

Retirement plans for small businesses

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When lunchtime comes, the employees of Fluid, a small SoHo company that produces TV commercials, don't have to go very far: Catered meals are brought in for free, every day.

Six years ago, Fluid started offering a more significant perk: a retirement plan. Today, 17 of Fluid's 20 employees participate in a 401(k) plan in which the company makes a contribution equal to 3% of each employee's pay.

"At some point, you make the leap from being a mom-and-pop to being a real company with real benefits," said Marc Schwartz, one of Fluid's owners. "Even though we are very creative, we want to run a professional company, and part of that means giving employees a retirement plan."

Many small business owners don't offer retirement plans, wary of the costs. But they can be worthwhile investments that help attract and retain employees, while offering tax benefits for companies.

"Will it cost money? Yes," said Gene Fairbrother, lead small business consultant at the National Association for the Self-Employed. "But retirement plans can provide you with the opportunity to enhance one of your most valuable assets: your employees."

Fees have come down in recent years, the result of increased competition among retirement plan management companies, Fairbrother said. Business owners should also keep in mind that all company expenses related to the plan, including employer contributions, are tax deductible.

Startup costs for small businesses typically run \$500 to \$1,500, plus another \$500 to \$2,500 a year in fees.

In addition, mutual fund companies or banks that help select the investment options generally charge a commission of 0.5% to 1% of a plan's assets. That cost is shouldered by employee participants.

There are lower cost options. Internet-based retirement plan managers such as the Online 401(k) charge an initial fee of \$495, plus a monthly surcharge of \$145 for companies with fewer than 10 employees. Unlike the most commonly known managers, the Online 401(k) doesn't charge a commission.

"We give you all the tools to make the right decision, but we're not selling mutual funds to you," said Greg Munson, the dot-com's senior vice president. "We make a basic list of 40 mutual funds that cover all the asset classes and the plan sponsor picks the funds for their plan that are most appropriate."

Small business owners should have a high comfort level with a plan's adviser, since employers are required by law to choose and monitor retirement investments responsibly.

"Not only do small business owners need to offer quality 401(k)s to attract good employees, they need now to be concerned about the liability associated with offering substandard plans," said Manhattan financial planner Charles Faila. He was hired recently by Fluid to evaluate its plan, reshaping it with a mix of low cost, no-load funds.

Fairbrother recommended informational sessions for employees.

"Make sure they understand what they are getting," he said. "You want them to appreciate that you're helping them with their future."

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