

Ubiquity Retirement + Savings™



An Introduction to 401(k) plans

Saving for retirement isn't just for big businesses or big budgets

Congratulations on taking the first step towards your company's retirement future. Since 1999, our mission at Ubiquity Retirement + Savings™ has been to make it easy for small business owners to design and execute a cost-effective 401(k) saving strategy. Ubiquity's retirement experts have prepared this guide to help small business owners get the information about 401(k) plans all in one place.

Ubiquity's Small Business 401(k) Guide will help you navigate the following topics:

- ✓ 401(k) basics
- ✓ 401(k) benefits
- ✓ 401(k) checklist for choosing the right plan provider
- ✓ Maximizing tax advantages with a 401(k) plan
- ✓ 401(k) limits
- ✓ Common 401(k) myths



What's a 401(k) plan?

A 401(k) is a savings vehicle established by a business or self-employed person to help employees and business owners save for retirement as well as take advantage of the tax benefits provided to both the business owner and employees. The flexible features of a 401(k) can accommodate the needs of a broad range of retirement planning objectives. Each individual gets to choose how much of their pay will be deposited into their 401(k) account each pay period – before taxes are deducted and how those dollars will be invested. Many businesses choose to match a portion of the employees' contributions, helping retirement savings grow even faster.

401(k) benefits

In addition to providing financial security in retirement, saving in a 401(k) provides tax advantages for both the business owner and the employees, including tax deductions, tax-deferred earnings, and tax credits. For example, when an employee saves in a 401(k), their contribution is deducted from their paycheck before income taxes are withheld. These pre-tax contributions lower an individual's tax liability for the year, just for investing in their future.

Roth 401(k)

Many 401(k) plans allow employers and employees to contribute funds to their 401(k) in two ways: as a pre-tax contribution, and as a Roth 401(k) contribution. Roth 401(k) contributions are made with after-tax dollars. When an employee takes money out of their 401(k), those contributions and the investment earnings made are tax-free if the employee meets certain requirements. To qualify for tax-free distributions, the individual must have a Roth 401(k) account for at least 5 years and be 59½ or older, disabled or deceased. Roth 401(k) is a big advantage for those who are concerned about the tax changes that may occur in the future. With a Roth 401(k), individuals and employers will not be taxed on an uncertain tax future.

Safe Harbor 401(k)

A 401(k) must pass certain nondiscrimination tests each year that are designed to prevent the 401(k) from primarily benefiting high-earning individuals. If a 401(k) fails these tests, an option for the small business owner is to adopt a Safe Harbor 401(k) plan. A Safe Harbor 401(k) can bypass the tests in exchange for specified employer contributions that are fully vested. When an employer chooses a Safe Harbor 401(k), the owners and high-earning individuals will be able to maximize their 401(k) contributions instead of being limited by the amount lower-paid employees contribute to the 401(k).



Benefits of small business 401(k)

With the right 401(k) solution, both the business and its employees enjoy substantial business benefits, including:

- ✔ Competitive retirement benefits to attract and retain employees
- ✔ Efficient process for managing employee contributions through payroll deduction
- ✔ Fewer employees working past their desired retirement date, which can impact morale and business costs
- ✔ Tax deduction for plan expenses paid by the business owner
- ✔ Tax credit for plan start-up costs

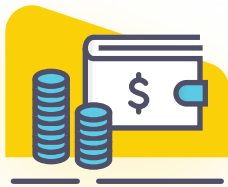
Small business owners along with their employees, can benefit personally from saving in a 401(k) plan, including:

- ✔ Efficient, disciplined savings through automatic payroll deductions
- ✔ Higher contribution amounts than permitted in SEP or SIMPLE IRA plans
- ✔ Reduced taxable income through pre-tax salary contributions
- ✔ Control over when taxes are paid on retirement assets (pre-tax versus post-tax Roth contributions)
- ✔ Tax credits for some employees
- ✔ Access to a broad range of investment options
- ✔ Tax-deferred growth on investments while in the 401(k) plan
- ✔ Option to take a loan from retirement savings
- ✔ Ability to move assets to other retirement arrangements if changing jobs or retiring



Who can invest in a 401(k)?

Eligibility can vary from plan to plan, and the specifics are spelled out on the [IRS website](#) as well as in your plan documents, which define all the rules and features of your plan. Typically, an individual must be 21 years of age or older to participate in a 401(k) plan.



Employee 401(k) contributions

Contributions (also referred to as “deferrals”) refer to the money your employees put into their 401(k) plans. These contributions, are subject to limits set forth by the IRS and may change annually. A 401(k) plan delivers the highest contribution limits of any retirement vehicle available.

2020

In 2020, employees and employers under age 50 can contribute deferrals up to \$19,500 to the 401(k) plan, which is deducted from your paycheck. Those ages 50 or older can contribute an extra \$6,500, for a total of \$26,000 in catch-up dollars.



Four key 401(k) features and the questions you should ask

Features	What to ask	Why it matters to you	The answers you want
Affordable pricing	<ul style="list-style-type: none">• Do you charge a flat fee?• What are your asset-based fees (if any)?	Most 401(k) providers charge asset-based fees on total account balances. That means that as your account balance grows, the more the provider gets, and the less you and your employees see when you stop punching a clock. These fees are not included in your bill, so you may not know just how much you're losing. Some providers may also charge a penalty if your plan doesn't meet certain asset levels.	A flat fee that won't change over time. It should leave you and your employees free to contribute as much as you want, without facing higher costs.
Ease of use	<ul style="list-style-type: none">• How easy is your plan to set up?• How much time does the plan take to manage?	Setting up and managing your 401(k) plan should be quick and easy, not stressful. You have a business to run, and you want a plan that works for you, not the other way around.	Setup should not take more than 30 minutes of your time. Ongoing management should not take more than one hour per month.
Choice of investments	<ul style="list-style-type: none">• What investments do you offer?	Many small business 401(k) plans offer only one brand of fund or a very limited range of funds, which means you and your employees will not be able to choose from flexible investment options that help you best meet your goals.	You should be able to choose from different families of funds. There should also be tools available to make it easy to select and manage investments.
Ongoing support	<ul style="list-style-type: none">• What type of assistance is available?	Some providers offer only online service, while others offer both online and phone support.	The provider should offer service in a form that meets your needs.



Employer 401(k) contributions

Contrary to what you may have heard, employers do not have to contribute (or “match”) some or part of the amount their employees put in their 401(k) plan – but it is an option.

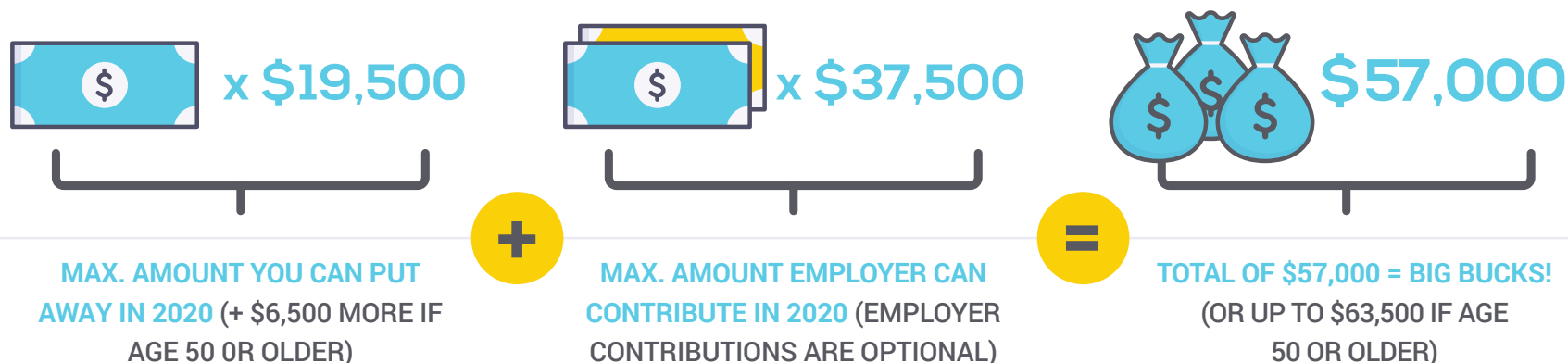
An employer allows an employer to contribute to the plan on an employee’s behalf. This contribution can either be money put aside on behalf of all employees in the form of profit-sharing contributions, or it can be a match of the employee’s 401(k) contributions, so only participating employees will get this additional benefit.

Employer contributions are both tax-deferred (i.e. made after taxes have been taken from the full amount) and tax-deductible.

Total 401(k) contribution limits per individual

The IRS sets the maximum contribution limits per individual which may change annually.

Here’s an example: The maximum contributions allowed per individual for 2020 (including employee and employer contributions) is \$57,000 (or \$63,500 if age 50 or older). This means if you put away the full \$19,500 in individual contributions, the maximum amount that can be contributed on your behalf in the form of employer contributions is \$37,500





401(k) plans deliver a range of benefits to both employee and employer

As a business owner, the strongest reason for a 401(k) plan is the tremendous savings potential it offers, for you as the owner, as well as your employees and your business. The benefits are in long-term tax-deferred retirement savings, as well as in short-term tax benefits. Here are some specifics you should know:

Company 401(k) Benefits

Small Business Tax Credit

Per the IRS: If this is your company's first 401(k) plan, your business may qualify for a tax credit of up to \$5,000/year for each of the first three years (which could fully cover the cost of starting your 401(k) plan).¹

Automatic Enrollment Tax Credit

An employer match or profit sharing contribution is not mandatory, but if you choose to contribute to your employees' 401(k) plan, these contributions are tax-deductible.

Attract and retain valuable talent

Offering a 401(k) to your employees keeps your company competitive.

¹Up to a maximum of \$5,000 per year for each of the first 3 years of the plan. Read more about this credit on [the IRS website](#). Please consult a tax professional if you are interested in taking advantage of this credit.



Employee 401(k) Benefits

Lower taxable income

Employees contributing the maximum amount to the plan can save a significant amount in federal personal income taxes. In 2020, that's up to \$6,000.

Tax-deferred savings





When employees contribute to a 401(k) plan, that money is invested before it is taxed. That means they do not pay taxes on it until they retire and need to start withdrawing it. Most likely they will have a lower tax rate at retirement because they'll have a lower overall income than they had while working – this depends on several factors, including the rate of income and potential future tax rate changes.

Saver's Credit

The federal government offers a tax credit up to \$1,000 (\$2,000, for those filing jointly) for low- to moderate-income employees who contribute to a qualified employer-sponsored retirement plan. You can learn more about this on the IRS website.



401(k)s are some of the most misunderstood retirement plan options available

MYTH #1	MYTH #2	MYTH #3	MYTH #4
<p>A 401(k) plan is too expensive for my small business.</p>	<p>401(k) plans require an employer contribution.</p>	<p>Our employees won't participate because they don't make enough money.</p>	<p>It's too complicated.</p>
<p>TRUTH:</p> <p>It's true that many 401(k) plans are designed for larger businesses. But there are web-based 401(k) plans that are affordable to businesses of all shapes and sizes. Some of these plans have low monthly fees and no asset fees, and employers have the option to split costs with their employees, much like group health insurance plans.</p>	<p>TRUTH:</p> <p>An employer match or profit sharing contribution is entirely optional. However, employer contributions are tax-deductible for the business.</p>	<p>TRUTH:</p> <p>There is no minimum contribution requirement and with a pre-tax contribution, your employees may have a lower taxable income. As always, offering an employer match can provide additional incentive for your employees to participate, while maxing your tax advantages as a business.</p>	<p>TRUTH:</p> <p>Starting a 401(k) plan doesn't have to be complicated. With the right plan, you can be running in 15 minutes or less. Your plan should be easy to manage, and provide simple tools and easy-to-read reports.</p>
			



As a small business owner who needs a 401(k) plan for yourself and your company, we offer flat-fee plans coupled with free expert advice. In fact, each sales expert has over a decade of experience assisting like-minded business owners. We'll fully customize your 401(k) to meet the specific needs of your small business.

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