

Choosing the Right Retirement Plan

Attracting and retaining the best employees is critical to any business, and a good retirement plan is an important part of that effort. Many privately held companies with employees choose to offer a 401(k) plan. However, even within the world of 401(k) plans, features, fees, and other aspects can vary greatly. Employers need to make careful comparisons to determine the best options for their companies and staff.

Among 401(k) plans, employers can choose several options. According to the U.S. Department of Labor, these include:

- **Traditional 401(k) Plan:** The most flexible of all three plans, this type of plan allows employers discretion over whether to make contributions for all participants, match employee contributions, or do neither. Contributions can be subject to a vesting schedule, where employees may only retain employer contributions after a period of time. Annual testing is applied to be sure that benefits for all employees remain proportional.
- **Safe Harbor 401(k) Plan:** These plans are not subject to annual contributions testing, as traditional plans are. In exchange for avoiding the annual testing, employees must receive a certain level of employer contributions, which are fully vested when made.
- **Automatic Enrollment 401(k) Plan:** Employees are automatically enrolled in the plan and invest contributions into default investments unless the employee chooses other options.

Once your team has chosen the best option for your company and employees, you need to begin comparing costs. The biggest cost will typically be your employer match, if you decide to offer one.

“Most small employers should budget around 3% of pay, which is the threshold for safe harbor status. Your plan may not be successful if you don’t contribute that much because highly compensated employees will be frustrated that they can’t put enough away for their own retirement,” says Timothy Guilford, principal of Keller Benefit Services, Inc., a benefits consulting firm in Bethesda, Maryland.

Key Takeaways

- Retirement plans can help you recruit and retain employees.
- Not all 401(k) plans are the same.
- Compare your options to make the best choices.

From there, adding features to your plan will add to the cost. For example, allowing employees to make after-tax investments, borrow against the account, or conduct their own trading will all add to the employer's cost. Consider carefully which options would benefit employees and which are simply unnecessary, and work with your financial advisor to craft your plan based on those options. It's possible that later, you may add additional features if there is demand for them.

Committing to offering a 401(k) plan requires considerable expense, administrative duties, and government reporting. Compare several plans to analyze various offerings and ensure that you're not overpaying in fees and costs. Be sure you compare your options carefully, and work with a skilled financial advisor who can help you determine the best options for your situation.



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