



## Choosing A Retirement Plan for Your Business

Workplace retirement plans have become increasingly complex over the last few decades— but with that complexity also comes more opportunity for companies of any size to offer this valuable benefit to employees.

In the past, any employer that wished to sponsor a defined contribution plan, like a 401(k), adopted its own individual plan, with fairly limited choices. However, now there are multiple options, which is a good thing, but it can also become extremely confusing for small and mid-sized business owners.

Some business owners may think a 401(k) savings plan for themselves, and their employees isn't right for your business. Regardless, both you and your employees must prepare for eventual retirement, and a qualified retirement plan is a tax-advantaged way to help get you there.

We understand just how time-consuming running a business is, so we've put together a guide to help you decide which plan is best for you and your employees.

### *did you know?*

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According to a 2023 report from the U.S. Bureau of Labor Statistics, only 56% of the adult population participates in a workplace retirement plan.



	Single-Employer Plans (SEPs)	Group Negotiated Contracts	Multiple Employer Plans (MEPs)	Pooled Employer Plans (PEPs)	SIMPLE IRA
OVERVIEW	A retirement plan sponsored by a single employer that covers only the employees of that particular business	A retirement plan structure that contractually joins together individual SEPs to negotiate as a group for better pricing for recordkeeping and investment contracts. It is sometimes referred to as “exchanges”.	A retirement plan that covers the employees of more than one employer that are loosely related (e.g., car dealerships with a common majority owner, but are legally still considered separate entities by the IRS). In many cases, MEPs are started by associations with member-firms that have commonalities.	In 2019, Congress enacted the SECURE Act, which a new type of MEP called a Pooled Employer Plan (PEP). This plan is when multiple businesses that don’t share a commonality of ownership or industry pool their retirement resources and create a plan with the other employers that is delegated by a pooled plan provider. In 2022, the SECURE 2.0 Act was signed, allowing 403(b) plans to participate in MEPs/PEPs.	A retirement savings plan for small businesses with fewer than 100 employees. Similar to a traditional IRA and easier to set up than a 401(k).
ADVANTAGES	<ul style="list-style-type: none"> <li>■ Maximum flexibility and control for you as the sponsoring employer</li> <li>■ You, as the employer, can fully customize its plan design by choosing service providers</li> <li>■ Includes tax benefits for employers, including a start-up tax credit if your business has fewer than 100 employees</li> <li>■ Helps prepare employees for retirement</li> <li>■ Reduces employee’s taxable income</li> </ul>	<ul style="list-style-type: none"> <li>■ Access to a diverse set of experts due to the “group” nature of the plan</li> <li>■ Potentially lowers costs to you as the employer</li> <li>■ Easier exit strategy if the employer isn’t satisfied with the exchange or a particular service provider</li> <li>■ Start-up tax credit, similar to a regular SEP</li> </ul>	<ul style="list-style-type: none"> <li>■ Economy of scale</li> <li>■ More efficient from it being “one plan”. Individual filings for participating employees are not required</li> <li>■ The MEP sponsor takes responsibility for compliance issues and plan management</li> <li>■ Additional firms may be added to the MEP with the permission of the original sponsor, subject to certain considerations</li> </ul>	<ul style="list-style-type: none"> <li>■ Only a single Form 5500 is required, which is more convenient and cost-effective for large employers</li> <li>■ All MEP benefits are applicable</li> <li>■ “One bad apple” rule doesn’t apply</li> <li>■ Potential tax credits</li> </ul>	<ul style="list-style-type: none"> <li>■ Easier to set up than a 401(k)</li> <li>■ Each eligible employee may make a salary reduction contribution and the employer must make either a matching contribution or a non-elective contribution</li> <li>■ Employer contributions are vested immediately</li> <li>■ Contribution limits are higher than traditional IRAs</li> </ul>

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DISADVANTAGES	<ul style="list-style-type: none"> <li>Fully responsible for the operation of the sponsored SEP, which means employers have access to all plan data, documents, and other information</li> <li>The cost may be high for a small plan with less than \$10 million in assets</li> </ul>	<ul style="list-style-type: none"> <li>Reduced control if there are multiple service providers</li> <li>Employer retains fiduciary responsibilities in a structure with less accountability</li> <li>Investments may be limited</li> </ul>	<ul style="list-style-type: none"> <li>Limited choices may not provide the best means to meet your business's needs</li> <li>"One bad apple" rule applies (see below)</li> <li>Less control due to being dependent on the MEP and its sponsor</li> <li>Cost savings don't always materialize</li> <li>Exit strategy is more challenging</li> </ul>	<ul style="list-style-type: none"> <li>Similar disadvantages as a standard MEP except the 'one bad apple' rule does not apply</li> </ul>	<ul style="list-style-type: none"> <li>Contribution limits are lower than what you would contribute to a 401(k)</li> <li>There is no Roth provision within a SIMPLE IRA</li> <li>If you make an unqualified withdrawal, you face a 10% or 25% early withdrawal penalty from the IRS</li> <li>You may pay a 25% penalty if you make a withdrawal within 2 years of first participating in the plan</li> </ul>
WHO BENEFITS?	Small businesses with fewer than 100 employees	Employers who want a cost-effective option for a SEP	Small to mid-sized businesses who want to share the administrative burden of offering retirement plans to employees	Small to mid-sized businesses who want the benefits of a MEP, as well as additional benefits and additional tax credits	Small to mid-sized businesses with 100 employees or fewer who don't want to deal with the complexities, or costs, of setting up and managing a 401(k) plan

**One Bad Apple Rule:** If a sponsor is not complying with even just one of the regulatory and operational requirements of the plan, your business could be subjected to negative tax ramifications.



## What is the right plan for you?

If you own a small to mid-sized company, looking into the Pooled Employer Plan (PEP) could be extremely beneficial. PEPs were established through the SECURE Act. Overall, the goal of this part of the SECURE Act is to simplify offering a retirement plan by removing some of the administrative requirements for the individual employer.

Businesses should strive to be competitive with their benefits to attract and retain talent. The ability to offer a retirement plan option helps your small business stand out amongst other employers, proving your dedication to the financial wellness of your employees.

There are other benefits, as well. The largest takeaway, as noted in the chart above, is the possibility of additional tax credits. Those include:

- Tax credits for establishing new retirement plans
- Tax credits for establishing automatic enrollment plans

For tax years beginning after December 31, 2022, eligible small businesses with 50 people or less can take advantage of a 100% small employer tax credit for qualified start-up costs for new plans. Before the SECURE 2.0 Act was enacted, only employers with less than 100 employees were eligible for a three-year start-up credit of up to 50% of administrative costs.

Navigating the retirement plan landscape as a business owner is difficult. To help you focus on growing your business, we would like to take some of the burden off of you. If you'd like to discuss more about these options, please reach out to one of our advisors.

## Facts to Know About Employee Retirement Savings

AVERAGE 401(K) BALANCE BY AGE IN 2024 <sup>2</sup>		
Under 25	\$7,351	\$2,816
25 to 34	\$37,557	\$14,933
35 to 44	\$91,281	\$35,357
45 to 54	\$168,646	\$60,763
55 to 64	\$244,750	\$87,571
65 and up	\$272,588	\$88,488

## Important Things to Know About Secure Act 2.0

The SECURE Act became law on December 20, 2019, and went into effect on January 1, 2021, while the SECURE 2.0 was signed into law on December 29, 2022, and went into effect on January 1, 2023. Under the act:

- Certain plans will be required to include an auto-enrollment feature.
- It is easier for small business owners to set up “safe harbor” retirement plans that are less expensive and easier to administer.
- Many part-time workers will be eligible to participate in an employer retirement plan.
- Non-spouses inheriting IRAs must take distributions that end up emptying the account within 10 years.
- 401(k) plans are allowed to offer annuities.
- Businesses with up to 100 people who sponsor a new plan can receive a tax credit for employer matching or profit-sharing contributions for the first five years of the plan. Employers can treat participating employees’ student loan payments as elective contributions to a 401(k), 403(b), or SIMPLE IRA for purposes of their employer match. This is for plan years beginning in 2024.



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<sup>1</sup> 73 percent of civilian workers had access to retirement benefits in 2023: The Economics Daily: U.S. Bureau of Labor Statistics. (2023, September 29). Bureau of Labor Statistics. <https://www.bls.gov/opub/td/2023/73-percent-of-civilian-workers-had-access-to-retirement-benefits-in-2023.html>

<sup>2</sup> Campbell, T. (2024, September 25). Average 401(k) balance by age in 2024: How do you compare? Business Insider. <https://www.businessinsider.com/personal-finance/investing/average-401k-balance>

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