavy, as a general rule, a 3% contribution is required to be made to all eligible non-key employees who are employed on the last day of the plan year. In order to avoid becoming top heavy, KEY EMPLOYEES SHOULD NOT PARTICIPATE IN THE PLAN.

For 2026, a key employee is as follows:

- A greater than 5% owner employee of the company,
- A greater than 1% owner employee with compensation greater than \$150,000 (not indexed),
- An officer of the company with compensation greater than \$235,000 (indexed), or
- Certain family members of a greater than 5% owner employee (e.g., spouse, child, parent, or grandparent).

402(g) Limit Test:

This test verifies that the employee salary deferral contributions do not exceed the maximum amount allowed by law. For 2026, this limit is \$24,500. In addition, employees who are at least age 50 in 2026 can make an additional "catch-up" contribution. For employees ages 50 and above the catch-up limit is \$8,000. For employees ages 60, 61, 62 and 63 in 2026, the catch-up limit is \$11,250 (instead of \$8,000).

415 Limit Test:

This test verifies that the overall contributions made on behalf of an employee do not exceed the maximum amount allowed by law. For 2026, this limit is the lesser of an amount equal to 100% of the employee's compensation or \$72,000. For these purposes, all contributions made on behalf of an employee (except for rollover contributions) are included. This includes employee deferrals and all employer matching and profit sharing contributions.


Note: If your plan's plan year begins on a date other than January 1, the \$72,000 limit must be pro-rated to reflect the length of the plan's short plan year.

410(b) Coverage Test:

This test must demonstrate that a plan benefits a minimum percentage of NHCEs as compared to HCEs. As a general rule, the minimum percentage of NHCEs covered and benefiting needs to be 70% of the percentage of HCEs benefiting.



2025 401(k) Nondiscrimination Tests



Qualified retirement plans are subject to certain IRS mandated tests called nondiscrimination tests. Their purpose is to ensure the plan is set up for the benefit of all employees. These tests must be performed each year.

ADP Test & ACP Test:

These tests compare the average of employee salary deferral and employer match percentages for highly compensated employees (HCE) to the average of employee salary deferral and employer match percentages for non-highly compensated employees (NHCE). As a general rule, the HCE average cannot exceed the NHCE average by more than 2%. There are more restrictive rules if the NHCE average is less than 2% or greater than 8%.

If the tests are not satisfied, a correction must be made. The most common method of correction is issuing corrective distributions (refunds) to the HCEs to lower the HCE average so that the test passes.

For 2025, the HCE definition is as follows:

- A greater than 5% owner employee of the company at any time during 2024 or 2025,
- Any employee that earned greater than \$155,000 (indexed) in 2024, or
- Certain family members of a greater than 5% owner employee (e.g. spouse, child, parent, or grandparent).

Top Heavy Test:

This test determines whether your plan is top heavy. A qualified retirement plan is top heavy if greater than 60% of the plan assets belong to key employees. If your plan is determined to be top heavy, as a general rule, a 3% contribution is required to be made to all eligible non-key employees who are employed on the last day of the plan year. In order to avoid becoming top heavy, KEY EMPLOYEES SHOULD NOT PARTICIPATE IN THE PLAN.

For 2025, a key employee is as follows:

- A greater than 5% owner employee of the company,
- A greater than 1% owner employee with compensation greater than \$150,000 (not indexed),
- An officer of the company with compensation greater than \$230,000 (indexed), or
- Certain family members of a greater than 5% owner employee (e.g., spouse, child, parent, or grandparent).

402(g) Limit Test:

This test verifies that the employee salary deferral contributions do not exceed the maximum amount allowed by law. For 2025, this limit is \$23,500. In addition, employees who are at least age 50 in 2025 can make an additional "catch-up" contribution. For employees ages 50 and above the catch-up limit is \$7,500. For employees ages 60, 61, 62 and 63 in 2025, the catch-up limit is \$11,250 (instead of \$7,500).

415 Limit Test:

This test verifies that the overall contributions made on behalf of an employee do not exceed the maximum amount allowed by law. For 2025, this limit is the lesser of an amount equal to 100% of the employee's compensation or \$70,000. For these purposes, all contributions made on behalf of an employee (except for rollover contributions) are included. This includes employee deferrals and all employer matching and profit sharing contributions.

Note: If your plan's plan year begins on a date other than January 1, the \$70,000 limit must be pro-rated to reflect the length of the plan's short plan year.

410(b) Coverage Test:

This test must demonstrate that a plan benefits a minimum percentage of NHCEs as compared to HCEs. As a general rule, the minimum percentage of NHCEs covered and benefiting needs to be 70% of the percentage of HCEs benefiting.