

10 Reasons Your Business Needs a 401(k)

Many employers across the country have expressed interest in starting a 401(k) or other retirement plan but have not followed through due to their concerns over the complexity of setting up and maintaining a retirement plan. However, with modern technology and help from a 3(38) fiduciary, setting up a retirement plan has never been easier. If you are on the fence on whether you should offer a retirement plan to your employees, here are 10 reasons it would positively benefit your business.

#1 EMPLOYEE RETENTION

The first reason is to help with employee retention. A survey done recently stated that 60% of employees consider benefits of new and old jobs as the number one reason to either stay or leave a company. If your competitors are offering a retirement plan and you are not, there is a good chance that you may lose your best talent to the competitor. As a business owner, holding onto your best talent is important and a retirement plan will definitely help in that regard.

#2 EMPLOYEE ATTRACTION

Next is the Employee Attraction. Similar to employee retention, employee attraction is a major reason to have a retirement plan. We had a retirement plan client tell us recently that the major reason an employee chose them over a competitor was the fact that they had a retirement plan in place. A lot has been said about millennials and retirement plans, but the fact still remains that for most skilled workers above the age of 30 a retirement plan is still a determining factor on whether they choose a company or not.

#3 EMPLOYEE INCENTIVES

Another reason to set up a retirement is the ability to provide incentives through them. A plan that can be a stand alone or with a 401(k) is a profit-sharing plan. With this type of plan you can set a vesting schedule that incentivizes employees to stay with the company for a certain length of time, and you have control whether you put money in the plan or not. This means that you don't have to put money in each year, you can pick and choose when to put money in based on how successful the year was, and how well you think your employees performed. This gives you a lot of flexibility and the ability to take care of employees who have given you years of service and high performance.

#4 TAX SAVINGS

One of the top reasons employers choose a retirement plan is for the tax savings they receive from personally using the retirement plan. For employers who have a 401(k) and profit-sharing plan, they could save up to \$63,500 (with catchup provision) in the plan, which could be up to \$31,750 in tax savings! Not only does the employer get this tax savings, but employees who contribute into the plan can also save on income taxes. They can save up to \$26,000 (with catchup provision) into the 401(k) which could be up to \$13,000 in tax savings.

#5 FICA TAXES

On top of the income tax savings, money put into a retirement plan also saves on FICA tax for both the employee and employer. This means if your plan has a 3% match that, it would likely be better than a 3% bonus as FICA taxes and income taxes would not apply to it.

#6 TAX EFFICIENT GROWTH

Once you have money in the plan, not only do you get income tax savings from your contributions into a retirement plan, but you also get annual growth savings. A typical investment account or bank account accrues interest or dividends year that are taxed. However, with a retirement plan the taxes are deferred entirely until withdrawal, or in some cases (if an employee chooses Roth deferrals) it can be 100% tax free.

#7 ROTH CONTRIBUTIONS

Most retirement plans allow for Roth Contributions, which go in after tax. This does not give the employee a tax deduction in the year they contribute but does give them tax free growth for the rest of their life. What's more is that there is not income limit to this, unlike the Roth IRA. For employees who make over \$193,000 in AGI they cannot contribute to a Roth IRA; however, they are able to contribute to a Roth 401(k). Giving them an option, they wouldn't have otherwise.

#8 AUTOMATIC SAVINGS

Most Americans find it difficult to save money. The media is good at getting us to spend our savings on things we don't need. A retirement plan is a sure-fire way to help employees save automatically. Since the savings come out before their paycheck, they aren't able to spend it. Since it comes out as they get paid, they are less more likely to become accustomed to the amount that ultimately goes into their bank.

#9 DOLLAR COST AVERAGING

Dollar Cost Averaging may be a term you have heard used before. Retirement plans give employees the ability to dollar cost average their savings. This means they are able to continually buy into the market, effectively lowering the impact of the market going up and down because they are always buying no matter what the market does. This allows for a smoother investment experience as well as a more predictable outcome of returns.

#10 MODERN TECHNOLOGY AND A 3(38) FIDUCIARY MAKE IT EASY

The final reason you should set up a retirement plan is the fact that it has become so much easier thanks to technology and using a 3(38) Investment Manager will make it less painful. If you haven't read our article on 3(38) Investment Managers, I would highly recommend you read it. The short of it is, a 3(38) Investment Manager will make your life easier for you and take on the fiduciary responsibility of the investments of the plan with you. For example, at Mills Wealth Advisors we have a retirement plan calendar and processes in place to make sure your plan runs smoothly. On top of that we use providers that have excellent technology that will allow you and your employees to keep tabs on your 401(k).

In conclusion, if you are considering a retirement plan, starting is often the hardest part, and we are here to help you decide whether or not this is the right step for your company. Along with being a 3(38) fiduciary we serve as an advisor to the company, owners, and employees, giving annual workshops to help employees get the most out of their investments, along with one-on-one advice for the owners and employees alike upon request. If you have any questions on retirement plans, please reach out and allow us to serve you.