

WHY SPONSOR A 401(k) PLAN FOR SMALL BUSINESS?

5 Good Reasons To Set Up A 401(k) Plan Even if Your Company is Small

The 401(k) plan is a favorite retirement savings vehicle for Americans. It is estimated that 52% of working Americans work for a company that offers a 401(k) or similar plan. But, while more than 67% of very large companies offer a plan, just 26% of America's small business owners offer a 401(k) plan and 74% do not offer any form of retirement benefits. Owners of small businesses may incorrectly assume that 401(k) plans just won't work for them. Here's the reality.¹



#1: 401(k) plans make it easier to compete for and keep talent.

Seventy-seven percent of employers believe that offering a 401(k) or similar plan is important for attracting and retaining employees. However, some may be underestimating their importance — fully 81% of workers agree that retirement benefits offered by a prospective employer will be a major factor in their final decision-making when job hunting.²

#2: A 401(k) can help owners save for their own retirement

Business owners sometimes hope to fund their own retirement through business profits or the future sale of their business. They may sacrifice personal retirement savings in favor of plowing money back into the business. When the company provides a 401(k) plan for employees, owners may be more likely to contribute on their own behalf, too. The savings in the plan can help the business owner's ability to retire, even if the company itself does not survive.

#3: 401(k) plans save the company on taxes.

A key provision of SECURE Act 2.0, passed in December 2022, allows employers with 1-50 employees to claim a credit of up to 100% of start-up costs for the first three years after adopting a new plan.³ This credit is capped at \$5,000 per employer annually (total of \$15,000 for the three years). A 50% credit from the SECURE Act of 2019 remains for those businesses with 51-100 employees.

There is also an additional tax credit for five years of up to \$1,000 per employee equal to the applicable % of eligible employer contributions. This tax credit does not apply to defined benefit plans and there is an exception for employees with wages in excess of \$100,000. You may also enjoy a reduction in payroll taxes if employees are taking advantage of the plan — which is a great reason to educate them about its benefits.

¹ Source: Plansponsor.com, 2022

² https://transamericacenter.org/docs/default-source/retirement-survey-of-employers/tcrs2019_sr_employer_survey_retirement_security_challenge.pdf

³ <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

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#4: Plans are easy to set up and operate...with the right help

401(k) plans are available by virtue of an extremely complex U.S. tax system. It makes sense to feel a little intimidated, especially when you have a business to run. Today, there is a lot of help available to make it possible for even the smallest business to confidently establish and operate a 401(k) plan. The administration can be fully automated, and you can select a financial professional who specializes in these plans to help make sure it benefits employees and the company, within the bounds of all applicable laws.



#5: 401(k) plans help employees retire on time.

Their workplace 401(k) plan may provide an opportunity for employees to connect with a financial professional; for many, this is their only such contact. Along with the plan, contact with a financial professional may help employees gain confidence in their ability to retire. And that is important for at least two reasons. 1) Employees who know they will have enough money to retire are more likely to leave the workforce on time. Thus, they make room for the next generation of employees rather than remaining on the job solely for the paycheck. And 2) employees who are worried about finances are often less productive, less healthy, and more expensive for your other benefits.⁴

If you haven't yet established a 401(k) plan, take some time to learn more about the ways it may help you grow your business and work towards your future — and those of your employees. Your LPL Financial retirement plan specialist professional would be happy to share more insights.

⁴ Source: 401kSpecialist Magazine, 2022.

This material was prepared by LPL Financial, LLC.

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