

The Truth on 401(k)s

Debunking the seven myths
holding small businesses back.

You need to save for retirement and manage taxes. Most important, you need to run a strong, healthy business. This doesn't leave you with a lot of time to research and understand the details around starting and managing a 401(k) plan. From headcount requirements and pricing to employee needs and tax benefits, here's the truth about the seven common 401(k) myths to help you through the fog.

✗ **Myth 1: Some businesses are too small to have a plan.**

✓ **Truth: Any-sized business can have a 401(k) plan – even the self-employed.**

Around 59% of small business owners who don't have a 401(k) plan think their business is too small.* Unfortunately, they believe in one of greatest 401(k) untruths of all time.

No business is too small to have a 401(k) plan. Companies of all sizes, from the self-employed to businesses of thousands of employees, use 401(k) plans to get ready for retirement. All that's needed is the desire to set up a plan.

✗ **Myth 2: If you don't match, you can't have a plan.**

✓ **Truth: You can have a 401(k) plan without matching – it is completely optional.**

Around 22% of small business owners without a 401(k) plan say they don't have one because they can't afford to offer a company match.* This is another myth. Some companies provide no match, some manage costs and leverage as an employee retention tool via vesting schedules, some only provide a profit share when they have a good year, and some choose an immediately-vested match. Just know there are a lot of options and you can do whatever is right for your business. Learn more about a [Safe Harbor 401\(k\)](#) and benefits of a match.

Tax and Cost Management Tip

Giving your employees a 401(k) contribution, be it a match, profit share or other, is most always tax deductible for your business. This tax deduction helps keep 401(k) costs low so that it is more affordable and provides added incentive to help you and your employees save for retirement. Matching is often more of a cash flow decision versus an affordability issue when this is taken into account. Your tax advisor can help you sort out what works best.

✗ **Myth 3: Having a plan is expensive.**

✓ **Truth: Great, low-cost plans for small businesses do exist.**

Out-of-pocket costs are low.

The truth is that it doesn't have to be costly for a small business to have a 401(k) plan. There are now providers that offer affordable and low-cost plans for any size business. It's typical to pay a one-time setup charge and an ongoing monthly price for administration and support. For the self-employed, this is pretty minimal. For a business with 1 to 10 employees, a price of \$95 or so per month might be expected. And, if you start your first 401(k) plan and have 1 to 100 employees, you can qualify for up to a \$500 tax credit for each of the first three years of your plan. That's \$1,500 over the first three years to offset setup and administration charges for the maintenance of your plan.

Most importantly, keep investment expenses less than 1%.

The biggest cost to focus on is the investment expenses paid by your employees that participate in the plan. Around 25% of small business owners believe that 5-9% is a fair amount to pay in 401(k) investment expenses, and another 45% have no idea what a fair amount is.* In actuality you should keep these expenses under 1%. Paying even 1% more in expenses can cost you hundreds of thousands of dollars in retirement savings over a 40-year career. Every dollar you and your employees spend in expenses is one less dollar invested in the markets for tomorrow.

Fund expenses (which can include 12b-1 fees), investment management, recordkeeping and custodial services often comprise the investment expenses. Be sure to sum these up if you are comparing providers. For example, ShareBuilder 401k investment expenses are less than 1% on average and lower as your plan grows in asset value past defined milestones. If assets dip below a milestone expenses may increase.

*ShareBuilder 401k Small Business Retirement Index, ShareBuilder Advisors, May 2017. The ShareBuilder 401k Survey was conducted by Wakefield Research among 500 U.S. business owners of companies with 1 to 50 employees. Formerly referenced as the Spark 401k Small Business Retirement Index prior to the change in ownership of the 401(k) business and content.

✗ **Myth 4: 401(k) plan tax benefits aren't that great for business owners.**

✓ **Truth: Contributing the max to your 401(k) account could drop you a tax bracket! Not only are there personal tax savings for owners and employees, but there are also tax credits and deductions available for the business.**

Personal Tax Benefits – Nearly 35% of small business owners have a 401(k) plan because they wanted a tax break on their personal income.* And tax break they got, and will get again and will continue getting. In 2019, business owners with employees can contribute up to \$19,000 tax-deferred into their company's 401(k) plan (\$25,000 if you are age 50 or over). With a match, high earning employees may be able to put away \$56,000 per year (\$62,000 if 50 years of age or more). Dropping a tax bracket is a tremendous benefit. The following chart illustrates how 2019 IRS contribution limits for 401(k) plans are significantly higher compared to traditional IRAs:

401(k) vs. Traditional IRA

2019 Limits	401(k)	IRA
Contribution Limit	\$19,000	\$6,000
Catch-Up Contribution Limit	\$6,000	\$1,000
Roth Income Limit	None	\$137,000 ¹
Annual Defined Contribution Limit	\$56,000	N/A

¹ In 2019, the contribution begins to decrease at \$122K for single individuals, hitting \$0 at \$137K. For those filing jointly the contribution limit begins to decrease at \$193K, hitting \$0 at \$203K.

And there are other ways to manage personal taxes with a 401(k). The Roth 401(k) feature enables owners and employees to contribute some, all or none after-tax to the Roth 401(k) and these contributions, earnings and all, are never taxed again when withdrawn in retirement.

Business Tax Benefits – As mentioned in Myth #3, there's a \$500 tax credit for a first time 401(k) plan buyer with less than 100 employees. There are also tax deductions for employer contributions and administration charges available to the business, which helps keep overhead costs in check. Employer contributions are often near, if not 100%, tax deductible for a business. Check with your tax advisor for your specific situation.

*ShareBuilder 401k Small Business Retirement Index, ShareBuilder Advisors, May 2017. The ShareBuilder 401k Survey was conducted by Wakefield Research among 500 U.S. business owners of companies with 1 to 50 employees. Formerly referenced as the Spark 401k Small Business Retirement Index prior to the change in ownership of the 401(k) business and content.

✗ Myth 5: I need to take on too many risks and responsibilities to offer a 401(k) plan.

✓ Truth: You can offload investment responsibilities and risks to save you time and energy.

There is no need to be or become an investment expert. The truth is that you don't have to spend a lot of time making complicated and sometimes risky investment decisions when managing a 401(k) plan. Rather, providers like ShareBuilder 401k have an investment committee of financial experts that monitor and manage the investment roster from which you and your employees select. This helps ensure a high-quality,¹ retirement appropriate fund menu for your company in line with the regulations and provides a level of oversight that even Fortune 100 firms may be envious.

Choosing a 401(k) plan that is overseen by an investment advisor – an ERISA 3(38) financial advisor to be exact – transfers the investment management duties, responsibilities, risk, and work from you to the plan provider. Many providers don't offer this service, so choose one that does.

✗ Myth 6: Employees are not interested in having 401(k) benefits.

✓ Truth: Employees are interested and want a 401(k).

Over 75% of Americans view 401(k)s as an important vehicle for saving for retirement.² In addition, around 25% of small business owners with a 401(k) plan said they got one because their employees wanted one. And 91% said a 401(k) is important in attracting and retaining employees.* Most of your employees and future employees truly do view their company's 401(k) plan as an important vehicle for saving for retirement.

✗ Myth 7: Starting and managing a plan takes too much time.

✓ Truth: Some providers make it simple for you start and manage a 401(k) plan online and have experts to help you all along the way.

Around 26% of small business owners don't have a 401(k) plan because of concerns about complexity, responsibilities, and time.* Businesses rank 'easy to understand and manage' as the number one most important factor when selecting a provider (followed closely by price). The truth is that some 401(k) providers make it simple. For example, starting a ShareBuilder 401k plan can be done online or via your mobile phone over lunch, and managing it only takes minutes each payroll, plus a one-time year-end online filing process. In addition, you have experts available to help you and your employees when you need them.

*ShareBuilder 401k Small Business Retirement Index, ShareBuilder Advisors, May 2017. The ShareBuilder 401k Survey was conducted by Wakefield Research among 500 U.S. business owners of companies with 1 to 50 employees. Formerly referenced as the Spark 401k Small Business Retirement Index prior to the change in ownership of the 401(k) business and content.

¹High Quality Funds – The ShareBuilder Advisors Investment Committee conducts an annual review of the exchange traded funds offered as ShareBuilder 401k fund options. This review includes multiple variables including length of time since inception, asset level, historic performance over one to ten years, expense ratio, and how the funds compare to their benchmark indices. Each fund is monitored and changes are made to the fund lineup as needed to align the investment options to the Investment Committee's investment policy.

²Capital One Financial Freedom Survey, March 2016.

There you have it.

- ✓ Any-sized business can have a plan.
- ✓ There is no need to match.
- ✓ There are meaningful tax advantages.
- ✓ Employees value retirement benefits.
- ✓ 401(k) plans can be low-cost and simple to manage including the investment management.

Now is a great time to get started. No matter how simple or complex your retirement needs are, it pays to know the truth about what 401(k) plans can do for you. Learn how affordable ShareBuilder 401k plans are in just a few minutes with a no obligation pricing quote or speak to one of our 401(k) experts: 800-431-7934 x1.

Learn more at www.sharebuilder401k.com