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SMART ANSWERS
By Karen E. Klein

The Small-Employer Pension Plan Dilemma

Some new "small-business friendly" retirement plans are affordable to set up, and you can manage it yourself or hire a firm to do it

I'd like to provide my employees with a retirement plan, but, as a small employer, I don't know if I can afford it. Where would I research 401(k) plans for my company?—J.K., Colorado Springs, Colo.

Providing an employee pension plan is a powerful recruitment and retention tool for small-business owners. If many of the other small firms in your niche are offering retirement plans, it will be especially important for you to have some kind of plan you can put on the table in a job interview. Most of the talent you interview will expect it (see BusinessWeek.com, 8/14/06, "[Small-Business Secrets to Hiring](#)").

The good news is that some new plans have been established in the last few years that are extremely "small-business friendly," in that they are relatively simple to navigate. They are also cost-effective to set up and easy to administer. Specialized firms, called "third-party administrators" (TPAs), can help you establish and maintain your retirement plan so that it complies with tax rules and other state and federal regulations, if they exist in your jurisdiction.

401(K) ALTERNATIVES. The 401(k) plan is the most popular pension plan in use in the U.S. today, according to the Internal Revenue Service, which offers an online primer on the topic at: <http://www.irs.gov/retirement/article/0,,id=120298,00.html>. The U.S. Labor Dept. also has a publication on its Web site, <http://www.dol.gov/ebsa/publications/401kplans.html>, that provides 401(k) information specifically for small-business owners.

Before you jump in with both feet, however, you should know that there are choices to be made about which kind of plan best serves you and your family, your company, and your employees. Details will vary depending on the number of people you employ, the tax issues you face, your company's revenues, your personal long-term financial plan, and whether you want the retirement plan to be available to you personally as well as to your employees. While 401(k) plans are the most popular choices today, there are other options you might want to consider, such as Simplified Employee Pension plans (SEPs), <http://www.dol.gov/ebsa/publications/SEPPlans.html>, and Savings Incentive Match Plans for Employees of Small Employers (SIMPLE Plans), <http://www.dol.gov/ebsa/pdf/simpleIRA.pdf>. There are also different ways to structure 401(k) plans.

You can research the various options yourself—a great deal of information is available online—but it's probably a good idea to talk to your accountant and have her help you evaluate the choices.

CHOOSING A TPA. If you do opt for a 401(k) plan, you can ask your employees to take on some or all of the cost of the plan, says Chad Parks, president of TheOnline401k.com. "Call it the 'employee-sponsored' plan. Your employees will be paid back by the tax savings they will enjoy and retirement savings that will grow," Parks says. Remember that with a 401(k), you don't have to match your employee's contributions, although you will get a tax deduction if you choose to do so.

If you decide to hire a TPA, look for one that offers all-in-one services, rather than setting up the plan and then putting the burden of managing it back on you. "Look for a provider that will file the proper IRS forms, keep track of your company's contributions, and conduct the compliance testing which is mandated by the Department of Labor for 401(k) plans," Parks says. A Web-based provider should be able to save some of the costs associated with paper-based plans and pass them on to you, he adds.

Make sure also that you ask the TPA about its fee structure and that you understand exactly what you're being charged for. "Many 401(k) providers hit small businesses with hidden fees based on the amount of assets you have in the plan, or they have minimum asset sizes for a plan, which can be an issue for a smaller plan," Parks says.

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