

# Employee benefits and retirement

Additional benefits, such as a 401(k) plan, have become essential to improving the overall effectiveness of an employee benefit plan.

One of the most appealing and effective employee benefits that employers offer is the 401(k) plan. This qualified retirement plan features a salary deferral plan and has become extraordinarily popular among employers.

There are several reasons to consider this great benefit. Employees share in the cost of retirement savings, and any contributions made by the employer are tax deductible. 401(k) plans can be designed to meet a wide variety of business, tax and personal objectives. These plans give your employees the opportunity to become actively involved in saving for their retirement and selecting their own investments.

*Smart Business* talked to Sarah Gherman, an agent with Sapoznik Insurance about the importance of offering additional benefits to effectively strengthen an employee benefits plan.

## What are some 401(k) plan basics every employer should know?

A 401(k) plan allows employees to regularly set aside a portion of their compensation in an individual retirement account for their benefit. Employees can usually direct the investment of their plan contributions — and any employer contributions the company chooses to make — in one or more of the investment options offered by their plan. All amounts that are paid into the plan, as well as all plan earnings on contributions, grow tax-deferred until the participant receives them at retirement. Since income taxes are deferred, plan assets can grow and compound at a substantially higher rate than comparable taxable investments.

In general, participants become eligible to begin taking distributions when they reach age 59 1/2. Nonetheless, there are several circumstances — such as death, disability or termination of employment — under which participants can make withdrawals before they reach retirement age. Employers also can add plan provisions for hardship distributions and loans.

## What are some of the employer requirements?

There are participation and special



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nondiscrimination rules that 401(k) plans must meet if they are to retain their tax-qualified status.

- You must provide a written plan, which specifies who may participate and how contributions will be allocated among employees.

- You cannot deny participation to eligible employees age 21 or over who have at least one year of service.

- Employee contributions are always 100 percent vested.

- Your plan may not discriminate in favor of highly compensated employees (HCEs). An HCE is an employee who: (1) was a 5 percent owner of the employer at any time during the current year or preceding year or (2) had compensation of more than \$85,000 for the preceding year (indexed for inflation) and, if the employer should so elect, was in the top 20 percent of employees by compensation for the year.

## Describe some additional retirement plan characteristics to look for that can benefit employers and employees alike.

**Flexibility.** The primary benefit for employers is the high degree of flexibility in the structure and operation of a 401(k)

plan. An employer may have the ability to not only provide a cost-effective employee benefit but, at the same time, maximize benefits for the owners and other highly compensated individuals.

**Employer match.** As an employer, you can choose to match, or not match, a percentage of your employees' contributions. The match is typically used as an incentive to encourage contributions by employees. Numerous employer surveys have shown that as little as a 20 percent employer match for every dollar contributed substantially increases participation levels.

**Other options.** You can structure your 401(k) plan to offer:

- loan options, allowing participants to borrow from their accounts at no tax consequence as long as repayment is made in a timely fashion; and

- a hardship distribution option that allows participants to withdraw funds — subject to a 10 percent excise tax for employees under age 59 1/2 — to buy a home or pay for medical or education expenses.

**Flexible vesting.** You have some flexibility in deciding on how long you require employees to work for your business before they become fully entitled to or vested in employer contributions, matching and profit-sharing contributions. However, tax law limits apply. It is not uncommon to provide full entitlement over six years. With a six-year vesting schedule, your employees would be entitled to 20 percent of employer contributions with two years of service, 40 percent with three years, 60 percent with four years, and so on.

**Administrative structure.** You have a number of choices when it comes to the administration of your plan. One-stop shopping for all plan services is not the only way to go, nor is it necessarily the best way. Many employers choose an independent plan administrator to design a plan that meets their specific objectives and to handle the numerous details of plan administration and consulting.

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