

# 401(k) Plan Basics

Navigating the basics of 401(k) plans, and the roles and responsibilities of plan providers

# What we'll cover in this course

1. Advantages of a 401(k) Plan
2. 401(k) Plan Providers
3. Features of a 401(k) Plan

# 401(k) Plans

Lots of retirement plan types out there, but 401(k) plans are the most common and most flexible, that is what we will focus on today



	401(k)	Solo 401(k)	SIMPLE IRA	SEP IRA
Contribution Limit	\$64,500 <sup>1</sup>	\$64,500 <sup>1</sup>	\$16,500 <sup>1</sup>	\$58,000 <sup>1</sup>
Can Favor Key Employees	Yes	NA	No	No
Employee Exclusions	Yes	NA	No <sup>2</sup>	No <sup>2</sup>
Roth Allowed	Yes	Yes	No	No
Loans Allowed	Yes	Yes	No	No
Vesting Allowed	Yes	NA	No	No

<sup>1</sup>Assumes age 50 or older.

<sup>2</sup>For example, a 401(k) enables employers to exclude part-time and seasonal employees; a SIMPLE IRA allows exclusion of employees who make less than \$5,000/yr.

# Part I:

## Advantages of a 401(k) Plan

# Advantages of a 401(k) Plan



## Retirement Savings

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Some plans allow contributions of up to \$64,500/year. These assets grow tax-deferred until retirement age.



## Tax Advantages

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Contributions lower taxable income today, and grow tax-deferred. Some plans also allow Roth contributions. Plan expenses, including employer contributions, are tax-deductible business expenses



## Attract & Retain Employees

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81% of workers agree that, all else being equal, the retirement benefits offered by an employer would be a major factor in deciding to take a job.\*

# \$16.5K

## Tax Credit

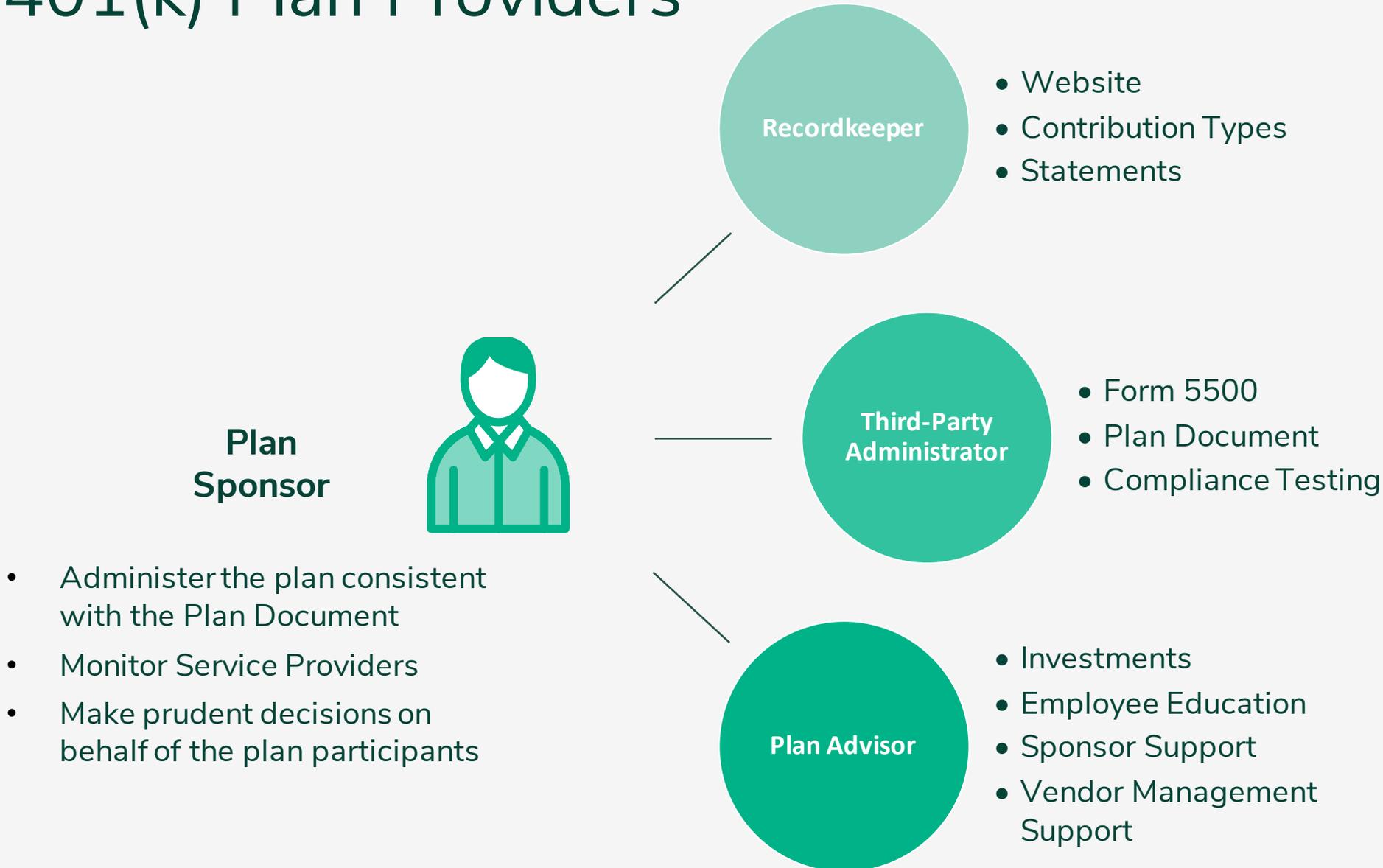
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Up to \$16,500 in tax credits over 3 years for businesses who start a retirement plan. The credit is 50% of plan costs from a minimum of \$500 per year up to \$5,500 per year for the first three years.

# Part II:

## Plan Providers

# 401(k) Plan Providers



# Plan Fiduciaries

A **401(k) Plan Fiduciary** is somebody who makes decisions on behalf of the 401(k) plan (the plan sponsor, for example). A fiduciary is legally obligated to act solely in the best interest of the plan and its participants.

## Why it matters:

If the sponsor fails to uphold their fiduciary responsibility, they may be personally liable for losses.

**Some fiduciary roles can be delegated:**

Investment Fiduciaries		Administrative Fiduciary
Can be delegated to the Plan Advisor		Can be delegated to the TPA or bundled Recordkeeper
3(38) Investment Manager	3(21) Investment Plan Advisor	3(16) Administrator

# Investment Fiduciaries

**3(21) Investment Plan Advisor:** A co-fiduciary who doesn't have full legal responsibility for investment-related plan decisions.

**3(38) Investment Manager:** A full fiduciary who takes full legal responsibility for all investment-related plan decisions.

Task	Who is Responsible		
	No Outsourcing	3(21)	3(38)
Create Investment Lineup	Plan Sponsor	Plan Sponsor and Plan Advisor	Plan Advisor
Monitor & Update Investments	Plan Sponsor	Plan Sponsor and Plan Advisor	Plan Advisor
Legally Responsible for plan Investment-Related Decisions	Plan Sponsor	Plan Sponsor and Plan Advisor	Plan Advisor

# Administrative Fiduciaries

**3(16) Plan Administrator:** A co-fiduciary who takes legal responsibility for some of the administrative tasks within a 401(k) plan.

Different levels of 3(16) providers, based on the tasks they take on:

<b>3(16) Lite</b>
Participant Notice Delivery
\$

<b>3(16) Medium</b>
Participant Notice Delivery
Sign & File Form 5500
Loan/Distribution Approval
\$\$

<b>3(16) Full</b>
Participant Notice Delivery
Sign & File Form 5500
Loan/Distribution Approval
Named Fiduciary in Plan Docs
Oversight of Timely Remittance of Employee Contributions
\$\$\$

# Part III:

## Plan Features

# Plan Features

- Outlined in the Plan Document, Adoption Agreement, and Summary Plan Description
- Plan Sponsor must administer the plan consistent with the features outlined in the Plan Document
- The Third-Party Administrator (TPA) or bundled recordkeeper typically writes and maintains the Plan Document
- To change plan features the Plan Document typically must be amended (by the TPA or bundled recordkeeper)

# Eligibility

<b>What it is</b>	Eligibility determines who is allowed to participate in the 401(k) plan
<b>How it Works</b>	Eligibility can be limited by: <ul style="list-style-type: none"><li>• Age (up to age 21)</li><li>• Service (up to 12 months of service)</li><li>• Annual Hours (up to 1000 hours)</li><li>• Employee type (leased employees, union employees, etc)</li></ul>
<b>Why it Matters</b>	Limiting eligibility can reduce cost and administrative burden. For example, a company with high turnover may consider maximum eligibility parameters to minimize temporary employees with a small balance in the plan

# Employer Contributions



Employer Match	Safe Harbor	Profit Sharing
<ul style="list-style-type: none"><li>• Company contributes, based on employee contribution</li><li>• Encourages participation</li><li>• Supports compliance testing</li></ul>	<ul style="list-style-type: none"><li>• Company agrees to provide a generous contribution/match to employees</li><li>• Immediate vesting</li><li>• Automatically pass most compliance testing</li><li>• Allows owners and HCEs to defer more</li></ul>	<ul style="list-style-type: none"><li>• Flexible and optional contribution</li><li>• Owners can increase deferrals</li><li>• Greater tax deduction</li></ul>

# Employer Match

## % Match

1

Employer matches employee contributions up to a certain percentage. For example, 100% match up to 3%.

## \$ Match

2

Employer matches employee contributions up to a certain dollar amount. For example, 100% match up to \$1000.

## Stretched Match

3

Employer matches a smaller percentage in order to incentive higher employee contributions. For example, 25% match up to \$1000.

### Why It Matters:

- Encourages employee contributions
- Many flexible options
- Tax-reducing business expense

# Safe Harbor

## Non-Elective Safe Harbor

**1**

- 3% **AUTOMATIC** employer contribution (no required employee contribution)

## Basic Safe Harbor Match

**2**

- 100% match for 3% of income
- 50% match on next 2%
- Employee must defer money to get the match!

## Enhanced Safe Harbor Match

**3**

- 100% match for 4% of income
- Employee must defer money to get the match!

### Why It Matters:

- Exempts the plan from most compliance testing
- Allows owners and HCEs to put away more money
- Non-Elective contributions count toward profit-sharing compliance testing

# Profit Sharing

## Pro-Rata

1

The simplest and most common type. All employees must receive the same proportional amount, including the owner.

## New Comparability

2

Allows for multiple benefit groups each with their own contribution rates, so owners can often receive a higher portion than non-owners.

## Age-Weighted

3

Allows a business to allocate a higher percentage to older employees because they are closer to retirement; younger employees receive a smaller portion.

### Why It Matters:

- Substantial tax benefits
- Can allow the owner to maximize their retirement savings
- The most flexible type of employer contribution
- A way to attract and retain top talent

# Vesting Schedule



	Immediate Vesting	Cliff Vesting	Graded Vesting
What It Is	Employee automatically gets 100% employer contribution	Employee goes from 0% → 100% vested after 3 years of employment	Employee earns gradual ownership of employer contribution (over a maximum 6 years)
Why It Matters	Expensive if high turnover!	Reward loyal employees, decrease turnover costs, encourage employee retention	Reward loyal employees, decrease turnover costs, encourage employee retention

**Unvested assets, forfeited by terminated employees, can be used to off-set plan costs (including future employer contributions)**

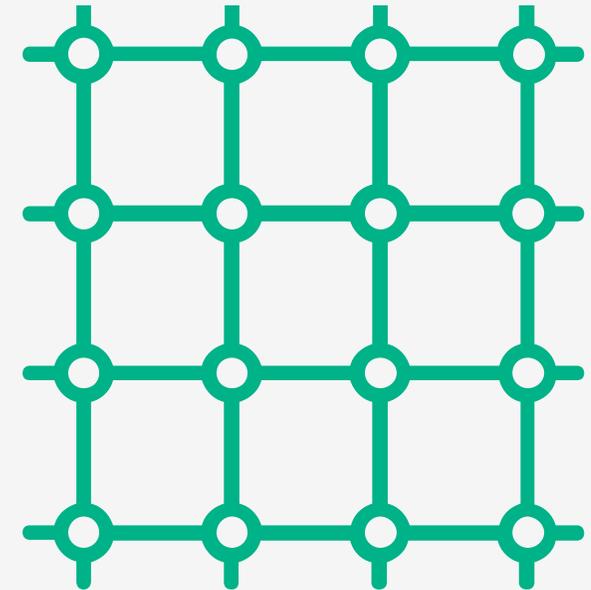
# Roth Contributions

401(k) plans can allow for Roth contributions, regardless of income level. Some 401(k) plans even allow for **Backdoor Roth** and **Mega Backdoor Roth** options

	Traditional Contributions	Roth Contributions
 <b>Contributions</b>	Made before tax	Made after tax
 <b>Earnings</b>	Grow tax-deferred	Never taxed
 <b>Withdrawals</b>	Taxed on current tax rate at retirement	Not taxed when used as retirement

# Loans

<b>What it is</b>	Loans are an optional feature in a 401(k) plan that can allow the plan participant to borrow against their balance in the plan.
<b>How it Works</b>	<ul style="list-style-type: none"><li>• No credit required</li><li>• Interest is typically prime rate (set by the Plan Document)</li><li>• Participant makes payments back to themselves in the plan every pay period</li></ul>
<b>Why it Matters</b>	Many employees enjoy this benefit because it gives them access to their funds in case of an emergency. However, borrowing against your retirement assets can reduce performance and hinder retirement savings goals.



# Fisher redefines what it means to be a partner in retirement

## **Your Interests First**

Our incentive structures are aligned with your success. No revenue sharing, no kick-backs, and no commissions. When you do better, we do better.

## **DIFY (Do It For You) Approach**

Our servicing solutions focus on doing everything we can for you. From acting as a single point of contact for your plan to selecting your investments, we provide services that many other Plan Advisors can't or won't provide.

## **Superior Financial Guidance**

As one of America's top financial advisors, we work with you to build the optimal program and provide ongoing one-on-one financial guidance to maximize wealth generation.

## **Small Business Expertise**

We specialize in small business retirement plans. As a result, we act as your advocate and have the knowledge, resources and clout to champion your needs.

# Questions?

Contact us with your questions at  
[info401k@fisher401k.com](mailto:info401k@fisher401k.com)