Resource Guide

Retirement Plans

Why Establish or Improve Retirement Plans?

More than one-third of private-sector workers don't have access to a retirement plan through their workplace, and less than half of businesses with 50 or fewer employees offer such plans. That's fueling a retirement savings crisis, because outside of employer-sponsored plans, Americans save virtually nothing. Retirement and pension plans are a valuable benefit that impacts the present and future lives of employees, helping them attain a more financially sound future.

Setting up an employee retirement plan can be a smart way to provide for employees. A quality retirement plan can:

- Help attract and retain valuable employees
- Reduce your company's tax burden: Employer contributions to retirement plans (and often plan expenses) are generally tax-deductible and the business may be eligible for a tax credit for establishing a qualified retirement plan
- Allow company leaders and owners to invest money in their own retirement

Common Retirement Plan Options

A company should evaluate which retirement plan options would be the best fit for their business and employees. Some common types of retirement plans include:

Simplified Employee Pension Plan (SEP IRA): Provides business owners with a simplified method to contribute toward their employees' retirement as well as their own retirement savings. Contributions are made to an Individual Retirement Account (IRA) or Annuity set up for each plan participant.

Savings Incentive Match Plan for Employees (SIMPLE IRA): A savings incentive match plan for employees allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan.

401(k) Plan: A 401(k) is a feature of a qualified profit-sharing plan that allows employees to contribute a portion of their wages to individual accounts. A traditional 401(k) is better for larger companies given setup costs, administration, fiduciary responsibilities, etc.). 401(k) contribution options include:

- Employer contributions to employee accounts
- Elective salary deferrals
- Roth contributions
- After-tax employee contributions

One-Participant 401(k) Plan (Solo 401(k) or Uni-k): The one-participant 401(k) plan isn't a new type of 401(k) plan. It's a traditional 401(k) plan covering a business owner with no employees, or that person and their spouse. These plans have the same rules and requirements as any other 401(k) plan.

Steps to Enacting a Retirement Plan

1. Pick the right plan. A company can create a plan that is funded by the employer and promises specific monthly benefits. Or, a company can offer a non-specific benefit amount and employees and employers can contribute money directly into the employees account.
2. Create a summary plan description. A summary plan should include the name and type of plan, the plan's eligibility requirements, a description of benefits, a plan's contingency upon termination, statements of procedures on claims, and a statement of rights under ERISA.
3. Make a competitive retirement plan. A strong retirement plan is an opportunity to entice talented employees. Add generous matching, immediate eligibility, or instant vesting.
4. Incentivize employees to save for retirement. Consider high contribution limits, offer debt relief programs, and have a set of resources and advice available for employees.
5. Seek advice from an appropriate financial professional before finalizing the plan.

Socially Responsible Retirement Plans

The last few years have seen a large expansion in the demand for social responsible investing (SRI) options. This demand has been met with ever-increasing opportunities. SRI screened options usually exclude companies with poor social or environmental performance.

When a company is creating or reviewing its retirement offerings, it should also consider ESG (environmental, social, and governance) screened investment opportunities. This approach incorporates ESG factors into investment decisions; better managing risk, and generating sustainable, long-term returns. ESG focuses more on managing public relations risk than selecting social and environmental top-performances. ESG factors, when integrated into investment analysis and portfolio construction, may offer investors potential long-term performance advantages. Companies should also consider locally-focused impact investment opportunities to retirement plan investment options.

Resources

- The IRS website provides information on Lots of Benefits - When You Set up an Employee Retirement Plan
- Department of Labor insights on Choosing a Retirement Plan for Your Small Business
- Society of Human Resource Management article on Helping Employees Plan for Retirement
- The 2017 Employee Benefits Report from Society of Human Resource Management includes information on recent trends in retirement savings plans.
- 7 Great Socially Responsible Mutual Funds from Kiplinger
- Engaged Investor writes about SRI and ESG - Is There a Difference?

Associated Resource Guides

- Health Insurance Benefits
- Supplementary Benefits
- Employee Handbooks