Advisors

Any Questions?

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Advisors

A retirement plan guide for small businesses

Choosing a plan that benefits you and your employees

As the owner of a small business, it's important that you are well-informed when choosing the best retirement plan for you and your employees. We understand the importance of providing this information. By keeping you updated and addressing your concerns, we hope to offer information that will benefit your business.

Benefits of a qualified retirement plan

A qualified retirement plan is a good strategy for reducing your company's tax burden while setting aside funds for your own retirement future. The benefits of a qualified retirement plan may include:

- Remaining competitive in an ever-changing labor market
- Making tax-deductible employer contributions for you and your workforce
- Taking advantage of a tax credit available to some small companies for the costs of creating and maintaining an employee retirement plan (generally available for companies with fewer than 100 employees)

Employees also benefit from being able to make pretax and possibly after-tax contributions while enjoying tax-deferred compounding of any investment earnings.

What is a retirement plan?

Designed to meet the rules set forth by the Internal Revenue Code, a qualified retirement plan is a tax-deferred savings program that benefits employees. Retirement plans fall into two categories — defined benefit plans or defined contribution plans.

A defined benefit plan is commonly referred to as a pension. With this type of plan, the employer makes all contributions and agrees to pay a certain benefit to an employee upon his or her retirement. This benefit is usually based on the employee's income and years of service. The defined benefit plan is trustee-directed, meaning you or the retirement plan trustees decide where to invest the funds in order to pay out the promised future benefit.

A defined contribution plan can be funded in various ways. Some plans are funded entirely by employer contributions, some allow for employee contributions and others allow for a combination of both. The investments within a defined contribution plan can be trustee-directed or allow the employees to make investment decisions. Typically, when a plan is employee-directed, the employees are allowed to choose from a set of investment alternatives determined by the employer or the retirement plan trustee(s). Common types of defined contribution plans include 401(k) plans, profit sharing plans, SEP IRAs, and SIMPLE IRAs.

With defined contribution plans, employees receive what they have invested in the plan as a retirement benefit, along with any earnings they've accumulated through their investment. Any employer contributions made to the plan may be subject to a vesting schedule. This means that employees must accumulate a certain number of years of service before they are eligible to receive the accumulated employer contributions and related earnings from the plan.

All these plans are tax-advantaged, meaning you may deduct employee contributions from pretax earnings so that the employee can defer tax on them until they are distributed.*

For Plan Sponsor Use Only

*Withdrawals are subject to ordinary income tax and may be subject to a federal 10% additional tax if taken prior to age 59½.

Why offer a retirement plan?

The benefits you provide in the workplace could be vital to attracting and retaining your valuable employees. A retirement plan is one of the most desired components in an employee benefits package, further enhancing the health, life, and paid-vacation benefits that you may already offer.

What if I don't offer a plan?

For employers that don't offer a retirement plan, there's no better time than now to investigate your options. Talk with a Wells Fargo Advisors financial advisor to learn more about what plans can work for your company. Discover how you might begin with a basic plan, adding features and benefits as your business grows. Remember, the earlier you begin your retirement plan, the better positioned you and your employees are to achieve the desired outcomes for retirement.

What is a fiduciary?

A fiduciary is anyone who has authority or control over the management of a retirement plan or the assets in that plan. In other words, if you own a business and you offer a retirement plan, you will likely have fiduciary responsibilities. Making good fiduciary choices allows you to have control over the integrity of the retirement savings for you and your employees.

The responsibility may not lie on your shoulders alone. Plan sponsors (the business owner or corporation), plan trustees, officers, and retirement committee members often share in these responsibilities as well. Anyone who has a role in how a plan is administered or how its assets are invested might be considered a fiduciary.

Employee Retirement Income Security Act (ERISA) rules and regulations protect the participants and beneficiaries of retirement plans. Honesty and integrity are at issue and the laws obligate fiduciaries to:

- Act in the best interest of plan participants and beneficiaries.
- Understand and disclose all expenses paid from the plan.
- Make prudent decisions regarding the plan, including investments and service providers.
- Act in accordance with the plan document's terms and provisions.
- Monitor the plan's investments.

Understanding fiduciary responsibilities

Your fiduciary responsibilities give you the opportunity to control the retirement plan investments for you and your employees. There are serious legal repercussions for ignoring fiduciary responsibilities such as heavy fines, restoration of losses, and other financial penalties that can intrude into personal assets, as well as incarceration in extreme situations.

For many small-business owners, fiduciary and legal responsibilities are a major concern. In light of the highly publicized mishandling of some plans, there is also increased employee concern over their retirement plan investments. If you have not reviewed your plan with an investment professional, you should.

This review, as well as the ongoing management of your plan, need not be an overwhelming task. Your advisor and representatives from your plan provider can assist you in providing the resources and guidance needed to establish a due diligence process that will help you fulfill your fiduciary responsibilities.

What are the benefits of meeting your fiduciary responsibilities?

Taking action to understand and meet your fiduciary responsibilities may provide:

- A more successful plan that positions you and your employees to meet investment objectives and goals.
- Satisfied employees who are more likely to participate and appreciate the benefits of the plan.
- Potential for a better return on your investments — which could mean more money in retirement for you and your employees.
- A sense of control.

Am I fulfilling my fiduciary responsibilities?

It may be easier than you expect to judge how well you're fulfilling your duties by starting with the checklist below. If you cannot answer all questions positively, you may need to review your plan. Your financial advisor, your Third-Party Administrator, or the vendor for your current retirement plan can provide a more in-depth review.

Common fiduciary mistakes

When it comes to understanding your fiduciary responsibilities, avoid the following common mistakes:

- Failing to realize that you hold primary fiduciary responsibility and believing the plan investment provider, the financial advisor, or the employee participants are responsible.
- Failing to evaluate investment selections regularly. While some plan sponsors have an investment policy statement in place, many have no formal process to evaluate investment selections on a regular basis.
- Failing to question the risk(s) of offered funds, or limiting the fund choices available in a plan to only one money manager or mutual fund distributor.
- Failing to operate the plan in accordance with the terms of the plan document and any written operational procedures.

Fiduciary checklist

- ☐ Do you fully understand your existing plan's document and design?
- ☐ Do your plan fiduciaries meet regularly and keep notes from these meetings?
- ☐ Does your plan have a written investment policy statement?
- ☐ Does your plan offer diversified investments?
- ☐ Have you reviewed the investments available in your plan within the past 12 months?
- ☐ Have you completely reviewed your plan during the last three to four years?
- ☐ Do you understand the costs for the services provided by the various organizations and persons who service your plan and have you determined the costs are reasonable?
- ☐ Does your plan provide employee enrollment programs that explain the benefits of their participation in the plan?
- ☐ Does your plan provide periodic education programs to increase participants' understanding of the choices available to them, as well as other financial and retirement planning topics?
- ☐ Does your plan provide asset-allocation models for employees lacking investment know-how?
- ☐ Do you understand the ERISA requirements?

Finding help

Fiduciary responsibilities can be complicated. Seeking the experience of a qualified professional who can provide information and help you and your employees make educated choices can ease that burden.

What is the investment policy statement?

An investment policy statement is a key step in fulfilling your fiduciary responsibilities as it relates to your plan's investments. While not a legal requirement, this process helps you create a road map to guide investment choices. The purpose of the statement is to do the following:

- Create written guidelines and standards to use in selecting investment options for your plan
- Provide a basis to periodically evaluate investment performance within your retirement plan

Your professional advisors can assist you in creating and reviewing your investment policy statement.

Questions to ask when choosing professional advisors

When seeking professional advice, ask probing questions to select the professionals you'll work best with in striving to secure the retirement future of you and your employees.

Ask the advisors how they have helped other businesses handle fiduciary aspects of their retirement plans. Ask for references. Ask how they will help you with plan structure, comparing plan providers, and selecting and monitoring investment choices.

Your professional advisors should have experience with many types of programs. They should offer recommendations from several retirement plan providers to help you limit conflicts of interest and maximize choices for your plan participants.

Paying for professional services

Naturally, professionals deserve to be compensated for the experience they bring to you and your plan. They are required to be forthcoming when explaining how they will be paid. Additionally, fees should be clearly disclosed in writing. Ask the advisor to detail finders' fees, contract or service fees and sub-transfer agency fees, and any other arrangements that represent expenses, revenue, or compensation related to their proposal for services to your plan.

Glossary

401(k) — A qualified retirement plan that allows employees to make pretax contributions governed by Section 401(k) of the Internal Revenue Code.

ERISA — The Employee Retirement Income Security Act of 1974, a federal statute comprising the main body of law to protect the participants and beneficiaries' retirement and welfare plan benefits.

Fiduciary — Under ERISA, a fiduciary is a person or legal entity that:

- Has discretionary authority or control in management of the retirement plan or in exercising any authority or control over management or disposition of the plan assets
- Gives investment advice for compensation (direct or indirect) for any assets of the plan, or has any authority or responsibility to do so
- Has discretionary authority or discretionary responsibility in the administration of the plan

Third-party administrator (TPA) — Professional who provides plan design and administrative services for retirement plans.

You can count on us

As the owner of a small business, the very skills that make you successful in your field can be important for managing an effective retirement plan for you, your family, and your employees.

Although a retirement plan offers many benefits, it is not right for every business. Wells Fargo Advisors offers a range of plans and can help you match the right plan with your needs and objectives.

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