



Self-Directed 401(k) Plans

Who

- Businesses with fewer than 6 employees

What

- You can offer a 401k plan for employees utilizing just a TPA and Self-Directed Brokerage Accounts.

Cost

For all startup plans, the first question is how much will it cost the company to launch:

- Setup cost to the company: \$2,000
- Annual operating expense \$1,600
 - There may be a \$500 tax credit available for the launch of new 401k plans. Discuss with your tax accountant or the TPA for details.
- Cost to the employee: \$25 per employee per year
- Operating costs within the investments: Vary depending upon the investments selected and the account balance.

To Safe Harbor or Not to Safe Harbor

Choosing to operate a plan without a Safe Harbor contribution should only happen for a limited amount of time. Without a safe harbor matching contribution, the highly compensated employees and partial owners will be limited on how much they can put back.



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If you choose to Safe Harbor, there are two options

- Match the first 4% of each participating employee's salary.
- Contribute 3% of every employee's salary to the plan.

Once you choose a matching method, you need to stick with that method for the fiscal year. If you match, then the highly compensated and partial owners can contribute the full amount — \$19.5k. If they are over 50, and additional \$6,500. In addition, the company can declare a profit sharing contribution. The maximum that can be put back. Between personal contribution and profit sharing match is \$56,000. The over 50 catchup is not included in the max — so if over 50, the max is \$62.5k.

Profit sharing match has a few different variables including job class, integration with social security and others. This is an effort that the TPA and the owners will discuss.

What Can You Contribute To?

The power of a Self-Directed Brokerage account is the breadth of investments available to purchase. In a traditional 401k structure, the participant has a list of 10-15 mutual funds to select from. With the brokerage account, the participant can purchase any one of over 4,000 mutual funds, stocks, bonds, ETFs, hedge funds, private equity, and even real estate.

Why Do You Want a Plan?

- 93% of business owners believe their employees would prefer to have a 401k plan.
- 60% of business owners believe a 401k plan helps to retain employees.
- 51% of businesses with 10 or more employees offer one
- 5% of businesses with 4 or fewer offer one.

By offering a plan as a smaller company, you are better able to compete for and retain employees than your competitors.



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Common Reasons Why Business Owners do Not Provide This Plan:

"My employees haven't expressed an interest."

- Let's ask them.

"It's Too Expensive."

- The most expensive part is the match. That is optional. Otherwise, it costs the company roughly \$3k per year. That is less than the average health care cost year over year.

"My employees are paid too little. They won't participate."

- In our experience, even in companies when the average employee salary is in the \$12/hr range, we are able to achieve participation above 70%.

"It's too taxing on my finance staff."

- The majority of operational effort comes in the payroll transfers. There are a few (under 5) annual notices that need to be distributed to employees.

CONTACT US TODAY FOR A CONSULTATION

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