

## What You'll Want To Know Before Setting Up Your First Company 401(k)

*With tax season now behind us, many small business owners are looking to beef up their company's benefits offering. One of the most popular employee perks is the 401(k) plan. Currently, there are more than 52 million American workers enrolled in 401(k) plans with the total assets from these plans amounting to about \$3.5 trillion. This trend has largely been influenced through the years by the increasing uncertainty America's social support programs such as the Social Security and Medicare. As such, younger investors are now actively seeking opportunities to ensure that our golden years are properly taken care of. Here is a simple guide to help you decide whether or not to set one up for your business.*

### Setting Up a 401(K) Plan

A 401(k) plan can simply be described as an employer-sponsored retirement plan that allows employees and sole proprietors to contribute towards their retirement savings accounts. This plan is only available to Americans working for sole proprietorships, partnerships, certain non-profit organizations, and corporations. However, 401(k) plans are not available for adoption by state and local governments.

### Why Small Businesses Should Set Up 401(k) Plans For Their Employees

One of the key benefits that small businesses enjoy from incorporating a 401(k) plan is for recruiting and retention. Today's employee is attracted to a retirement plan in place at work. Considering that high employee turnover plays a huge role in the financial burden of most small businesses, finding a way to cut such losses is something small and large business owners welcome.

Additionally, employers that offer 401(k) plans are entitled to tax deductions to a tune of \$1,500 for the first three years of setting up the plan. This is because companies with less than 100 employees qualify for tax credits of up to \$500 every year for the first three years of formulating their 401(k) plans. These funds are meant to offset some of the plan's setup and administrative costs. It's a win-win for employer and employee.

### How 401(k) Plans Work

#### Employees:

For employees, a regular 401(k) plan offers an opportunity to make retirement contributions on a pre-tax basis. This means that the contributions made towards this plan do not get taxed by the Federal Government or by most State governments (up to the annual limit set by the IRS). Additionally, earnings made from assets purchased using 401(k) contributions are not taxed until distribution. This gives employees a tax-advantaged retirement planning tool they can use to accumulate substantially more than they would by investing in taxable investments. Money contributed to the 401(k) is often invested in bonds, stocks, mutual funds, and money market funds. Employees are also allowed to use their accounts' assets as collaterals when applying for loans. There is also a Roth 401k now offered by many companies. We offer this at our place of work. This allows similar features, except contributions are after-tax, and proceeds grow tax-free is the employee waits until 59 1/2 before withdrawing.

#### How much can you save?

In 2015, higher contribution limits were set by the IRS thereby meaning employees can now contribute up to \$18,000 per year towards their 401(k) or Roth 401(k) plan. Besides, employees that are over age 50 years old can now take advantage of an increased "catch-up" contribution limit of an additional \$6,000 in allowable contribution to their 401(k) program.

### Employers and Matching:

Typically, employers are not in any way obligated to make contributions or a “match” towards their employees’ 401(k) plans. However, doing so only serves as a greater incentive for the employees and could even be influential in increasing their loyalty to your company.

In any case, if an employee leaves your company, they are allowed to take their benefits with them which helps to ease any administrative responsibilities involved in managing their 401(k) funds. Besides, employers are also allowed to apply for tax deductions for expenses incurred while matching contributions made to the 401(k) by employees.

### Looking To Set Up a Feasible 401(k) Plan For Your Company? Seek a pro.

Setting up a 401(k) plan for your employees might not appear like a complex task, but be sure it calls for experience for it to be successful. Having been in the industry for quite some time now, here are some of our tips for setting one up:

First, start by collecting relevant data that will assist your advisor to recommend the most suitable retirement plan option for your employees. Here, we generally suggest working with a pension consultant to conduct non-discrimination tests whose results will guide your company when drafting the 401(k) plan. We have worked with a professional in this field who has done this for thousands of businesses. You need that depth of knowledge.

After collecting the necessary data and weighing down the options available for your firm’s 401(k) plan, sit down with an advisor to discuss the brass tacks of the plan. This process will help to formulate a practical 401(k) plan that suits your company as well as your employees.

Some of the key items to discuss at this stage include

1. Employee contribution matching
2. Investment selections
3. Loan provisions
4. Roth and Traditional 401(k)
5. Record-keeping responsibilities.

Once you’ve decided on which 401(k) plan to adopt, it’s time to sign the agreement documents and consequently set up the 401(k) plan for your company. Then it’s just a matter of setting a date to begin the implementation process.

The last stage will entail enrolling your employees in the 401(k) plan while also educating them on the benefits of saving through this plan. This might seem like the simplest, but in my opinion, it’s the most important, and one that you should devote the most time for. We believe doing so helps to debunk any existing myths surrounding the 401(k) while also encouraging the employees to save more towards their retirement.

Setting up a 401(k) plan for your company is perhaps the wisest decision you can make both for you and your employees’ welfare; and the best part? It doesn’t have to be expensive or complicated. In fact, once the plan has been set up, your advisor simply needs to meet with you to perform regular plan reviews to help keep it on track.

<http://www.forbes.com/sites/winniesun/2016/04/26/what-youll-want-to-know-before-setting-up-your-first-company-401k/#6810a3a91d2b>