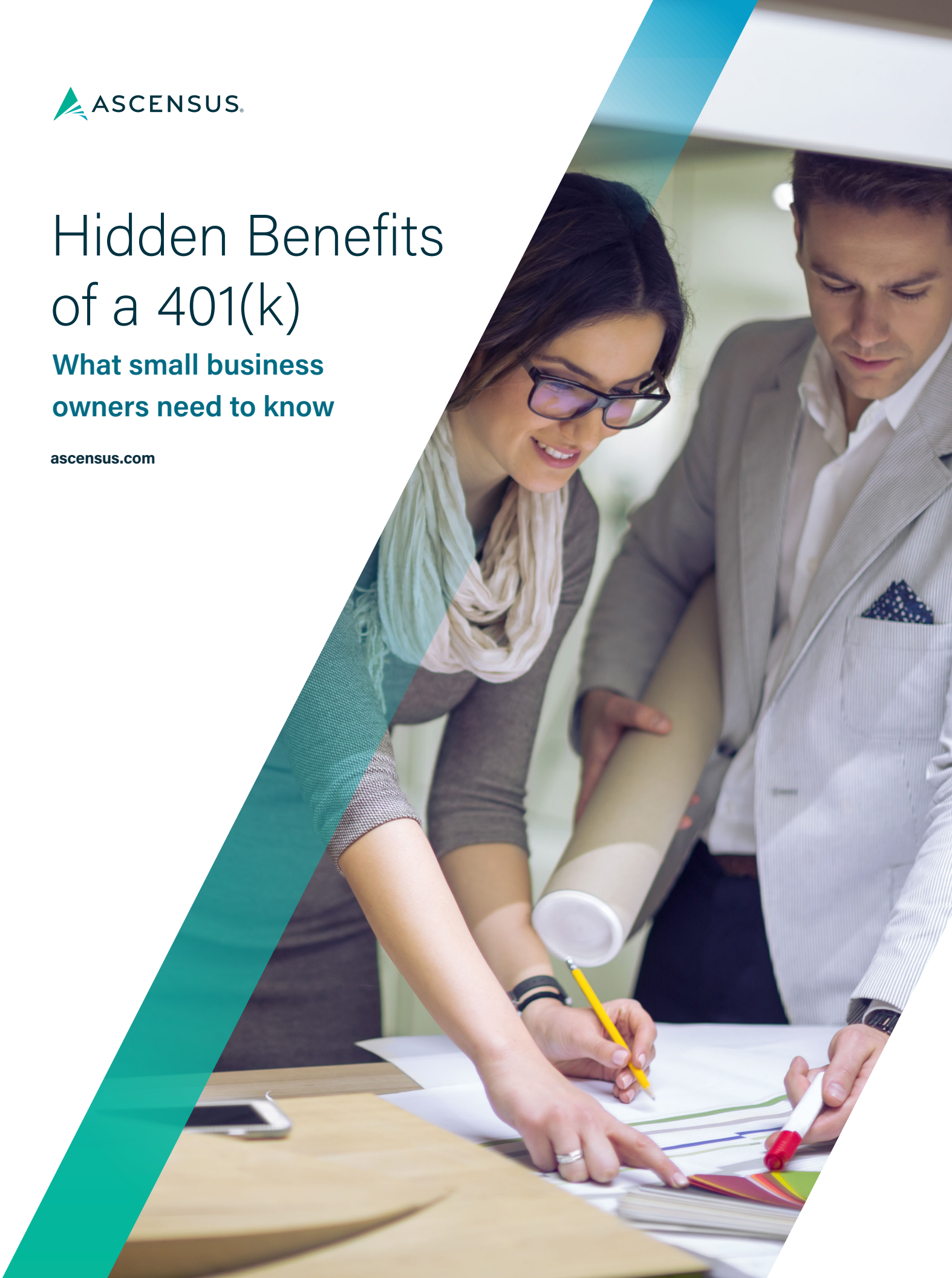




Hidden Benefits of a 401(k)

**What small business
owners need to know**

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Introduction

Planning for a comfortable retirement is a major concern among American workers—particularly among older employees, with less time left in the workforce. In fact, 64% of employees are worried about running out of money in retirement,¹ and 45% of Baby Boomers have no retirement savings at all.²



Workers who do have financial provisions in place often have built their nest egg using their employer's 401(k) plan. In fact, a defined contribution (DC) retirement plan is the most prevalent type of employer-sponsored plan in the U.S. private industry. In 2023, 70% of private industry workers had access to an employer-provided retirement plan and 53% were participating in their plan,³ making it an invaluable tool for shaping the financial security of our country's workforce.

Even so, investing in new systems and expanding employee benefits are not decisions that come lightly to small and mid-size businesses (SMBs), and adding a retirement plan often is not top of mind for employers. Many executives are also under the impression that a 401(k) plan is expensive to set up and hard to administer.

However, offering a 401(k) can provide numerous benefits to SMBs, including the ability to recruit quality talent, improve employee retention, and reduce the tax liability for the business all while providing peace of mind and a valuable savings tool for plan participants.

RECRUITMENT AND RETENTION

An important reason for establishing a company 401(k) plan is to attract and retain quality talent for the firm. A company benefits package is among the foremost considerations of highly qualified talent when searching for a new position.⁴ Offering a 401(k) plan with a matching employer contribution can set an SMB apart from the competition and make exceptional candidates more likely to accept a job offer.

Likewise, valued employees are more likely to stay with a company that they feel has their best interests at heart. Since employee retention keeps recruiting and training costs down, offering a company 401(k) can have a positive impact on the bottom line.

Providing an employer-sponsored retirement plan also offers several additional benefits for SMBs, including:

- **Tax savings** – Employer matching contributions (up to applicable limits) are tax-deductible.
- **Owner participation** – Plan participants can contribute up to \$23,500 of their pre-tax income in 2025 (plus an additional \$7,500 in catch-up contributions if age 50 or older), giving business owners the opportunity to benefit from the same tax advantages as their employees.

88%

of workers say having access to a 401(k) retirement plan is a "must-have" benefit.⁴

- **Startup tax credit** – Small businesses with no more than 50 employees and at least 1 non-highly compensated employee (NHCE) who is eligible to participate can claim a tax credit up to 100% of the cost associated with the new retirement plan for up to three tax years. (Employers with 51-100 employees can claim a tax credit up to 50% of the cost associated with the new retirement plan for up to three tax years.) The credit can range from \$500 to \$5,000 depending upon the number of eligible NHCEs.*
- **Automatic enrollment tax credit** – Employers that offer automatic enrollment may be eligible for an additional tax credit of \$500 per year for the first three years (total of \$1,500).*

Even if only a handful of employees choose to participate in the 401(k), the tax savings to a small business can be significant.

Tax savings may be

3.5 times
greater than plan
costs for firms with
less than ten
employees.⁵



THE RIGHT PARTNER

Although a 401(k) can offer significant benefits, annual compliance testing, payroll contribution deadlines, and employee education can seem like insurmountable hurdles for an SMB. The right partner can bundle the investment fiduciary, recordkeeper, and third party administration services into one solution, alleviating the work the SMB has to do.

Integrating 401(k) and payroll frees up internal staff, allowing them to stay focused on core business. Integration also minimizes common manual administrative errors and inconsistencies.

In addition, most 401(k) plans are covered under the Employee Retirement Income Security Act (ERISA) and carry a strict set of fiduciary responsibilities. While SMB owners and managers need to ensure they have a firm understanding of their fiduciary responsibility, an experienced retirement services provider who understands the fiduciary landscape can help SMBs establish and maintain a compliant 401(k) plan. Firms can further reduce their fiduciary risk by using an investment fiduciary and a 3(38) Investment Manager to handle investment selection and monitoring.

*Ascensus recommends consulting with your accountant to discuss eligible tax credits available to your business. Credits outlined not applicable to Individual(k)™ plans.

EDUCATION MATTERS

Offering an employer-sponsored retirement plan does not necessarily mean that employees will participate, as navigating a plan without hands-on guidance can be overwhelming.

By working with a retirement plan provider that offers personalized participant education, employers help participants get the maximum benefit from the plan including:

- Online education tools and resources
- Support from knowledgeable, dedicated investment advisors

Providing personalized participant education can also help mitigate the impact of employee financial stress on the company's bottom line—44% of employees say their financial stress has been a distraction at work and decreased their productivity.⁶ Retention could also be affected, as 73% of employees say they would be attracted to another company that cares more about their financial well-being.⁶

CONCLUSION

SMBs can realize numerous benefits by implementing a 401(k) plan, and can further their employees' and company owners' financial goals. In addition to attracting and retaining quality talent and providing a tax credit for the business, an employer-sponsored 401(k) plan can help participants prepare financially for the future.

By working with a payroll service provider that also offers an integrated 401(k), SMBs can take advantage of big business solutions to improve operational efficiency. Ascensus offers flexible and affordable retirement planning options that seamlessly integrate the setup and administration of an employer-sponsored 401(k).



For more information about our services, visit ascensus.com

¹"2022 Workplace Benefits Report." Bank of America. Accessed March 21, 2023. <https://business.bofa.com/en-us/content/workplace-benefits/workplace-benefits-report-overview.html>

²Barbara A. Friedberg. "Are We in a Baby Boomer Retirement Crisis?" Investopedia. February 13, 2022. <https://www.investopedia.com/articles/personal-finance/032216/are-we-baby-boomer-retirement-crisis.asp>

³"Changes in access to retirement benefits, 2010-23." U.S. Bureau of Labor Statistics. August 29, 2024. <https://www.bls.gov/opub/ted/2024/changes-in-access-to-retirement-benefits-2010-23.htm>

⁴"Schwab Study: Workers Continue to Prioritize 401(k) Saving Amid Anxiety About Inflation and Market Volatility." Schwab Retirement Plan Services, Inc. 2023. <https://pressroom.aboutschwab.com/press-releases/press-release/2023/Schwab-Study-Workers-Continue-to-Prioritize-401K-Saving-Amid-Anxiety-About-Inflation-and-Market-Volatility>

⁵"Top Tax Reasons to Start a 401(k)." ShareBuilder 401(k). Accessed March 21, 2023. <https://www.sharebuilder401k.com/overview/tax-reasons-to-start-a-401k/>

⁶"2023 PwC Employee Financial Wellness Survey." PwC. 2023. <https://www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html>

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