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Thinking about starting a 401k for your firm? Ten tips to keep in mind

By Bevin Baker

Growing up as the daughter of a business owner and having worked with business owners most of my career, I know how important the right 401k plan can be. From helping you attract and retain employees, to giving you additional tax benefits and savings options during retirement, the right 401k plan is an essential part of your business. Here are some specifics to make the process more straightforward and manageable.

1. Establishing a plan – why a 401k?

A key feature of a 401k plan is the amount of retirement savings it allows. Employees can contribute up to \$20,500 a year with an additional \$6,500 catch-up contribution if they are age 50 or older. The general limit on total employer and employee contributions is \$61,000 or \$67,000 with the catch-up contribution.

One of the first decisions you'll need to make is whether you want to establish the plan yourself or hire a professional.

2. Plan Design

In traditional 401k plans, employees can make pre-tax or post-tax (ROTH) contributions. Regardless of income level, offering a ROTH inside a 401k allows tax-free growth on the contributions and their earnings, a huge benefit to some employees (and business owners if they participate).

Safe Harbor is another common plan type. These 401k plans aren't beholden to the same "stress testing" as traditional 401k plans. In exchange, employees receive a certain level of employer contributions which fully vest when they are made.

3. Decide on Plan Features

Matching contributions helps maximize the employee's retirement savings, and they may be tax deductible for the employer. Vesting schedules can help with plan customization and employee retention.

Profit-sharing is another aspect of retirement plans that function like a bonus. Taxes aren't taken out at the time of employee contribution, and deposits are tax-deductible for the employer.

4. Service Providers

To help with the setup and maintenance, many businesses enlist the help of a TPA (Third-Party Administrator), Recordkeeper and Financial Advisor.

- The TPA ensures plans remain qualified and compliant with IRS and ERISA (The Employee Retirement Income Security Act of 1974) rules. Additionally, they can help with administrative functions, customizing plan benefits and drafting plan documents.

- The Recordkeeper maintains contributions, records investment performance, provides online access to participants and handles statement delivery.

- The Financial Advisor provides advice on investments within the plan and engages participants in selecting their individual investment choices. They also protect the trustee (often the plan sponsor/business) from liability by acting as a fiduciary advisor and integrating with your plans' Recordkeeper, TPA and payroll provider.

5. Understanding Fiduciary Responsibility

Regardless of how hands-on you are with your plan, many of the duties of operating a 401k plan involve fiduciary decisions. Keep in mind that companies have a fiduciary responsibility to make sure that their 401k is run appropriately, so planning and research is key.

6. Adopt a written plan

Once you've decided on the type of plan and its features, it's time to put it in writing. The IRS states that "a plan must be a definite written program that is communicated to employees." The program must detail the rights, benefits, and features of the plan. It will also outline when employees are eligible to participate, the vesting schedule, information on matching or profit-sharing, how distributions are handled and contact information for the employer and any third parties.

7. Enrolling participants in the plan

Once the plan has been put into writing, you need to onboard the employees. Let them know at least 30 days beforehand and of any subsequent changes. Best practices include education and enrollment meetings.

8. On-going maintenance

Plans must adhere to the compliance and filing deadlines of the IRS and ERISA. Regularly review your plan features as your company evolves.

9. What does cost look like?

Starting a 401k plan may not be as cost prohibitive as you might think. Fees for the setup and maintenance of a plan could be done per head, as a fixed setup fee, or based on

assets under management. For additional savings, you may be able to bundle these services with your payroll provider.

Additionally, according to the IRS, “Eligible employers may be able to claim a tax credit of up to \$5,000, for three years, for the ordinary and necessary costs of starting a SEP, SIMPLE IRA or qualified plan (like a 401k).”

10. Resources

The Small Business Association, IRS and Department of Labor all provide resources for setting up and maintaining 401k plans. Additionally, your bank, CPA and Financial Advisor can help you with choosing other providers.

Hopefully you have found this primer helpful as you consider starting a 401k. It's an important and exciting step to take for yourself, your business and your employees, and you don't have to tackle it alone. ■

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