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Retirement Plans: An Accelerator For Your Practice

In terms of their impact on the economy, U.S. small businesses are anything but small. Small businesses account for nearly half of the nation's gross domestic product and employ nearly half of U.S. private sector workers. Yet many do not offer their employees access to a 401(k) or other retirement plan.

That's changing largely due to SECURE 2.0, a landmark piece of legislation signed into law in December 2022 that makes it easier and more affordable for small- and mid-sized businesses to start and maintain a workplace retirement plan.

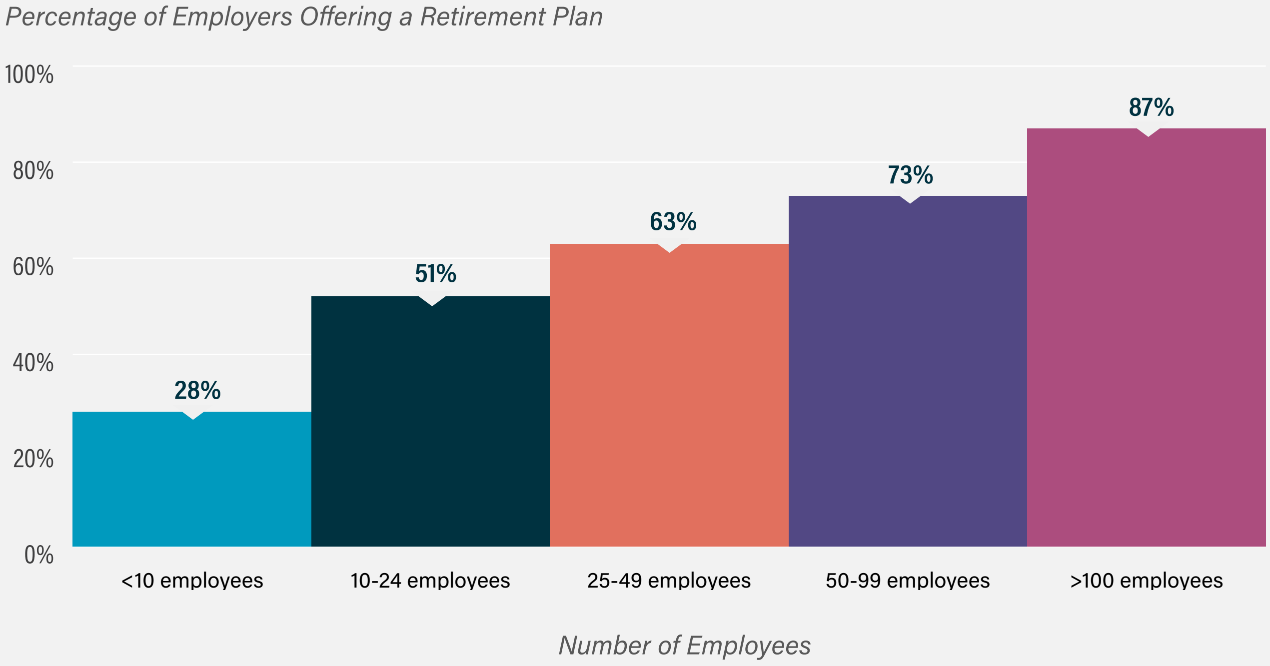
In this insights paper, ***Retirement Plans: An Accelerator For Your Practice***, we consider the gap in retirement plan accessibility and its impact on American workers. We also explore how key SECURE 2.0 provisions and the rise of state-mandated plans are impacting workplace retirement plans. And finally, we share why now may be an opportune time for advisors to expand their reach by adding retirement plans to their practice.

Mind the workplace retirement savings gap

Retirement plans are an essential tool for helping workers save for retirement. Yet half of all private sector employees—nearly 57 million people—don't have access to a 401(k) or other workplace retirement plan.[1] And as Figure 1 illustrates, the smaller the company, the less likely it is to offer a plan.[2] Without access to a retirement savings plan, many workers may find themselves financially unprepared for the future.

FIGURE 1:

The smaller the company, the less likely it is to offer a retirement plan.



Source: Small Business Retirement: Investing in Your Future. Score.org. December 2022.

The gap in retirement plan access is worrying, especially since workers without an employer-sponsored retirement plan are far less likely to save as much for retirement than those who participate in one.

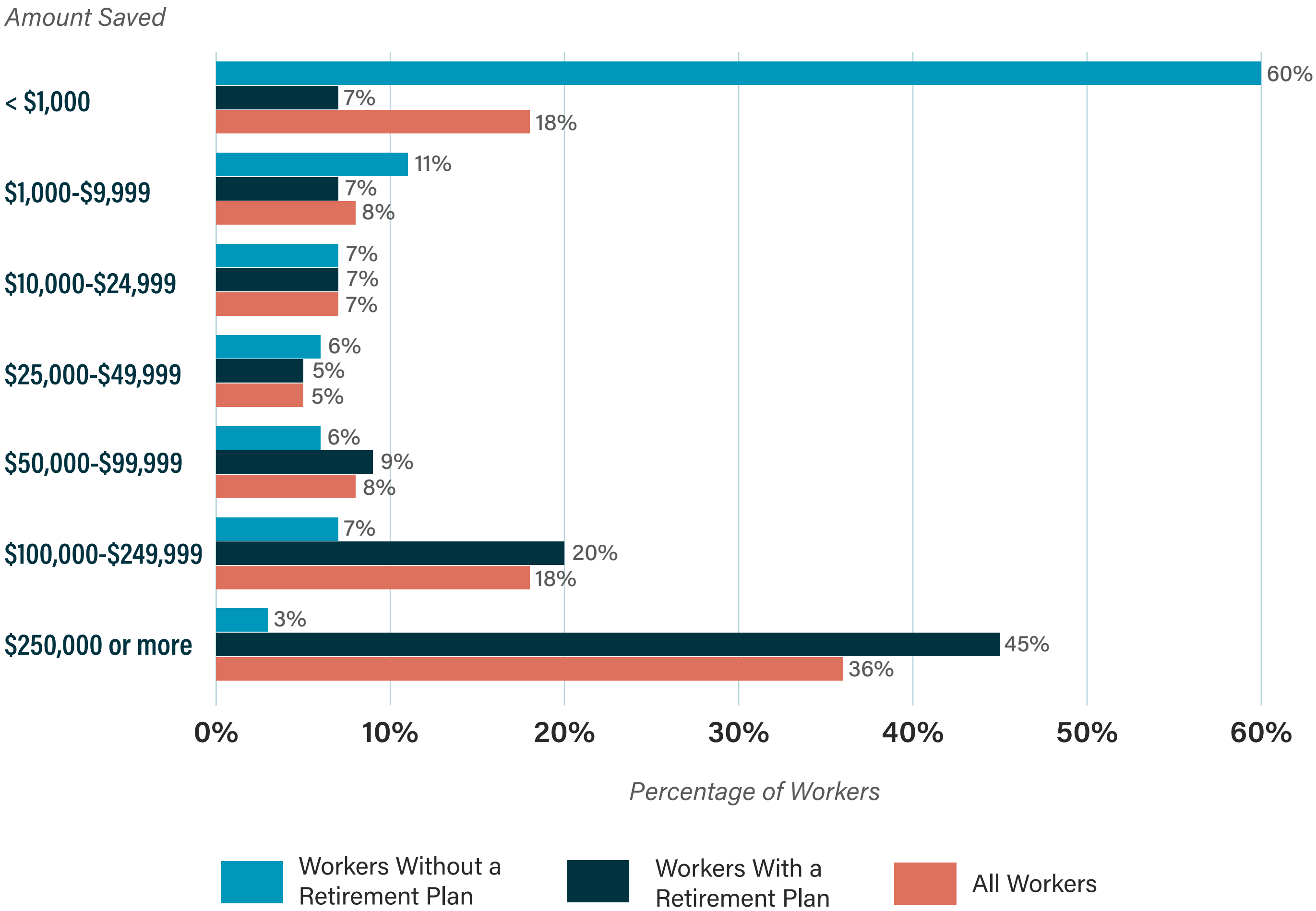
1 John, David, Gary Koenig, and Marissa Malta. "Payroll Deduction Retirement Programs Build Economic Security." Washington, D.C.: AARP Public Policy Institute, July 11, 2022. Accessed June, 2023. https://doi.org/10.26419/ppi.00164.001

2 Small Business Retirement: Investing in Your Future. SCORE, December 2022. Accessed June 2023. https://www.score.org/resource/infographic/infographic-small-business-retirement-investing-your-future#:~:text=28%25%20of%20businesses%20with%20less,99%20employees%20offer%20retirement%20plans

A recent survey found that while 60% of workers **without** access to a workplace retirement plan had less than $1,000 saved for retirement, 71% of workers **with** a workplace retirement plan had saved $50,000 or more[3] (Figure 2). Many small business owners may find they're facing a similar situation: research shows that more than a third of small business owners (34%) have no retirement savings plan for themselves.[4]

FIGURE 2:

Worker savings amounts, by plan vs. no plan



Source: Employee Benefit Research Institute and Greenwald Research, 2023 Retirement Confidence Survey.

3 Preparing for Retirement in America, 2023 RCS Fact Sheet #3, EBRI/Greenwald. Accessed June 2023. https://www.ebri.org/docs/default-source/rcs/2023-rcs/rcs_23-fs-3_prep.pdf?sfvrsn=778d392f_4

4 Small Business Retirement: Investing in Your Future. SCORE, December 2022. Accessed June 2023. https://www.score.org/resource/infographic/infographic-small-business-retirement-investing-your-future#:~:text=28%25%20of%20businesses%20with%20less,99%20employees%20offer%20retirement%20plans

If having a retirement plan is so crucial, why don't more small businesses offer one?

Small business owners choose not to offer a retirement plan vary for a variety of reasons (Figure 3), but two in particular stand out.

Nearly three quarters (71%) of employers without a workplace retirement plan believe they can't afford a plan and 63% say they lack the resources to administer one. Fortunately, affordability and administrative burden are two of the concerns SECURE 2.0 was created to address.

FIGURE 3:

Why don't more small businesses offer a retirement plan?
In a recent study, small employers cited these reasons for not offering a plan.

71%
Too expensive to set up

63%
Lack resources to administer a plan

50%
Employees aren't interested

22%
Haven't thought about it

15%
Concerned about choosing a plan provider

13%
Organization is too new

Source: Small Business Retirement: Investing in Your Future. Score.org, December 2022.

Three Reasons to Add Retirement Plans to Your Practice

Retirement plans can be a lucrative tool for advisors looking to scale their practice. That's because expanding your service offering to include retirement plans can help you:

1. **Grow your revenue stream.** Retirement plan assets tend to grow consistently as participants contribute to their accounts through regular payroll deductions. This can help generate a reliable source of revenue for your business.

2. **Add "stickiness" to your business.** Small business owners increasingly recognize that a retirement plan is an essential tool for attracting and retaining top talent. If you're not talking with them about adopting a plan, your competitors will be. The fact is, offering retirement plan services can make your business "stickier" by providing another crucial tool to help meet your clients' business and wealth management needs.

3. **Expand your client base.** Helping your clients establish a retirement plan may give you access to their employees. As their accounts grow over time, you may have additional opportunities to help them with college savings, individual retirement accounts (IRAs), rollovers, and more down the road.

SECURE 2.0 opens the door to retirement saving

With growing concerns around the retirement savings gap, the federal government signed into law the SECURE 2.0 Act of 2022 at the end of December 2022.

This sweeping package of retirement reforms contains provisions that make it easier and more cost-effective for small businesses to offer a plan with common-sense solutions aimed at encouraging working Americans to save more for retirement.

Seven of the most noteworthy provisions include:

1. **Increased tax credit.** SECURE 2.0 encourages small businesses to adopt a retirement plan by increasing the tax credit for employers with 50 or fewer employees to 100% of qualified startup costs (up from 50%) for the first three years, with a maximum credit of $5,000 per year. Employers with 51 to 100 employees are eligible for a credit of 50% of qualified startup costs for the first three years, with a maximum credit of $5,000 annually.

2. **New tax credit for employer contributions to a new plan.** SECURE 2.0 also provides a new tax credit for employer contributions up to $1,000 per employee in the first year. The credit, which phases out over five years, is applicable only to employees earning $100,000 or less. For businesses with 51 to 100 employees, the tax credit is based on a sliding scale.

3. **Two new types of deferral-only plans.** In 2024, employers who do not have a retirement plan will be able to adopt a starter 401(k) or a safe harbor 403(b) plan (for tax-exempt organizations). Participants will be allowed to contribute up to $6,000 per year ($7,000 for participants ages 50 and older), while employers can avoid some of the administrative burdens and expense of a traditional 401(k) or 403(b) plan.

4. **Expanded automatic enrollment.** Starting in 2025, businesses will be required to automatically enroll eligible participants in new 401(k) or 403(b) plans, with the ability for employees to opt out. Businesses with 10 or fewer employees and new businesses that are less than three years old will be exempt.

5. **New Saver's Match.** The Saver's Credit will be replaced with the new Saver's Match—a program that enables lower-income plan participants to receive in their retirement plan account a government-funded 50% match for up to $2,000 of contributions they make to their retirement plan, for tax years beginning after December 31, 2026.

6. **Broadened access to pooled plans.** 403(b) plans are now permitted to participate in, and be operated as, either a pooled employer plan (PEP) or a multiple employer plan (MEP).

7. **More incentives to save.** SECURE 2.0 also includes several incentives designed to encourage plan participation. For example, starting in 2024, employers will be able to provide matching contributions to an employee retirement plan account based on the employee's student loan payments. Also in 2024, plan participants will be able to withdraw up to $1,000 a year to cover emergency expenses without incurring a 10% early distribution penalty, provided they repay that amount to their account within three years.

New doors of opportunity with 403(b) plans

403(b) plans traditionally have not drawn as much attention from advisors as 401(k) plans. Yet, the tax-exempt market includes millions of employees working for colleges and universities, hospitals, healthcare, and other nonprofit organizations.

Thanks to recent legislative efforts, including SECURE 2.0, 403(b) plan rules have evolved to align more closely with 401(k) rules. This means it may be easier than you think to unlock a new world of opportunities serving 403(b) plan sponsors and their employees.

What about state-mandated plans?

In recent years, a growing number of states across the country have enacted legislation aimed at helping to close the retirement savings gap.

As of June 2023, 19 states have adopted a state-facilitated retirement plan and 28 more are exploring their options or are considering legislation to establish a state-facilitated retirement program.[5] This means that plans such as California's CalSavers—the largest state-mandated plan in the U.S. with more than $500 million in assets under management—is now helping millions of small-business and self-employed workers to build financial security for the future.

What affect are these plans likely to have on how small business owners view their retirement plan choices?

A recent study suggests that state-facilitated retirement plans may complement the adoption and retention of private plans.[6] One reason may be that state-mandated programs help fill a crucial gap in the small plan market by providing a viable option for employers who might not be ready or able to provide and administer a plan on their own.

ARE STATE-FACILITATED PLANS EDGING OUT PRIVATE PLANS?

Not according to a recent report that compared new plan creation and plan termination rates for state-facilitated and private plan in states with mandated retirement plans. In fact, the study found that businesses in states with state-mandated programs:

- Create new private plans at rates similar to employers in states without programs.
- Terminate private plans at rates that are in line with national averages.[6]

5 State Programs 2023: More Programs Are Open and Enrolling Workers, Georgetown Center for Retirement Studies. Accessed July 2023. https://cri.georgetown.edu/states/

6 State Automated Retirement Savings Programs Continue to Complement Private Market Plans, April 14, 2023. https://www.pewtrusts.org/en/research-and-analysis/articles/2023/04/14/state-automated-retirement-savings-programs-continue-to-complement-private-market-plans

Key differences between state-facilitated and private plans

	State-facilitated plans	Private plans
Structure	Typically a Roth IRA	Often a 401(k) or other defined contribution plan
Auto-enrollment required	Yes, usually after 30-60 days	Employer discretion
Contribution limits	Up to $6,500 annually, indexed for inflation, for an IRA-based plan	Up to $22,500 annually, indexed for inflation
Catch-up contributions for ages 50+	$1,000	$6,500
Employer contributions permitted	No	Yes
Employer tax deduction for employer contributions	N/A	Yes
Federal tax credits for employers	No	Yes, for eligible startup and administrative costs and for matching contributions
Plan flexibility	Plan features and investment options are chosen by a state board	Plan can be tailored to meet business and employee needs
Cost to adopt and maintain a plan	No	Yes

BOOST SUCCESS FOR SMALL BUSINESSES—AND YOUR OWN

SECURE 2.0 and the expansion of state-mandated plans are creating tailwinds that are likely to drive growth in the small plan market today, and for years to come.

For wealth managers and other advisors who have traditionally shied away from serving plan sponsors and participants, partnering with a proven retirement solutions provider can help them scale their services, stay on top of emerging trends, and deliver the right plan for their clients' needs.

Find plans that could use your help

Every existing retirement plan is required to file Form 5500 annually. Check out one or more of the Form 5500 public data providers:

- efast.dol.gov
- Larkspurdata.com
- freeerisa.com
- JudyDiamond.com
- BrightScope.com

Use these sites to learn more about your prospect's existing retirement plan design features and to gauge whether the plan may have room for improvement.

Employee benefits matter, a lot

Private and state-mandated retirement plans offer small businesses more choices for adopting a retirement plan. At the same time, they provide an opportunity for small businesses to expand their benefits, which can help bolster their ability to recruit and retain the talent they need to grow.

This can be important, especially since workers increasingly expect employers to offer retirement benefits as part of their compensation package, regardless of business size. In fact, a retirement savings plan may be more valuable to current and prospective employees than many business owners realize.

According to a recent study, nearly half of workers (46%) said their retirement plan was key to their decision to join their current employer, and 60% said their retirement benefits are an important reason they choose to stay.[7]

Offering a workplace retirement plan is one way to show employees that their hard work is valued and that their employer is invested in helping them to build financial security for the future.

FIGURE 4:

What are the benefits of offering a 401(k) plan according to small business employers?

94%
say it helps drive recruitment

52%
say it helps them attract better quality employees

47%
say it inspires increased employee engagement

Source: Small Business Retirement: Investing in Your Future. Score.org. December 2022.

The value of a 3(16) plan administrator

Bringing a 3(16) plan administrator to the table can help ensure your clients get the administrative and fiduciary support they need to run a compliant retirement plan.

A 3(16) plan administrator assumes the risk and responsibility of these client administrative tasks.

- Tracking regulatory changes that affect employer-sponsored retirement plans
- Monitoring timely submission of payroll/transfer of funds
- Responding to IRS and DOL inquiries
- Signing Form 5500
- Identifying missing contributions
- Locating missing participant addresses
- Approving distributions
- Approving loans and monitoring of loan payments
- Authorizing incoming rollovers
- Managing qualified domestic relations order (QDRO) process

7 2022 Global Benefits Attitudes Survey, wtw, Published June 2022. Accessed June 2023. https://www.wtwco.com/en-US/Insights/2022/06/2022-global-benefits-attitude-survey

Matching the right plan to your client's needs

While the cost and responsibility of providing a standard retirement plan may have kept small business employers from starting a plan, there are many retirement savings solutions available for employers of all sizes—and many reasons why your small business clients may want to consider one now.

If your client has employees and wants to:	Consider this type of plan
Offer a no-cost, "hands-off" basic plan with low contribution limits and they have offices in a state that offers a state-facilitated retirement plan option	State-mandated Roth IRA plan
Offer retirement benefits without the complexity, administrative burden, or expense of a traditional retirement plan	Starter 401(k) or safe harbor 403(b)
Promote employee retention by providing a plan that allows a vesting schedule for employer matching contributions	Traditional 401(k)
Avoid nondiscrimination testing so their higher compensated employees can save more for retirement	Safe harbor 401(k)
Leverage the economies of scale that are often reserved for larger plans	Pooled employer plan (PEPs) or multiple employer plan (MEPs)
Save more for retirement than most plans allow (for businesses with fewer than 10 employees)	SEP IRA

Retirement plan prospects in plain sight

Finding retirement plan clients may be easier than you imagine. The key is getting the word out that you offer retirement plan services.

- **Don't overlook your existing book of business.** Be proactive in understanding your clients' business needs and tax concerns. Then, discuss how sponsoring a retirement plan can provide significant benefits to their business, their employees, and their own financial situation.
- **Turn everyday contacts into clients.** Local business owners, dentists and doctors, friends, family, and even people you meet while waiting in a line or on social media may need a retirement plan or know someone who does.
- **Build your centers of influence.** Attorneys, accountants, mortgage consultants, payroll providers, third-party administrators, and benefits brokers can be rich sources of referrals for you—and you for them.

TRY THESE CONVERSATION STARTERS

- I help small business owners create a retirement plan that can benefit their business, their employees, and their long-term financial success. May I ask about your company's plan?
- On a scale of 1 to 10, how happy are you with your company's retirement plan? I take a lot of pride in helping small business owners improve their retirement plans.
- Do you know of friends or colleagues who could use my services? May I mention that you're my client/friend?
- I'm glad you're pleased with the financial planning services that I provide for you and your family. Did you know that my expertise includes small business/corporate retirement plans?

Client focused. Outcomes driven.

SECURE 2.0 brings new choices and opportunities—as well as questions about implementation, tracking, and plan administration. To fully leverage the advantages SECURE 2.0 offers your business clients, it's important to recognize there isn't a one-size-fits-all solution. An expert partner can make it easier to help small businesses choose the right plan and implement SECURE 2.0's many plan provisions.

At Ascensus, we stand ready to work with you, your clients, and their CPA and other advisors to navigate the road ahead and create a flexible retirement plan solution that fits the needs of their employees and their business—today and as the business grows. That's why we offer a full range of well-designed retirement solutions, backed by specialized expertise, leading-edge technology, and a client-first attitude. Wherever your clients want to be, we can help them get there.

To see how, visit our retirement solutions website.

Or, contact us at www.ascensus.com/contact-us/retirement-sales/ to learn more.

EXPERTISE MATTERS.

Here are some important considerations when choosing a recordkeeper.

- **Expert partnership.** Through the right retirement partner, you can offer plans that help you stand out with clients—and help them draw the right talent to their doors. The key is working with a retirement services provider who can help you build the right plan for your clients.
- **Purpose-driven technology.** Does your recordkeeper invest in modern technology that offers a seamless, supportive user experience? Choose a partner that uses advanced analytics and artificial intelligence (AI) to analyze data and provide insights to drive better outcomes, mitigate fiduciary risk, and help you and your clients manage their plan with transparency and accuracy.
- **A client-first approach.** Make sure your provider will offer an optimal experience for your clients and their employees—so you can spend less time helping them manage their plan and more time growing your business.
- **Freedom to choose.** Be sure your provider offers a full range of services and solutions that enable you to select the plan type, services, and investments that best suit your client's business, goals, and employees. This includes 3(16) services that enable your clients to offload some of their fiduciary responsibilities to a third-party service provider, as well as 3(21) and 3(38) investment fiduciary services if you prefer to focus less on plan investments and more on other plan services such as retirement education and plan design enhancements.

Learn more.

800-345-6363 retirementsolutions@ascensus.com ascensus.com