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Subject: Silicon Slopes Commons 401(k) Plan

There are a lot of reasons to offer a retirement plan at work. These include, but are not limited to, recruiting and retaining great employees, providing great tax benefits to owners and perhaps most importantly providing a way for employees to become financially independent. However, there are also a lot of reasons not to offer a retirement plan at work. These include, but are not limited to, high costs, administrative hassle and **fiduciary** (see glossary) liability. This paper will explore these ideas in greater detail and specifically discuss how the Silicon Slopes Commons 401(k), a Multiple Employer Plan (MEP) may be a solution to both the advantages and disadvantages of offering a retirement plan at work.

Background

Approximately 38 million private-sector employees in the United States do not have access to a retirement plan through their employers[1]. Smaller employers are much less likely to offer a plan than their larger counterparts. *In 2018, approximately 85 percent of workers at private-sector establishments with 100 or more workers were offered a retirement plan. In contrast, only 53 percent of workers at private-sector establishments with fewer than 100 workers had access to such plans[1].* Access to an employment-based retirement plan is critical to the financial security of aging workers and growing businesses.

So why doesn't everyone offer a plan? According to the Department of Labor, *employers often cite annual reporting costs and exposure to potential fiduciary liability as major impediments to plan sponsorship*[1]*.*

One solution is to allow unrelated employers to pool their assets and resources so they can negotiate better services for lower prices. A Multiple Employer Plan or MEP is an example of such an arrangement. In a recent ruling on the issue, the Department of Labor stated: *For a small business, in particular, a MEP may present an attractive alternative to taking on the responsibilities of sponsoring or administering its own plan. The MEP structure can reduce the employer's cost of sponsoring a benefit plan and effectively transfer substantial legal risk to professional fiduciaries responsible for the management of the plan. Although employers retain fiduciary responsibility for choosing and monitoring the arrangement and forwarding required contributions to the MEP, the employer can keep more of its day-to-day focus on managing its business, rather than the MEP.*[1]

The Silicon Slopes Commons 401(k) Plan aims to reduce the cost, hassle and risk of offering a 401(k). The plan has negotiated with Utah based service providers to offer a plan that may significantly reduce the fees paid by companies and participants all the while giving them access to **institutional class** (see glossary) investment options, top quality investment advisory services and flexible participating employer driven plan design features.

Why should businesses offer a 401(k) plan?

1. 401(k)s are great for recruiting and retaining employees. More and more, on sites like Glassdoor, employees comment on whether or not their employer offers a plan and whether or not that plan has an **employer contribution** (see glossary). Employees are beginning to save earlier. In a report from Bank of America they found that millennials started saving at age 24 versus Gen X employees that started saving at age 30.[2] The culture for saving has shifted and employees are beginning to think of the 401(k) as a must-have benefit.

2. 401(k) plans help owners save for their own retirement. Certainly, there are many examples of small business owners funding their retirement through a liquidity event related to the company they founded. Unfortunately, there are many examples where the company ends up being unable to fund a secure retirement for the owner. 401(k) plans can provide significant current tax advantages to

business owners while simultaneously giving them another vehicle to provide retirement security for themselves and their family.

3. 401(k) plans may help employees become financially independent so that they can retire on time. According to one study, a one-year increase in average retirement age results in annual incremental workforce costs of 1.0% to 1.5%![3] Over the long run, offering a plan may reduce the costs associated with delayed retirement and an aging employee population.

4. 401(k) plans may help small businesses save on taxes. The **SECURE Act** (see glossary), recently provided for a significant increase in the small business tax credit related to the start-up of 401(k) plans, raising the cap for the tax credit to as high as $5,000 per year for the first three years. There is even an additional tax credit available of $500 per year for plans that add an **automatic enrollment** (see glossary) feature.

Why should businesses consider the Silicon Slopes Commons 401(k)?

Now that you better understand the benefits associated with offering a 401(k) plan, let's explore the reasons to participate in the Silicon Slopes Commons 401(k) versus **sponsoring** (see glossary) a 401(k) plan on your own.

1. Hard dollar cost to the company and participants. The cost to offer a plan can be significant and these fees can be paid directly by the company or carried on the backs of participants. Even a small percentage decrease in fees may add years to the retirement income of a participant. Whether you currently offer a plan or are starting up a plan, the Silicon Slopes Commons 401(k) has been specifically engineered to reduce the costs paid by employers and participants and features non-**revenue sharing** (see glossary) low cost investment options. Finally, participating employers that would normally be required to pay for a **5500 audit** (see glossary) may save $6,000 or more annually since they no longer need the aduit.

2. Soft dollar cost to the company. Of course, the fees the company pays directly for services provided when offering a 401(k) plan are only the start. Companies that currently administer their own plan are often surprised at the amount of work their staff is putting in to things like timely delivery of **required disclosures** (see glossary). Why waste all that time on tasks that do not help the company reach its goals? Professional administrative fiduciaries to the Silicon Slopes Commons 401(k) will reduce the amount of time required from your staff.

3. Access to better service providers. Many small businesses are unable to access the highest quality, lowest cost investment options that are available to larger plans. Additionally, many are forced to put up with poor customer service and high expenses associated with insurance based non-local service providers. Finally, few have access to investment advisory services that includes W-2 paid certified financial planners to help provide education. The Silicon Slopes Commons 401(k) offers the local investment advisory services of MRP, local record-keeping and administrative services from Elevate401(k) (powered by FIS) and investment options from companies like Fidelity and Vanguard.

4. Reduced risk. Businesses list **fiduciary liability** (see glossary) as one of the main reasons they do not offer a 401(k) plan. Sometimes, businesses get focused on the liability associated with the investments that are offered in the plan. While this is certainly an important risk, it turns out that there are many others. For instance, there is liability associated with maintaining the **plan document** (see glossary), filing an accurate **Form 5500** (see glossary), operating the plan correctly and disseminating **required notifications** (see glossary) in a timely manner. The Silicon Slopes Commons 401(k) has hired professional fiduciaries that reduce or eliminate many of the risks associated with offering a plan.

5. It's customizable. Even though you are benefiting from participating with several other employers in a much larger plan, you maintain the ability to choose your own plan design features such as your desired **employer contribution, eligibility, auto enrollment and vesting** (see glossary). This means that you can design a plan to fit the needs of your company today and still maintain the ability to change as you grow over time.

6. It helps Utah companies and employees and maybe even the nation. Over the past few years other states like California, Oregon and Washington have passed laws requiring businesses to offer a retirement plan at work or use a state-sponsored IRA system. Compliance with these rules is cumbersome and some may feel that it will not end up having the targeted result. In keeping with their stated mission, Silicon Slopes is leading out with an innovative solution that may serve as a national model. Your participation can make a difference. As the assets in the entire plan grow, fees for every participating employer and employee are reduced. Together we may change the way people save for retirement in the state of Utah and be an example for the entire country.

In Conclusion

Sometimes things are simple but not easy. Saving for retirement is one of those things. It is simple because all you need to do is save a reasonable percentage of your income, invest that money for the long run and start saving early in your life. However, sometimes it’s not easy, especially if you work for a company that doesn’t offer a retirement plan. Offering a 401(k) plan helps the company recruit and retain employees, build a positive long-term culture and provides powerful tax benefits. However, it may come with burdensome costs, heavy administration effort and disproportionate risk. Now you have a choice! The Silicon Slopes Commons 401(k) may lower the cost, hassle and risk of offering a plan, especially if you are a small business. Tack on new tax incentives and the ability to make a difference in the entire state of Utah and the Silicon Slopes Commons 401(k) starts to make a lot of sense for Utah companies.

[1] DEPARTMENT OF LABOR ,Employee Benefits Security Administration, 29 CFR Part 2510, RIN 1210–AB88

[2] Bank of America Millennial Report Winter 2020

[3] Why Employers Should Care About the Cost of Delayed Retirements 2019 Prudential Financial Inc.

Glossary

5500 Audit - Large plans are required to have an audit as part of their form 5500 filing. A large plan is generally defined as a plan with more than 100 eligible employees at the start of a plan year, although the initial audit is not triggered until the employer has 120 eligible employees.

Auto-Enrollment - Instead of requiring an employee to actively enroll in the plan, a company may choose to automatically enroll the employee in the plan unless the employee opts out. We call this auto enrollment. This feature is gaining significant traction as it has been shown to increase participation rates significantly with very little pushback.

Eligibility - Eligibility refers to the length of time an employee must wait before they can participate in the employer-sponsored retirement plan.. In the Silicon Slopes Commons 401(k), participating employers can choose between the first of the month following 30 days of service or the first of the month following 12 months of service.

Employer Contribution - Most of the time employers make a contribution to a company sponsored retirement plan such as a 401(k) in the form of a matching contribution. Essentially, the company agrees to match part of the contribution that an employee makes. Typically, this matching contribution has a predetermined percentage. For instance, the company may match 100% of the first 4% of an employee’s compensation that they choose to contribute to the plan. In other words, if an employee chooses to save 4% or more of their own pay then the company would contribute 4% as well. Sometimes, employer contributions come in the form of a profit-sharing contribution. Typically, this is some stated percentage of employees pay. For instance, an employer could contribute 5% of an employee’s pay to the plan regardless of whether or not the employee makes any contributions of their own. There are various benefits and rules that affect what type, if any, of contribution an employer wants to make to the plan.

Fiduciary – In 401(k) terms, the plan sponsor collectively, the trustees individually and any stated fiduciaries act on behalf of the plan and its participants. Essentially, a fiduciary owes to plan and the plan participants their best efforts, acting as would an expert, to carry out the duties of the plan in good faith being bound ethically to act in the best interest of the plan. Since the laws that govern these types of plans are complicated, plan sponsors often hire others to help them carry out their fiduciary responsibilities. Sometimes, the service providers will actually sign on as the fiduciary over certain functions in the plan.

Form 5500 – Every 401(k) plan must file a tax return annually. We call this tax return form 5500. The compliance administrator for the plan usually prepares form 5500 for signature. Many times, plan sponsors are nervous about signing form 5500 since they may lack the resources to check its accuracy.

Institutional Class - Mutual funds, the most common types of investments in 401(k) plans, often have many different share classes. Each share class has a different underlying investment expense. The lowest cost share class, which often does not rebate any fees to any other service providers in the plan, is sometimes referred to as the institutional share class. Historically, these lower cost share classes were sometimes reserved for large institutions.

Plan Document - Every 401(k) plan is governed by a plan document. These complicated instruments are typically created and become effective on the date the plan starts. Additionally, the plan document must be up-to-date and reflective of IRS and Department of Labor rule changes. Maintaining a compliant plan document often turns out to be much more difficult and expensive than plan sponsors originally thought.

Plan Sponsor / Sponsoring - When a company offers a retirement plan to its employees it is said to be a plan sponsor. As such, it has several responsibilities including certain requirements under ERISA.

Required Disclosures and Notices - There is a litany of required disclosures and notices that must be given to participants and plan sponsors at specific times and often as a recurring task. These include but are not limited to the summary plan description, participant fee disclosure, safe harbor notice, QDIA notice, summary of material modification and many others. Often, plan sponsors find this to be quite burdensome. Additionally, there are fines if these disclosures are not disseminated on time. Currently, there are very complicated rules regarding the electronic delivery of these notices so many times they are delivered in hard copy.

Revenue Sharing - Some investment options have artificially high internal expenses and then rebate those expenses to other service providers in the plan. Collecting fees in this way lacks transparency and can make it difficult for participants to understand the fees they are paying since they may not show up as a separate line item on a statement but instead simply reduce the investment returns. This lack of transparency may lead some participants.

Secure Act – Setting Every Community Up for Retirement Enhancement Act of 2019. Just before the end of 2019, the SECURE Act was signed into law in an attempt to increase the retirement readiness of Americans.

Vesting – All of the money the participant contributes to the plan along with any of its earnings is always their money. Sometimes, the employer contribution becomes theirs over time and we call that vesting. Vesting schedules have been getting shorter and shorter and the most common vesting schedule is now immediate. However, another common vesting schedule is a five-year vesting schedule where a participant becomes vested in their employer contribution 20% each year starting after the first year.

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