

# Retirement + Wealth Building

The American Retirement Association says that middle-class workers are [15 times more likely](#) to save for retirement under an employer-sponsored plan than on their own. Having an employer-sponsored retirement plan increases employee job satisfaction and makes employees less likely to leave your company. In fact, nearly a quarter of over 2,000 small business owners surveyed by CNBC and SurveyMonkey in 2017 reported that lack of retirement benefits [was a contributing factor to employee turnover](#) at their company. Finding ways to reduce turnover can mean significant savings for small businesses like yours: the Society for Human Resource Management estimates that the average cost to replace an employee earning under \$30,000 annually is 16 percent of their annual salary. This means that replacing one \$10/hour retail frontline staff [costs you about \\$3,300](#).

More than just helping your employees save and lowering turnover, selecting a retirement plan for your small business is good for you, too. You can participate in your business' retirement plan, helping you secure your own financial future—especially in the event that income from your business might not fully support you in retirement. These savings plans also come with tax benefits for you and your workers, including allowing you to write off contributions as a business expense, and to make certain contributions tax-free.

## The Business Case

### How can retirement plans benefit my employees, my business, and me?

Saving for retirement is a crucial wealth-building tool, and comes with many additional benefits. Major advantages of offering a retirement plan include:

#### [Attracting and retaining talented employees.](#)

In a fiercely competitive retail market, offering a retirement option to employees can distinguish your business from the rest and encourage employees to remain with your company long-term.

### Reducing income taxes for plan participants.

Putting money away through salary deductions in a tax-deferred account will lower your taxable income, thereby reducing your and your employees' overall income tax rate.

### Reducing your business taxes.

Contributions you make on behalf of your employees to qualified plans can be deducted from your business taxes each year.

### Helping you and your employees build wealth.

Even small contributions each month can add up to significant savings over time, [especially with the compounding effect of tax-deferred investment growth](#). To determine just how much you and your staff members could save by the time you retire, check out this [Retirement Calculator](#) from Paychex.

## How to Get Started: Retirement Benefits

### Which plan is the best option for my business?

When thinking about adopting a retirement plan for your business, it's useful to [consult a tax or retirement plan professional](#) who can assist you with finding a plan that suits your needs. You can also get started by acquainting yourself with retirement options popular among small businesses. While many employers believe retirement plans are too complicated or costly to fit their business, there are a number of very simple and low-cost options available to your business—and many come with significant benefits to you personally.

Small business owners like you can access a variety of retirement savings options, many of which are easy to set up and require minimal (if any) financial contributions and management on your part. Employers can choose how much they want to contribute—if at all—to their employees' plans. To start, it's helpful to think through a few key issues. Consider asking:

- **How important is long-term savings to my employees?** When considering adopting any new benefits option, it's important to focus on what matters to your staff. You could

conduct a formal or informal survey of employees to see if setting up a retirement plan is a priority for them.

- **Which is a greater priority: higher contributions or hassle-free administration?** Some retirement options allow for easy in-house oversight and management. The downside to these plans, however, is that the contribution limits are lower, meaning you and your workers won't be able to save as much every year. Plans with higher contribution rates generally come with more [legal compliance issues, paperwork, and ongoing oversight](#). If you know how much administration you can handle, you can more easily identify an appropriate option for you and your employees.
- **Can I afford to make contributions on behalf of my employees, or would I prefer to encourage them to make contributions on their own?** Even without making contributions to employee retirement savings, you can still encourage your employees to save for the future by helping them set up their own retirement savings accounts.
- **How much will my employees and I need to save for retirement?** When deciding on a plan, it's important to consider options that allow you and your employees to save the most money now to build a sound financial future in retirement. This easy-to-use [Lifetime Income Calculator](#) from the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) helps determine how much you and your employees can set aside from your earnings each year before retiring.

Before getting into the available options, you can narrow down your choices by identifying which example below best matches your situation:

**I am a small and/or new business with few resources for managing a retirement plan, but I still want to encourage saving for retirement.**

**I have a larger or more established business and want to attract top talent and invest more in my employees' (and my own) future.**

Here are two common choices:

## **Common Defined Contribution Plans**

## Common IRA-Based Plans

A third option is defined benefit plans, typically known as pensions, which guarantee employees a predetermined amount of income in retirement that usually depends on a combination of the employee's salary and the number of years they worked for the company. These plans are much more challenging to manage and are pretty uncommon among small businesses.

## Which legal issues should I be aware of?

### Am I required by law to offer retirement plans for my employees?

No. Businesses are not legally mandated to offer retirement savings plans to their employees, though millions of business owners choose to do so to remain competitive among their peers and to attract and retain the best workers.

With that said, we encourage you to keep an eye on any new legislation in your state. Some states, including [California](#), [Connecticut](#), [Illinois](#), [Maryland](#), [New Jersey](#), [Oregon](#), [Washington](#), [Vermont](#), among others, have established ([or are in the process of creating](#)) state-sponsored individual retirement plans for workers. Under these programs, individuals without access to a retirement plan through their employer [could be automatically enrolled in a low-cost state-sponsored plan](#), with your business acting as the plan facilitator. The new programs have come under scrutiny at the federal level, in many cases causing delays in implementation at the state level. You're encouraged to stay up-to-date on the status of programs in your area, for instance by consulting the [Pension Rights Center](#) or [AARP](#).

In California

## CalSavers

[CalSavers](#) is California's state-sponsored retirement option for California workers. The program was designed as a no-cost IRA and low-burden way for businesses to offer employees a retirement savings plan. Enrolling in CalSavers includes four steps: adding delegates or payroll representatives to manage the account, setting up a payroll list, adding employee information so they can manage their savings, and sending contributions as part of the business' payroll process. The only ongoing maintenance that's required for businesses is submitting employees' contribution amounts and adding new employees or removing employees who have left the

company. The [CalSavers website](#) provides more information about what employers can expect from the program.

California law requires that businesses, who don't already offer an employer-sponsored retirement plan and who have five or more employees, begin facilitating CalSavers. The three-year phased rollout includes staggered deadlines for registration based on employer size as described below.

- For eligible employers with more than 100 employees, June 30, 2020.
- For eligible employers with more than 50 employees, June 30, 2021.
- For eligible employers with five or more employees, June 30, 2022.

## Which laws apply when offering a retirement plan for workers and myself?

While there is no law mandating that you offer retirement benefits, employers who do are subject to regulations regarding implementation and oversight. We advise you to consult with a retirement broker or legal advisor before adopting a plan.

## Which tax incentives can offset the cost of adopting and managing a plan?

The basic advantage of an IRS-approved retirement program—aside from building wealth over time—is that it comes with some helpful tax benefits. In most cases, approved plans are “tax-advantaged,” meaning that you or your employees can make contributions tax-free. Taxes are charged when individuals withdraw their savings from their account at retirement (and while some plans allow for earlier withdrawals, these usually come with a [penalty fee](#)). Roth Individual Retirement Accounts (or Roth IRAs) are one major exception: under these plans, individuals' contributions to their retirement funds are taxed upfront, and not when the money is withdrawn at retirement. While these incentives rarely change, the IRS can [alter the limit](#) on how much money can be contributed to a retirement account tax-free (for more on these limits, see the tables below).

In addition to tax-free contributions, a number of other helpful tax benefits make retirement accounts a smart investment for you and your business, including those laid out in the table below:

## TAX INCENTIVE

**Tax-Deductible Employer Contributions.** To incentivize and make it easier for employers to help their workers save, the IRS allows business owners to deduct the cost of their yearly contributions to qualified employee retirement plans from their business taxes, up to a certain amount each year. Check the [IRS website](#) for annual updates on contribution and deduction limits under various plan types.

**Retirement Plans Startup Costs Tax Credit.** To offset some of the costs of setting up a formal plan for you and your workers, you can access a tax credit specifically for small businesses. The credit represents 50% of your “ordinary and necessary eligible startup costs,” as defined by the IRS, up to a limit of \$500 each year. The credit is accessible for the first three years of offering the retirement savings plan, but employers may claim the credit in the tax year immediately before the tax year the plan becomes effective.

**Saver’s Credit.** For low-income employees earning \$31,500 or less per year individually ([other salary ranges](#) apply if filing jointly with a spouse), the IRS offers the “Saver’s Credit” to make putting away money for retirement easier. The [amount of the credit varies](#) according to eligible participants’ adjusted gross income, filing status, and amount contributed to retirement plans, with a maximum value of \$2,000 per person.

## WHO’S ELIGIBLE

All employers who contribute to employee retirement plans qualified under the IRS, with the exception of [Roth IRAs](#) and [Payroll Deduction IRAs](#).

Small business owners with 100 or fewer employees that paid \$5,000 or more in compensation for the previous year. The credit applies to those business owners who set up and administer a [SEP](#), [SIMPLE IRA](#), or other qualified plan. For more detail, see the [IRS guidance](#).

Any individual 18 years of age or older who contributes to a retirement plan, is not enrolled in school full-time, and not claimed as a dependent by anyone. For more detail, see the [IRS guidance](#).

## What are other businesses like mine doing?

Offering an employee retirement plan can mean a real competitive advantage for your business in hiring and retaining workers. At the same time, you shouldn’t feel alone if you haven’t yet been able to offer plans at your own business.

- **Most small business owners aren’t able to offer a retirement plan to their employees.** In January 2016, research by [Pew Charitable Trust](#) found that just 22 percent of employees of businesses with 10 or fewer workers had access to a retirement plan through their employer.
- **Small businesses in the service industry are especially unlikely to offer plans.** In 2016 only 19 percent of service-industry workers reported having access to a defined contribution

plan, the most common type of employer-sponsored retirement plan, [according to the Bureau of Labor Statistics](#).

- **The cost to small business owners for each employee participating in a defined contribution retirement plan averages about 2 percent of an employee's hourly pay.** In 2016, [the Bureau of Labor Statistics](#) found that the cost to employers per employee for a defined contribution retirement plan (including administrative costs and contribution) was about 45 cents for every hour worked, or about 2 percent of average employee compensation per hour, for businesses with fewer than 100 employees.
- **Administration costs can be affordable for small businesses with the right plan.** Experts have noted that administrative costs for a 10-participant 401(k) plan [can be less than \\$1,000 per year](#). When combined with the Startup Costs Tax Credit, worth up to \$500, costs could be even lower.

To access tax benefits through any of these IRA-qualified plans, ensure that any plan you adopt meets all stated requirements, including covering the proper employees, making timely contributions to employee accounts, and sharing all the required information with employees, among others. For tips and checklists to verify whether your plan complies with the law, see the guidance offered by the IRS, "[Have You Had Your Retirement Plan Check-up this Year?](#)"

Helpful Resources

## Choosing a Retirement Plan

- [Fit Small Business' Small Business Retirement Plans-The Ultimate Guide](#) provides a comprehensive overview of small business owners' options for retirement plans, their key benefits and drawbacks, and the steps required for implementation.
- Zenefits' [Small business health insurance benchmark report](#) aggregates data from about 4,000 companies with 200 or less employees to provide benchmarks on different plan types, contribution rates, and trends in the healthcare space.

## How to Get Started: Other Wealth-Building

## Programs

### How else can I help my employees save for the future and build wealth?

If one of these more traditional retirement arrangements isn't right for you or your business, consider adopting another financial incentive plan that helps your employees increase their earning (and saving) potential while aligning their interests with the best interests of your business:

#### Align employee and business goals with employee ownership and variable pay programs

In recent years, innovative business owners have [increasingly looked for ways](#) to grow their employees' participation and financial stake in their companies. From offering bonuses based on sales goals to transitioning to a [worker-owned cooperative](#) model or sharing equity through [Employee Stock Ownership Plans](#), companies big and small are finding ways to align employees' interests more closely with those of the business. Cooperative models and stock-sharing plans are not always suitable for the small retailer, except as an exit option (for more detail on this process, see the case study on King Arthur Flour below). Still, there are other steps you can take to boost your staff's buy-in to the financial success of your business—and in the process, help them earn more, save, and build wealth.

Some small businesses elect to use [profit sharing](#) to incentivize productivity and increase employees' earnings. While profit sharing can take different forms, some business owners choose to structure it as a [formal retirement benefit](#). Profit-sharing retirement plans are [designed and regulated](#) much like a 401(k)—and can be offered in addition to a more typical retirement plan like a 401(k)—but can only be funded by the employer with profits from the business. One key advantage with profit-sharing plans is their flexibility: employers get to decide how much and how often to contribute toward staff accounts (though allocations among individual employees must be based on a documented [formula](#)). Business owners can also contribute to employees' accounts one year but not the next, depending on how profitable they are from year to year.

If you like the idea of increasing employee buy-in to the financial health of your company, but



are more interested in short-term incentives than long-term savings plans, consider [sharing your profits](#) through cash payouts, or offering [bonuses based on performance](#). Both of these financial incentives are taxed as part of employee income (unlike most retirement contributions), but they offer much greater flexibility to employers. With cash profit sharing, employers reward employee productivity by providing a predetermined cut of company profits in the form of cash, a check, or, in some cases, company stock, usually on an annual basis.

One common downside to this kind of profit sharing, however, is that employees often have little understanding of how their contributions to the company impact its profitability, weakening the link between performance and incentives. With well-designed bonus plans, on the other hand, employers set clear goals and expectations for their employees, and reward those who meet their goals with one or more bonus payments throughout a given year. One essential component of operating a bonus plan successfully is to pair it with [open-book management](#), sharing your financials and strategic goals with your staff so that they understand clearly how their performance adds or detracts from the overall business.

## Develop financial wellness program

You can help build the financial stability and capabilities of your employees by developing a Financial Wellness Program. The need for such programs is clear: according to the Federal Reserve, nearly half of all Americans would not be able to come up with \$400 dollars to pay for an emergency without borrowing the money. And according to a 2017 study of financial stress in America, 30 percent of surveyed workers reported that personal finance issues are distracting them at work, contributing to productivity losses, increased absences and healthcare claims, and higher turnover. Offering a Financial Wellness Program has the potential to help employees manage their financial resources better, reduce stress, and improve productivity at work by providing tools to help them budget, save, and make payments on time.

If you're interested in implementing a financial wellness program, talk with your employees about which kinds of services would be most useful to them, and consider the following options:

- Offer [short-term loans](#) or [accrued wage advances](#) for employees in financial straits.
- Suggest [safe credit-building products](#), such as a [credit-builder loan](#).
- Connect your workers to financial counseling and debt management services from providers in your area. Check out the [Workplace Financial Wellness Services Directory](#) from Prosperity Now, an economic security-focused nonprofit, to find services near you.
- Encourage employees to use online and mobile financial management tools like

[DoubleNet Pay](#), [Digit](#), and [Qapital](#).

- Direct employees to free financial education programs offered by government agencies, including the [Consumer Financial Protection Bureau](#) and the [Financial Literacy and Education Commission](#).
- Offer employees an [Income Advance Program](#), which helps employees build savings and better cope with financial emergencies.
- Making sure your employees are banked can be a great step to help support your employees' financial stability. If needed, consider inviting a good, local bank to speak to employees and help them set up an account without high fees or minimums. Check out this Ideas42 brief [on Financial Stability for the Workplace](#) for more information.

## Offer other benefits

For employers who can't offer retirement benefits or the other wealth-building strategies outlined above, consider reviewing the rest of your employee benefits and workplace practices. If your employees find it difficult to save, you could adopt some of the other workplace improvements outlined in this toolkit, from adopting a formal healthcare plan to implementing more stable schedules. Minimizing your workers' personal expenditures for things such as healthcare, transportation, and childcare not only enables them to put more money into savings, but also fosters engagement, productivity, and retention.

# Additional Help

## Meet with an expert or get advice from a peer

When considering adopting any new benefits plan, perhaps the most important step is to seek out a small business expert for more guidance. Various public and nonprofit services can connect you to advisors with personal experience running a small business, including SBA [Small Business Development Centers](#) and Pacific Community Ventures' free [BusinessAdvising.org](#) platform. It connects small businesses around the country with pro bono experienced business advisors who offer advice on a range of issues, including HR, marketing, IT, operations, and other small business concerns. To find other services in your area, visit the SBA's [Local Assistance page](#).