



WHY OFFER A 401(K) PLAN?

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While retirement savings plans can help employees prepare for their future, it's also worthwhile to understand some important 401(k) benefits for employers.

Though a 401(k) plan continues to be a desired employee benefit, some employers continue to believe it is a costly proposition. A recent survey indicated that 53 percent of small businesses do not have a retirement plan for employees or owners, because that think they can't afford to sponsor a plan or harbor another misconception.

But the reality is that offering a retirement plan is not as expensive as you may think. What's more, aside from helping employees save for retirement, which in and of itself is a considerable benefit – employers can take advantage of many benefits as well.

Understanding the true benefits of a 401(k) for both employers and employees can help you set up the best plan as possible. Here are some of the top benefits of 401(k) plans:

EMPLOYER BENEFITS OF 401(K) PLANS



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TAX BENEFITS: The IRS highlights two tax advantages of a 401(k) plan sponsored by employers:

- Employers can deduct contributions on the company's federal income tax return to the extent that the contributions don't exceed certain limitations.
- Elective deferrals and investment gains are not currently taxed and enjoy tax deferral until distribution.
- Additionally, retirement plan benefits like a 401(k) can be more affordable with a business tax credit. The recent SECURE act provides tax credits for startup 401k plans that range from \$500 to \$3000.

EMPLOYEE SATISFACTION/RETENTION: Offering retirement plans can help in employers' efforts to attract new employees and reduce turnover. Employees who are making an investment in their future through retirement plans may be less likely to move on to other companies – in particular, when employers make matching contributions or provide additional value it adds to an employee's total compensation. Determine whether your retirement plans and other benefits enhance your compensation, or whether adding additional benefits to your current offerings could increase employee retention.



EMPLOYEE BENEFITS OF HAVING 401(k) RETIREMENT PLANS

TAX-ADVANTAGED RETIREMENT SAVING: With a 401(k), employees can save pre-tax dollars while they are working. By the time the savings are needed to fund their retirement, it's anticipated that they will be in a lower tax bracket, which can generate long-term tax savings.

EMPLOYER MATCH: Matching contributions are one of the top benefits of 401(k) plans for employees. Employers have the option to match a percentage of employee contributions up to a set portion of total salary, or contribute up to a certain dollar amount, regardless of employee salary.

AVERAGE EMPLOYER CONTRIBUTION FOR 401(k) PLANS

When deciding how much to contribute to a 401(k), remember that it will likely cost you more money to lose an employee than it will to match 401(k) contributions. Common 401(k) matches are 50 percent or 100 percent of employee contributions up to a set percentage of their salary, such as 6 percent. Recently, research conducted by the [Plan Sponsor Council of America](#) found that employers are contributing an average of 5.1 percent of employees' pay to their 401(k) plans, the highest amount noted in the survey's history. In comparison to match dollars, think about the costs associated with recruiting, interviewing, and training new employees. The higher the turnover rate, the more time and money you could lose.

OTHER COMMON FEATURES OF 401(k) PLANS

In addition to the company match, here are some other features that employees look for when utilizing a 401(k) savings plan.

- **EMPLOYEE RETIREMENT EDUCATION:** The more employees understand about their company's 401(k) plan and planning for retirement in general, the more informed their choices become as participants. One 401(k) education trend is outcome-based, online sessions for employees, including brief learning videos with a focus on improved outcomes. Employers appreciate that such videos can be conveniently viewed online at home, rather than becoming a distraction in the workplace.
- **AUTOMATIC ENROLLMENT:** Another key to a successful retirement plan is making it easy for employees to enroll (and stay enrolled). The process should be made as simple as possible since most employees elect to maintain the same benefits each year.
- **AUTOMATIC ESCALATION:** This feature increases employees' automatic enrollment contribution by a certain percent (1 percent or 2 percent) annually, so they can save more over time. Often this incremental increase in contributions does not have a considerable impact on take-home pay, and employees don't need to take any further action for the change to be made.
- **QUALIFIED DEFAULT INVESTMENT ALTERNATIVE (QDIA):** This feature provides the investment selection for participants that have not made a choice, while offering fiduciary protection to plan sponsors.
- **PROFIT-SHARING:** With profit-sharing, eligible participants receive a contribution to the plan based on a pro-rata allocation of a specified dollar amount, or a percentage of their compensation. The plan document will dictate how the profit sharing contribution is calculated.



SETTING UP A 401(k) PLAN

401(k) plan design and administration doesn't have to be a major time commitment. To find the best retirement plan for your business, it's smart to work with a knowledgeable financial advisor who can evaluate your options and help you decide which makes the most sense for your situation. Understand the costs associated with setting up a plan, arranging for employee contributions, and handling ongoing administration.

With upfront planning, you can simplify your retirement plan administration and limit your fiduciary liability.

- You can design a plan that helps you fulfill administrative obligations. For example, safe harbor plans, which require a mandatory employer contribution, will pass 401(k) plan testing when plan requirements are met.
- Automatic plan features, like automatic enrollment, can simplify the enrollment process for you and your employees. This feature automatically enrolls participants in the plan upon eligibility, and participants can opt out of participation if they choose.
- You may also want to consider delegating certain plan functions that you may not have the time or expertise to manage yourself, such as selecting and monitoring of plan investments.

COMMUNICATING PLAN BENEFITS

With a high-quality retirement plan in place, the next step is a major commitment to marketing this benefit wherever your recruitment efforts take place. Communication steps can include:

- Encouraging your employees to spread the word about this great retirement plan throughout their personal and professional social media networks.
- Preparing written and online materials outlining the key features and advantages of the plan. Provide the written materials to interested applicants at tradeshow and job fairs, as well as during individual job interviews.
- Creating a special "save for your future" page on your careers website, with all the relevant facts and statistics you can provide for a broader picture. Including an easy-to-read FAQs page allows job candidates and other site visitors to quickly research the plan.

Don't stop at an initial communication. Regular updates on plan benefits and enhancements, as well as annual contribution changes can keep employees engaged and help them manage their retirement accounts. Keeping employees apprised of their financial gains by providing monthly updates that show how much has been saved and how the funds grow month-over-month. Also, be sure to have someone available to answer questions about the plan and retirement saving in general.



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