



Reasons to Adopt a 401(k)

There are many great reasons to adopt a 401(k) plan. While the main benefits take the form of monetary advantages, the employer can also capture meaningful enhancements in the workplace. As the result of recent industry trends, it has become easier than ever to enjoy the overwhelming benefits of this valuable retirement savings vehicle.

✓ **ATTRACT AND RETAIN TALENT**

In today's competitive marketplace, employers contend for top talent. A 401(k) plan serves as an additional piece to the overall employee benefits package. For many skilled candidates, it is an expected benefit, and carefully considered when choosing a prospective employer. Adopting a 401(k) plan allows business owners to enhance their recruiting power, attract skilled applicants and stay competitive in their industry. Even after the hiring process, maintaining a quality workforce is an ongoing effort. A retirement plan helps to retain top performers and reduce overall turnover. Certain provisions in the plan, such as the vesting schedule, may be tailored to reward loyalty and give employees a reason to stay.

✓ **FINANCIAL ADVANTAGES**

Business owners embrace opportunities to enhance the bottom line. They work hard to see their company succeed, and can recognize favorable aspects of their business that reduce costs and build assets. There are many financial advantages to a 401(k) plan for business owners.

1. During the first three years after initially adopting a plan, small business owners can enjoy a tax credit of up to \$5,000. For small-plan startups, this can usually account for 25-50 percent of the plan expenses.
2. All employer contributions, as well as other plan costs, are tax deductible. The plan can offer a way to redirect revenue from taxable profits to tax-advantaged savings for the owner and staff.
3. Earnings within the 401k plan accumulate either on a tax-deferred or tax-exempt basis. At retirement, once distributions start, if it is a Roth distribution, the distribution is tax free. If it is coming from the traditional (or pretax) bucket, the distribution is taxed as ordinary income.
4. The plan can facilitate the accumulation of wealth in the owner's participant account to help fulfill his/her retirement needs. With a customized plan design, owners may be able to maximize their deferral contributions or capture the lion's share of profit sharing contributions. The plan may also be the owner's sole means of gaining access to Roth after-tax savings that may not be available to them through an IRA due to their level of income.

✓ **WELLNESS BUSINESS IMPACT**

There are less tangible advantages to a 401(k) plan that have real impact on the success of the business. Research has shown that employees who are worried about their finances are less productive. If employees are preoccupied with concerns over making their next mortgage, tuition or utility payment, that increased stress and lack of focus can affect job performance. High stress levels also increase health care costs, another component



of the employer's overall expenses. Another major impact of a successful 401(k) plan on the company is an enhanced ability to manage the workforce. When active service duration extends beyond the normal retirement date, the company may endure increased personnel and health care costs.

Employees whose lack of financial wellness necessitates a continuation of active service after normal retirement age are not able to reap the rewards of their long career and enjoy their golden years. A well-managed workforce supported by a quality retirement plan is able to retire on schedule, for the benefit of both the employees and the employer.

✓ **SOCIALLY RESPONSIBLE**

The section of the Internal Revenue Code associated with qualified retirement plans is an altruistic attempt by the government to enable its citizens to achieve retirement readiness by incentivizing employers and employees to take advantage of tax savings and Modern Portfolio Theory. The employer is able to build its own retirement wealth and achieve desired tax deductions. It is also able to reward workers who contributed to the success of the business with a post-career nest egg.

In adopting the plan, the employer has played a role in combating the retirement crisis in America and creating a better society of saving-conscious, responsible workers actively engaged in their own financial future. As retirees, the participants are prepared for their financial needs and not dependent upon government assistance. The retirement plan contributes to a healthy economy and a greater number of people with more disposable income. The result is a benefit to the company, the employees, the government and society as a whole.

✓ **ADVANTAGEOUS TRENDS**

Employer liability has been reduced drastically through an industry-wide paradigm shift in preferred plan type and the development of specific liability-mitigating fiduciary services. The overwhelming trend from traditional pension to participant-directed defined contribution plans has shifted the investment risk away from the employer. A growing list of fiduciary service providers, including the 3(16) Plan Administrator, 3(21) Investment Advisor, and 3(38) Investment Manager, enable the plan sponsor to delegate liability for specific plan functions.

The pace of technological development also works in the favor of the employer. New technologies are allowing for speedier and more efficient processing, resulting in industry-wide fee compression and shrinking costs to the business owner. This streamlining has also made it simpler to set up and maintain a plan.

✓ **COST/BENEFIT ANALYSIS**

As with many business decisions, the choice to sponsor a 401(k) plan primarily comes down to a simple cost/benefit analysis — do the plan expenses and employer contribution requirements justify the advantages gained for the company, its ownership and the employees? Plan sponsors can mitigate the downsides of cost by either deducting plan expenses or pulling them from plan assets. Customized plan designers can work with sponsors to choose an employer contribution component that serves their objectives, or they can choose no such requirement at all. Among the array of benefits for providing a 401(k) plan, the best reason is that it is a sound business decision that contributes to the overall growth of a company.