When you change jobs, you can roll over your 457(b) into another 457(b) or a 401(k), 403(b), or IRA. The rollover rules we discuss in Chapter 7 apply to 457(b)s, as well. (However, a governmental 457(b) can only be rolled over into another governmental 457(b), not into a 457(b) of a tax-exempt organization.) Remember that if you roll your 457(b) into an IRA, you won't be able to withdraw the money before age 59½ without paying an early withdrawal penalty unless you qualify for an exception (also listed in Chapter 7). Rolling into a 401(k) plan or 403(b) plan will make the money subject to withdrawal rules for those plans, which we discuss in Chapters 7 and 8 for 401(k)s, and Chapter 10 for 403(b)s.

You may also be able to withdraw money to pay for "unforeseen emergencies" while you're working. These rules have been stricter than rules for 401(k) withdrawals (discussed in Chapter 7). For example, buying a house or paying for higher education won't normally qualify as unforeseen expenses. Your best bet is to ask your employer what the rules are for your plan.

Loans are permitted in 457 plans, but not all plans allow them. You need to check with your employer to find out whether your plan allows loans.

When you turn 70½, you're required to start taking minimum distributions from your 457 each year. You calculate these as you calculate required distributions from an IRA or other tax-deferred retirement plan. We discuss required distributions in Chapter 9. More-detailed rules are available in IRS Publication 590, at `www.irs.gov`.

How you take your money out of the plan depends on what your plan offers. You may have to take a lump sum payment (which you can roll over into an IRA), or your plan may let you take installment payments. Plans are also allowed to let you make withdrawals on demand, but this is a new rule in 2002, and many plans may be slow to adopt it because it's an administrative hassle for them.

Part V
From the Employer's Perspective: Finding the Right Plan

The 5th Wave   By Rich Tennant

"The first thing we should do is get you two into a good 401(k). Let me get out the 'Magic 8 Ball' and we'll run some options."

In this part . . .

Employers have their hands full trying to run a successful business and keep their top-notch employees happy. Keeping employees happy requires offering great benefits, especially a retirement plan, but setting up a retirement plan is no cakewalk.

As an employer, you're responsible for making sure that the plan complies with all the rules; depending on what kind of plan you offer, there may be a lot of 'em. Despite their popularity, 401(k) plans aren't always the easiest or best option, particularly for small-business owners with 25 or fewer employees.

This part outlines different retirement plan options and explains how employers can select the plan that makes the most business sense while making sure that their workers get the best possible investment deal for their retirement savings.

Chapter 12

Meeting the Small Employer's Challenge

In This Chapter

- Understanding how to set up a retirement plan for a small business
- Comparing different types of plans
- Deciding which plan works for you — it may not be a 401(k)!

So, you just started a small business with a couple of employees, and you're looking to set up a retirement plan. Not only do you want to save for your own retirement, but you also know that your top-notch employees may move to another company with better benefits if you don't set something up soon.

Should you run down to your local financial services provider and set up a 401(k) plan? Not necessarily. Starting a retirement plan is a bit more complex than buying your favorite brew at the local gourmet coffee shop. You may be surprised to find out that the 401(k) is not your only retirement plan option — nor is it necessarily your best option. Other types of plans are easier to operate and make more sense for many small companies.

For a small employer, the cost and effort involved in establishing a retirement plan can be daunting. The typical small-business owner wears many hats in the start-up stages — which often include human resources manager and chief financial officer — and is usually the one responsible for developing a retirement plan.

As a small-business owner, you need to be extremely well informed before you set up a retirement plan. *You* will be responsible for complying with the law, not the person who sells you the plan or the organization that manages it. If you take time to find out about your retirement plan options — paying special attention to basic legal requirements — you should be able to avoid costly mistakes.

Running a retirement plan, particularly a 401(k), can require a lot of your precious time. You shouldn't trust salespeople who tell you otherwise. Beware especially of some Internet-based providers who offer to design and get your plan up and running in five minutes — any plan that's hatched in five minutes isn't likely to meet your specific needs and is likely to be fraught with compliance problems. Remember, you're dealing with a bunch of IRS rules, so it can't be that easy!

This chapter is for owners of small businesses (from one to about 25 employees). It will help you determine which retirement plan will most benefit you and your employees. In the interest of keeping this easy to read, we give only general information about the main types of plans, not comprehensive, precise profiles. You'll need to get more detailed information later from an organization that will help you set up and manage the plan.

Some good resources for small businesses are IRS Publication 560 (available from your local IRS office or online at `www.irs.gov`; type "Publication 560" in the search window) or the Profit-Sharing/401(k) Council of America (`www.psca.org`; click on "Start a Retirement Plan").

Meeting Regular 401(k) Requirements Is a Pain in the Pocketbook

Regular 401(k) plans used by larger companies can be a real pain for a small employer.

The *compliance* requirements for *tax-qualified* retirement plans such as 401(k)s are very complex. A tax-qualified plan is one that gives the employer and employee special tax benefits. In return for these advantages, the employer has to follow (or comply with — hence the term *compliance*) certain rules about how the plan should be operated.

Compliance issues are the dark clouds that hang over any retirement plan. The plan you choose will depend on your tolerance for fulfilling various requirements. The first compliance issue relates to employer contributions. This is a big issue for small-business owners, particularly for start-ups. When you have more expenses than revenues, you may not want to make contributions to your employees' retirement plan. But, depending on what plan you choose, you may be required to.

Dieting won't help "top heavy" plans

Technically, employers don't usually have to contribute to their employees' 401(k)s. However, small-business owners are sometimes forced to make employer contributions to a 401(k) plan. This happens when a plan becomes *top heavy* (yes, that's the official term), meaning that more than 60 percent of the money in the plan belongs to the owners of the company and other key employees.

Say you own a small business, and you contribute at least 3 percent of your pay to the 401(k) plan. If the plan is top heavy, your company is required to contribute money into each *eligible employee's* 401(k) account, equal to 3 percent of his or her pay. You even have to do this for eligible employees who don't contribute to the plan on their own. (If the highest contribution for an owner is less than 3 percent, the required contribution to each eligible employee's account is also less than 3 percent. For example, if the highest contribution for an owner is 2 percent, your company is required to contribute the equivalent of 2 percent of each eligible worker's pay into the 401(k); if it's 1.5 percent, the required contribution is 1.5 percent, and so on.)

An *eligible employee* is one who has met the eligibility requirements for participating in the plan — for example, one who has worked at the company for the required amount of time. Just because an employee is eligible doesn't necessarily mean that he or she is actually participating in the plan. We discuss eligibility requirements in more detail in Chapter 2.

Many organizations that sell 401(k)s to small employers ignore the issue of employer contributions. In Ted's opinion, the first thing that you should consider when choosing a plan is whether you're likely to end up with a top-heavy plan because more than 60 percent of the money in the 401(k) plan belongs to the owners. The probability that you will end up with a top heavy plan is high when a company has one or more owners and only a few other employees. If this is the case with your company, you should consider another type of plan, as we explain in the section, "Finding Alternatives to the Standard 401(k) Plan," a little later in this chapter.

Sticking up for the little guy: Nondiscrimination tests

You also need to know that 401(k) plans must pass special nondiscrimination tests at the end of each *plan year.* (Most plan years run from January 1 to December 31; however, some companies use a different 12-month period.) The amount contributed by *highly compensated employees* (HCEs) must be compared to the average percentage of pay contributed by those who aren't highly compensated (non-HCEs). (See Chapter 3 to determine whether an employee is highly compensated.)

In Chapter 3, we explain that the average percentage of pay contributed by HCEs can't be more than 2 percentage points higher than the average percentage of pay contributed by non-HCEs. If non-HCEs as a group contribute 4 percent of salary on average, HCEs may contribute no more than 6 percent. Also, HCE contribution percentages on average can't be more than double non-HCE contribution percentages. So, if non-HCEs contribute 1.5 percent on average, HCEs can contribute only 3 percent (1.5 percent × 2) and not 3.5 percent (1.5 percent + 2 percent).

The nondiscrimination test can result in higher-paid employees not being able to contribute the maximum permitted by federal law ($11,000 for 2002, increasing by $1,000 each year until hitting $15,000 by 2006). This catches a lot of people by surprise, because they assume that they can always contribute the maximum allowed.

Assume that you're a small-business owner (which makes you an HCE, because you own more than 5 percent of the company), and the eligible non-HCEs in your plan contribute an average of 4 percent of pay. This means that you're permitted to contribute only 6 percent of pay (the non-HCE percentage + 2). If you earn $90,000, you can contribute only $5,400 (6 percent of $90,000) for the year. This amount may be much less than what you wanted to contribute — and it's less than the maximum amount permitted by federal law.

Before you start a 401(k), ask your non-HCEs how much they plan to contribute. This will give you a rough idea of how much *you* will be permitted to contribute to this type of plan. Typically, the average non-HCE contribution range is 2 to 8 percent of pay. You should have realistic expectations before you decide to go ahead with a plan.

You also need to consider employer contributions. Plans that don't have an employer matching contribution tend to have significantly fewer employees who participate, and those who do participate contribute less than employees in plans that offer a match. Typically, no more than half of eligible employees contribute when no match is available, while 70 percent or more of eligible employees participate in plans with an employer match of 25 cents on the dollar.

Participation levels are important, because *all eligible employees* — even those who don't participate in the plan — must be included when the nondiscrimination tests are performed. Employees who don't contribute pull down the average and reduce the amount that HCEs can contribute.

Another important point is that all eligible employees must be included in the nondiscrimination testing regardless of how many hours they work — unless your plan document has a provision that excludes employees who work less than a specified number of hours. The law requires that you include employees who work at least 1,000 hours during any year, which is an average of only 20 hours per week. This rule usually doesn't help boost contribution rates, because part-time employees are less likely to contribute.

Calculating the bottom line on employer contributions

A matching contribution of 25 cents on the dollar, up to 4 or 6 percent of pay, will actually cost you only 1 percent or less of the total payroll. Assume that all your eligible employees combined earn a total of $200,000 per year and contribute an average of 4 percent of pay. Your matching contribution equals one-quarter of the employee contributions, or 1 percent of pay. Now say that only 75 percent of your employees participate. You will pay less than 1 percent — 0.75 percent, or $750 for every $100,000 of pay. If your eligible employees earn a total of $200,000 a year, the matching contribution will cost you a total of $1,500.

Also, you can make the employer contribution vest over a period of up to three years for cliff vesting or six years for graded vesting. (Check out Chapter 2 for more detailed explanations of cliff and graded vesting.) When employees leave your company with unvested contributions, they forfeit those contributions. You can use the forfeited contributions to make matching contributions to your remaining employees' accounts. Doing so saves you money.

Deciding on other bells and whistles

When starting a plan for your business, you need to decide on a few other things as well, such as whether to offer loans and hardship withdrawals, and what vesting schedule to use for employer matching contributions.

TIP

Ted generally advises employers who are just starting plans to stay away from loans initially. First, they're hard to administer. Second, no one will have much money to borrow during the first few years. Finally, Ted always tells employers that they should leave room to improve benefits in the future, so they shouldn't give everything away when they start the plan. Employers get little (if any) benefit from including loans at the outset, but it can be a nice enhancement to add later.

Virtually all employers permit hardship withdrawals from the start, but they may not let employees withdraw employer contributions. Ted agrees with this approach and usually advises employers to keep their contributions in the plan, rather than let employees withdraw them early, to provide retirement benefits.

TIP

As for vesting, Ted generally recommends immediate vesting if the matching contribution is 25 cents on the dollar or less. Otherwise, he recommends a three-year cliff-vesting schedule (0 percent vested for the first three years, and then 100 percent vesting).

Finding Alternatives to the Standard 401(k) Plan

Major providers are often interested only in existing plans with lots of money already in them. (That's how they earn their money!) For this reason, you should consider alternatives to the standard 401(k) plan.

In the following sections, we discuss a couple of the most attractive alternatives to the standard 401(k) plan.

SIMPLE Simon met a pie man . . .

The SIMPLE IRA is a very good plan for small employers, particularly during the first couple of years of a new business. (By the way, SIMPLE stands for *Savings Incentive Match Plan for Employees.*)

You can establish a SIMPLE IRA by completing a one-page form from any financial organization that offers this type of plan. You shouldn't have to pay any set-up fees, administrative fees, or compliance fees. Avoiding these costs and headaches is a big plus.

As an employer, though, you do have to make a mandatory contribution to each employee's account. You may make either a dollar-for-dollar *matching contribution* to the accounts of only those employees who participate or a *nonmatching contribution* for all eligible employees, whether or not they participate in the plan. (The matching contribution generally goes up to 3 percent of pay, although it may be only 1 percent during certain years, which may include the first two years. The nonmatching contribution, which covers more employees, must be 2 percent of pay.)

You may not like having to make this contribution, but it can be less than what it would cost you to set up and administer a 401(k). With a SIMPLE IRA, employer contributions are fully vested at all times.

Some employers feel that the SIMPLE IRA plan is a good starting point; they use it to begin with, and then change to a 401(k) after two years so that they aren't required to make any more contributions.

The maximum amount that you as an employee can contribute to a SIMPLE IRA is $7,000 for 2002, plus a $500 catch-up contribution if you're 50 or older. Because the 2002 maximum contribution to a 401(k) is $11,000 plus a $1,000 catch-up contribution, this may not seem like a good deal ($7,500 versus $12,000).

But the SIMPLE IRA doesn't require nondiscrimination testing, so you (the owner) and other HCEs can contribute the maximum regardless of what amount the lower-paid employees contribute. You don't have to worry about HCE limits or a top heavy plan. (See the section, "Meeting Regular 401(k) Requirements Is a Pain in the Pocketbook," earlier in this chapter, for more on HCE limits and top heavy plans.) Another advantage of using the SIMPLE IRA is that you receive the mandatory employer contribution on top of these contribution limits. Also, contribution limits will rise each year until 2006, as shown in Table 12-1.

Table 12-1 SIMPLE IRA Maximum Contribution Limits

Year	*Regular Limit*	*Age-50 Catch-Up Limit*
2002	$7,000	$500
2003	$8,000	$1,000
2004	$9,000	$1,500
2005	$10,000	$2,000
2006	$10,000 (or indexed to inflation)	$2,500

Aside from the different contribution limits, other rules for SIMPLE IRAs are the same as for traditional IRAs. One exception is that if you withdraw money within two years of starting the account, you pay a 25 percent early withdrawal penalty rather than the usual 10 percent penalty.

Also, you can make contributions to a traditional or Roth IRA even if you have a SIMPLE. However, your contribution to the traditional IRA won't be deductible if your income is over the limits we discuss in Table 8-1 of Chapter 8. (Chapter 8 also has more general explanations of traditional and Roth IRAs if you want to check them out.)

Choosing a safe harbor in a storm of requirements

A *Safe Harbor 401(k)* plan can eliminate the top heavy and nondiscrimination problems associated with a standard 401(k). All you, the employer, have to do is make a mandatory contribution to the plan. You can choose between two options: a nonmatching contribution of at least 3 percent of pay for every eligible employee, or a dollar-for-dollar matching contribution of up to 3 percent of pay, plus a 50 percent matching contribution on the next 2 percent of pay, deferred by participating employees. Remember, the number of eligible employees is generally higher than the number of participating employees.

You have to include provisions in your plan document qualifying your plan as a Safe Harbor plan, and you must notify your employees that it's a Safe Harbor plan. With a Safe Harbor 401(k), the business owner(s) can contribute the federal maximum, regardless of how much the other employees contribute.

The maximum limits for regular and age-50 catch-up contributions to a Safe Harbor 401(k) are the same as for the regular 401(k) (see Chapter 2 for details). Although this is more than you can contribute to a SIMPLE plan, remember that the Safe Harbor 401(k) requires a larger employer contribution. As an owner, you receive this contribution in addition to the amount that you can contribute from your salary before taxes are taken out. Employer contributions are immediately vested. The cost of setting up and running this type of plan is similar to a 401(k), as shown in Table 12-2.

TIP

You may have heard of something called a SIMPLE 401(k). This is a variant of a SIMPLE IRA, but it lost its usefulness when the Safe Harbor 401(k) was introduced. A Safe Harbor 401(k) has many of the same advantages as a SIMPLE 401(k) and also lets employees contribute more.

Selecting a Plan That's Right for You

Most small businesses want one of the plans that are primarily funded by employee contributions. (Other types of plans are funded primarily by the employer; check out the next section for more on these plans.) Each plan has pros and cons. Table 12-2 summarizes the main features of the different plans funded primarily by employee contributions.

Table 12-2 Popular Retirement Plans for Small Businesses (As of 2002)

Feature	*Regular 401(k)*	*Safe Harbor 401(k)*	*SIMPLE IRA*
Maximum employee contribution	$11,000	$11,000	$7,000
Minimum employer contribution	None	3 percent of salary	1 percent of salary*
Vesting	Over time or immediate	Immediate	Immediate
Loans	Yes	Yes	No
Nondiscrimination testing	Yes	No	No
Subject to top heavy rules	Yes	No	No
Plan design flexibility	Yes**	Yes	Some

(continued)

Table 12-2 *(continued)*

Feature	***Regular 401(k)***	***Safe Harbor 401(k)***	***SIMPLE IRA***
Set-up fees	$1,000	$1,000	None
Estimated minimum annual administration fees (total for plan)	$1,000–$3,000 minimum	$1,000–$3,000 minimum	None

**Must be increased to 2 percent of pay nonmatching, or 3 percent of pay matching, after two years.*

***Design flexibility may be adversely impacted by top heavy and nondiscrimination test requirements.*

So how do you choose? Answer the following questions (you may want to write your answers down on a piece of paper), and then look at the key to help narrow your search.

1. Do you want to contribute more than $8,000 ($9,000 if over age 50) per year?
2. As the owner, are you willing to contribute 1 percent of each eligible employee's pay?
3. Are you willing to contribute 3 percent of each eligible employee's pay?
4. Are plan fees and administrative simplicity important?
5. Are you and the other business owners likely to contribute more than 60 percent of the total plan assets?

The following answer key should be able to point you in the right direction:

- If you answer yes to question 1, you'll need a 401(k) or Safe Harbor 401(k).
- If you answer no to question 1, consider the SIMPLE IRA.
- If you answer yes to question 2 and no to question 3, consider the 401(k) or SIMPLE IRA.
- If you answer no to question 2, consider a 401(k).
- If you answer yes to questions 1 and 3, consider the Safe Harbor 401(k).

- If you answer yes to question 3 and no to question 1, consider the SIMPLE IRA.
- If you answer yes to questions 2 and 4, and no to question 1, the SIMPLE IRA is probably best for you.
- If you answer yes to questions 3 and 4, consider the SIMPLE IRA and the 401(k) Safe Harbor.
- If you answer no to questions 3 and 5, consider a SIMPLE IRA or 401(k).
- If you answer yes to question 5, consider the SIMPLE IRA or Safe Harbor, regardless of any of your other answers.

Looking Out for Number One

Some retirement plans may only make sense for businesses that don't have full-time employees other than the owner, the owner's spouse, and any partners. When eligible employees enter the picture, these plans become expensive for the employer, because it's required to make contributions to the employees' accounts. This section looks at two such options.

Going it alone: The one-person 401(k)

If you're a small-business owner with no full-time employees (and no intention to hire any), and you earn less than $160,000, a possibility you may consider if you really want to sock away a lot of money is a one-person 401(k). Tax laws that took effect in 2002 made the one-person 401(k) more attractive by raising the contribution limit considerably. You can contribute the employee pre-tax maximum ($11,000 in 2002, $12,000 in 2003, and so on), plus the business can contribute up to 25 percent of your W-2 pay as an employer contribution, up to a $40,000 combined maximum. If you're 50 or older, you can add the catch-up contribution on top.

WARNING!

You can use this type of plan for yourself, your spouse, and any business partners, but when employees enter the picture, it may become a hassle. You should use a one-person 401(k) only if you're not planning to hire any full-time employees or if you're willing to contribute at least 3 percent of pay for each eligible employee when you have them. Your business must make the required

3 percent of pay minimum contribution for each eligible employee as soon as you hire employees, because the plan will be top heavy, and you must satisfy nondiscrimination testing. Unless you use a Safe Harbor 401(k), your salary deferral amount will be limited by how much the employees contribute.

In 2002, a number of providers launched products with names like Personal(k), mini-K, Uni-K, and so on. Advertised set-up fees range up to several hundred dollars — investment fees and annual fees are extra.

A one-person 401(k), rather than an easier-to-administer profit-sharing plan, makes the most sense for someone earning less than $160,000, who wants to contribute more than 25 percent of pay to a retirement plan. Here's why: An employer is allowed to contribute 25 percent of salary (up to $40,000) to a profit-sharing plan. If you earn $160,000 or more, 25 percent of your salary will be $40,000 or more, so the business can contribute the full $40,000 for you. However, if you earn less than $160,000, 25 percent of your pay that the business may contribute will be less than $40,000. With a 401(k), the business may contribute 25 percent of your pay as a profit-sharing contribution, and you may make a pre-tax 401(k) contribution (up to $11,000 in 2002, $12,000 in 2003, and so on), to reach the $40,000 limit. If you're 50 years old or older, you can add the age-50 catch-up contribution on top of the $40,000 limit. (We discuss these limits in detail in Chapter 2.)

Amounts *you* contribute to a one-person 401(k) are subject to Social Security tax but amounts *the business* contributes aren't. Social Security taxes are a major point to consider if you are a small-business owner with an income that is less than the Social Security maximum taxable wage base ($84,900 for 2002). Assume you earn $70,000 from your business after all expenses and you want to save $10,000 of this amount for retirement. If you set up a one-person 401(k) and contribute this amount yourself, both you and the business will have to pay FICA (Social Security) tax on this $10,000 contribution. The combined employee/employer Social Security tax will be 15.3 percent if the business is incorporated, for a total of $1,530. On the other hand, a $10,000 employer contribution isn't subject to Social Security tax.

You should consult a knowledgeable tax advisor before setting up this type of plan.

Simplify, simplify: Simplified Employer Plan (SEP)

Another choice to consider is a Simplified Employee Pension (SEP), also known as a SEP IRA. This type of IRA may be a good solution if you are your company's only employee, or if your company has a number of owners and only one or two employees.

A SEP is *not* your best alternative if you have more employees and/or you expect to expand your work force in the future, because it will become very costly for you, the employer.

A SEP is funded entirely by *employer* contributions. Employees don't make pre-tax contributions of their own. Because contributions are made entirely by the employer, they're exempt from FICA and other payroll taxes. This is significant if your earnings are less than the *Social Security maximum taxable wage base* ($84,900 in 2002). (For more explanation of why this is significant, see the example in the previous section, "Going it alone: The one-person 401(k).") You should consider whether the payroll tax savings will help you fund any contributions for the SEP for other employees. If so, this would make the SEP a good choice for your company, because you can avoid these payroll taxes and the costs of setting up and running a more complex plan.

To set up a SEP, you just need to choose a mutual fund company, bank, brokerage, or other IRA provider that offers SEPs, and fill out a one-page form. You shouldn't have to pay set-up fees or annual fees, or fulfill compliance regulations. You just have to send in the money to be invested in the IRA.

The amount that can be contributed to the SEP is very flexible — up to a maximum of 25 percent of pay (not exceeding $40,000) — and there's no required contribution. The employer can make the contribution during the year, or wait until the end of the year to determine how much to contribute.

Employees who are at least 21 years old, worked for you in at least three of the last five years, and received at least $450 in compensation for the year are eligible for the SEP (as of 2002). You can use less restrictive rules, but not more restrictive ones.

Rules for withdrawing money from a SEP are the same as those for traditional IRAs. With a SEP you don't have to set up a trust to hold the assets, which frees you from the fiduciary concerns of other plans.

Hey, it's my treat: Employer-funded plans

The SEP isn't the only plan available that's funded entirely by the employer. You may have heard of a Keogh plan, also known as an H.R. 10 plan, which is available to businesses that aren't incorporated. Keogh plans come in two flavors: defined-contribution plans and defined-benefit plans. Both are more complicated to administer than a SEP. Defined-contribution Keogh plans allow the employer to contribute up to 25 percent of employees' pay (same as a SEP). A *defined-benefit* Keogh plan may offer the opportunity to make larger contributions than a SEP, but a defined-benefit Keogh plan is more complex to administer.

If you're interested in setting up one of these types of plans, you should consult a retirement plan professional. For background information, you can look at IRS Publication 560, *Retirement Plans for Small Business,* which is available free of charge from your local IRS office or on the IRS Web site (`www.irs.gov/pub/irs-pdf/p560.pdf`).

A Word about Cost

Many employees have a general perception that a 401(k) doesn't cost their employer anything, because the employer gets a tax deduction for its contribution. It's true that the employer can deduct a retirement plan contribution from its taxable income, if it has any, but that covers only a small portion of this cost. And if a business isn't profitable, the employer pays the entire cost of any employer contributions to the 401(k).

Still, retirement plans aren't too expensive for small employers. Just about every employer can find an affordable alternative. In some instances, you can't afford *not* to have a plan, because you have to hire and keep top-notch employees in a highly competitive environment.

Considering Real-Life Examples of Different Plans

Even with all this comparative information, choosing among the retirement plan options is probably still difficult. The following examples of how other small-business owners have found attractive and affordable plans may help.

Meeting a small business's needs with a SEP

Larry and Helen run a hunting and fishing lodge. They have only one employee, who works less than 10 hours per week.

Larry and Helen each have annual earnings that are less than the Social Security maximum taxable wage base ($84,900 in 2002). As a result, any contributions they make to either a 401(k) or SIMPLE IRA would be subject to *FICA* (Federal Insurance Contributions Act; the law that requires Social Security tax on earned income) and other employer payroll taxes. Contributions to a SEP would not be subjected to these same taxes.

They decide to establish a SEP through a mutual fund company. All they have to do is complete one easy form and an IRA application for each of them. Contributions to the plan are deposited into the IRAs set up for this purpose. Larry and Helen can invest in any of the mutual funds the company offers for retirement plans. The plan has no set-up fee, no annual fees, and no compliance hassles.

Larry and Helen's business can make contributions during the year, or wait until the end of the year to determine how much to contribute. The contribution amount is flexible (up to a maximum of 25 percent of gross pay), and no contribution is required.

Reaching personal contribution goals with the SIMPLE plan

Manoj and Sarla are medical professionals who have three full-time employees. Manoj and Sarla each have earnings of $100,000, which exceeds the FICA maximum wage base. The total gross annual pay for their three employees is $82,000.

The two doctors want to contribute around $10,000 each to a retirement plan. The three employees are willing to contribute a total of $4,400 to the plan. This means Manoj and Sarla will be contributing more than 80 percent of the total employee contributions during the first year. This would create a top heavy situation with a 401(k) (remember, the cutoff is 60 percent), so their best alternatives are a SIMPLE IRA or a Safe Harbor 401(k).

Either plan would permit them to meet their contribution goals, offer an attractive plan that would help to retain their employees, and save administrative time. Manoj and Sarla decide to go with a SIMPLE IRA rather than the Safe Harbor 401(k) to avoid the cost of setting up and running a 401(k).

To start the plan, all they do is complete a couple of forms supplied by the financial organization they selected and have each employee complete an IRA application.

Manoj and Sarla decide on a dollar-for-dollar employer matching contribution limited to the first 3 percent of pay.

Table 12-3 shows how Manoj and Sarla's plan works.

Table 12-3 Sample SIMPLE Plan

Employee	*Employee Annual Income*	*Employee Contribution*	*Employer Contribution*	*Total Contribution*
Manoj	$100,000	$7,000	$3,000	$10,000
Sarla	$100,000	$7,000	$3,000	$10,000
Lela	$28,000	$1,960	$840	$2,800
Alicia	$27,500	$1,375	$825	$2,200
Monica	$26,500	$1,060	$795	$1,855

Manoj and Sarla's employees, Lela, Alicia, and Monica, can select any of the funds offered by the financial organization that are appropriate for an IRA. The employers simply need to send the money to be invested at the end of each month. Employees receive detailed statements directly from the investment company.

Adopting the standard 401(k) for a growing business

Margaret left her employer six months ago to start her own business producing training programs for the medical community. Her clients are drug companies that want effective educational materials that inform the medical community on how to best use specific drugs. Margaret and an outside investor own the business.

Because her training programs are highly technical, Margaret had to recruit seasoned personnel. During the interview process, she promised candidates that she would set up a 401(k).

Because her business can't handle the additional expense, Margaret isn't willing to make an employer contribution. She's the only participating owner. Three non-owner employees are eligible to participate in the 401(k) plan, and this number is expected to grow. One of the employees earns $65,000 and wants to contribute the maximum amount. Another employee earns $26,000 and wants to contribute 8 percent of pay. The third employee isn't interested in participating.

Margaret's contributions are expected to be well below 60 percent of the total employee contributions, so a possible top heavy status isn't a concern. The amount the other employees want to contribute to the plan would permit Margaret to contribute the $11,000 maximum amount. As a result, she decides to go ahead with a 401(k).

Table 12-4 summarizes the plan's first-year contributions and shows how employee contributions impact owner contributions.

Table 12-4 How Employee 401(k) Contributions Affect Owner Contributions

Employee	*Employee Annual Income*	*Dollar Amount Contributed*	*Percent of Pay Contributed*
Margaret	$110,000	$11,000	10 percent
Alan	$65,000	$11,000	16.9 percent
Pen-Li	$28,000	$0	0 percent
Cheryl	$26,000	$2,080	8 percent

The three non-owner employees contribute an average of 8.3 percent of pay (24.9 percent divided by 3). This unusually high average enables Margaret to contribute the $11,000 maximum and pass the 401(k) nondiscrimination test, because her 10 percent contribution isn't more than 2 percentage points higher than the contributions of the non-HCEs. If Alan contributed a more typical 6 percent instead of 16.9 percent, the average for the three non-owners would have dropped to 4.67 percent. Margaret could then have contributed only 6.67 percent (4.67 percent + 2), or $7,337. It helps to have an Alan in your plan.

Attracting employees with a Safe Harbor 401(k)

Rocco and Wes own and run an engineering consulting firm that employs nine other people. The owners are in their fifties and earn $85,000 each. They want to contribute the $11,000 maximum amount to a 401(k). Rocco and Wes are willing to contribute 3 percent of each eligible employee's pay to help attract and retain good employees in a highly competitive area.

The decision to go with a Safe Harbor 401(k) is based on the amount that the two owners are able to contribute. They expect their employees to contribute an average of about 5 percent of pay. As a result of nondiscrimination rules, Rocco and Wes would be able to contribute only about 7 percent of pay — or $5,950 — each to a regular 401(k). The Safe Harbor 401(k) allows them to contribute the $11,000 maximum, regardless of how much the other employees contribute. They and all other eligible employees will also receive the 3 percent automatic employer contribution.

Table 12-5 lists the first-year contributions and shows how the combined employee/employer contributions actually work. Note that employees who don't contribute still get the 3 percent contribution.

Table 12-5 Safe Harbor 401(k) Contributions

Employee	*Employee Annual Income*	*Employee Contribution*	*Employer Contribution*	*Total Contribution*
Rocco	$85,000	$11,000	$2,550	$13,550
Wes	$85,000	$11,000	$2,550	$13,550
Chitra	$60,000	$6,000	$1,800	$7,800
Willard	$55,000	$3,300	$1,650	$4,950
Denise	$54,000	$3,780	$1,620	$5,400
Laxman	$47,300	$0	$1,419	$1,419
Russell	$43,450	$2,607	$1,303	$3,910
Irene	$36,930	$4,432	$1,108	$5,540
Darren	$32,110	$963	$963	$1,926
Sandi	$28,725	$0	$862	$862
Indu	$25,850	$1,034	$776	$1,810

Chapter 13

Walking in an Employer's Shoes

In This Chapter

- Weighing what investments to offer in a 401(k) plan
- Ensuring that you and your employees don't pay too much in fees
- Finding the right company to provide services and investments
- Avoiding common mistakes and misperceptions

Running a 401(k) plan is a significant responsibility for any employer. A company isn't required to offer a 401(k), but if it does, it must comply with the applicable laws and regulations — whether the plan covers only a couple of employees or more than 100,000.

Managing retirement funds is a serious matter that may potentially expose the employer to liability. Employees also have a very strong interest in the plan. After all, their retirement security is at stake!

Meeting the needs of both the company and the employees can be a delicate balancing act. It becomes especially tricky because there are many ways plans can be set up, and lots of financial services companies are vying for 401(k) business. An ancient Chinese proverb advises, "Don't judge a man [okay, a *person*] until you've walked a mile in his shoes." For our purposes, we can say, "Don't judge a 401(k) plan until you've waded through miles of possible 401(k) plan setups."

This chapter is written to help clarify the choices, particularly for those who oversee the 401(k)s at companies with plans that have between $1 million and $100 million in assets. If your company doesn't have a plan, you should also read Chapter 12 for information about starting a plan and alternatives to 401(k) plans for small companies.

Keeping the Essentials in Mind

A 401(k) is a big deal to administer. You need an operational structure that begins with deducting contributions from employees' paychecks and goes on to handle everything up to, and including, benefit distributions for departing employees.

When you set up a 401(k) plan, you'll probably have an eye on the bottom line — how much your company has to pay to run the plan. After all, the cost has to fit into your budget.

However, getting the best deal for your company shouldn't be the major issue when you set up a 401(k) plan. In Chapter 1, we discuss the requirements for a plan fiduciary (generally the employer) under ERISA, the Employment Retirement Income Security Act. One of those requirements is that a company's decisions about plan investments must be made considering solely what's in the *employees'* best interest. You're not running a 401(k) for the benefit of the company; you should always keep this fact in mind. The best financial deal for your company may prove to be very expensive if it results in a lot of employee dissatisfaction and possibly a lawsuit.

WARNING!

Many employers have the misperception that selecting an organization or organizations to run the 401(k) plan gets them off the hook with legal requirements and potential liability. Folks, this just ain't so. The employer can't get out of this responsibility by hiring someone else. (It's like paying someone to prepare your tax return. If that person makes a mistake, you're still the one held responsible by the IRS.) As a result, be sure that you choose your plan provider carefully. (See the section, "Selecting a plan provider," later in the chapter, for some tips.)

TIP

You must also monitor the performance of investments offered by your 401(k) plan and make changes when appropriate. Changing plan providers can be a big deal, so you really should only do it if you have a good reason. (For example, your provider may leave the business or be sold, you may outgrow the relationship, the funds may perform badly or be too expensive, or service may be bad.) Employers commonly make bad decisions when they pick their first provider, but they get smart after changing one or two times. Employers who are with the top providers tend to change less frequently.

Choosing Investments to Offer in the Plan

The quality of the investments offered in your 401(k) is the most important consideration when running your 401(k). Unfortunately, many other issues commonly overshadow the quality of investments when companies decide how to run their 401(k)s. We recommend putting investing at the top of the list.

Selecting investments to offer in your 401(k) plan isn't easy. Three essential points to look at are: keeping fees low, choosing a financial services company or companies to run the plan, and deciding what specific funds to offer in the plan.

Keeping fees at a reasonable level

Your plan should give participants at least as good a deal as they can get investing on their own outside the plan. As an employer, you need to carefully consider all the fees charged to the plan.

For example, an investor — call him Joe — can buy essentially any mutual fund through an IRA with a mutual fund company and pay only the regular management fee charged by the mutual fund company. Joe can do research and find funds that cover different investment categories (large-cap stocks, short-term bonds, and so on) and are among the top performers. It doesn't matter if they're from different *fund families,* because Joe can invest with different fund companies or go to a fund supermarket such as Schwab's OneSource. In short, Joe has a lot of investment freedom in his IRA. Joe should be able to get at least as good a financial result through his 401(k) — a broad range of quality funds with total fees that are equal to or less than what he would pay investing in his own IRA.

JARGON ALERT

A *fund family* is the group of mutual funds offered by the same company, such as Fidelity, Janus, T. Rowe Price, and so on. If you invest only at Janus, for example, you'll be limited to funds in the Janus family. This choice may be fine with you, or you may prefer to own funds from other companies, as well.

Your 401(k) plan should make a wide range of funds available to participants so that they can properly diversify among the various classes of investments. Fees for these investments shouldn't be more than what the fund company would charge an investor outside a 401(k). The funds your 401(k) offers in all investment categories (asset classes) should have track records placing them in the top half among their peers.

401(k) products can be packaged in many different ways, making it difficult to evaluate the various alternatives. Financial institutions that are *plan providers* put together the packages. Consider using only plan providers that openly and willingly explain the fees that the employer and participants pay.

Some organizations' representatives may tell you that you don't pay any fees. Don't fall for this line. (You'd be surprised how many intelligent businesspeople actually fall for it!) There are substantial costs associated with running a 401(k), and companies don't provide these services for free. The question isn't *whether* a specific plan provider gets paid, but *how* and *how much* it gets paid.

Fees can be paid in two ways:

- Billed directly
- Deducted from assets in the plan

Direct-billed fees are easy to track, because the provider issues an invoice that must be paid. However, asset-based fees may be hidden, because they're paid as automatic deductions from the return investors receive on their mutual funds or other investments. The participant has a lower return, because these fees are taken out.

These fees are buried, so sales representatives can tell companies that they don't pay any fees. This statement is true in the sense that you don't write a check to the particular financial organization. Fund management fees must be disclosed in the prospectus for *retail mutual funds* (those available to all investors) but not for other types of investments that may be offered to 401(k) participants.

The provider may also deduct additional fees directly from the plan, and it isn't normally required to disclose them. Not surprisingly, higher-cost providers are usually reluctant to disclose their fees, while lower-cost providers are happy to disclose them.

If a provider won't fully disclose its fees to you, they're likely high. This type of provider is like a shop that doesn't display prices on the goods it sells. You should take your business elsewhere.

Most employers try to comply with the Department of Labor *Section 404(c) regulations,* which can provide some relief from fiduciary liability for participant-directed investments. These regulations require employers to provide participants with sufficient information to make informed investment decisions. It's obviously difficult to make informed investment decisions without knowing what fees are paid. As an employer, you should realize that if your employees aren't fully aware of the fees charged to them, it can result in failure to comply with Section 404(c).

Fees are expressed in *basis points*, with one basis point equal to .01 percent, and 100 basis points equal to 1 percent. Here's an example of how higher fees can affect participants' accounts. Say your plan has 100 participants and $2 million worth of assets. If it's run with fees of 75 *basis points* (0.75 percent) or less, including all investment and administrative services, the fees total $15,000 or less. (A *third-party administrator* can achieve this level of fees, as we explain in the "Administrative alternatives" section a little later in the chapter.) However, if a provider charges fees of 200 basis points (2 percent), annual costs will total $40,000 (2 percent of $2 million). The $25,000 difference goes to the plan provider rather than to the 401(k) participants' accounts (that's $250 less, on average, for each participant), and this shortfall will get bigger along with account balances each year.

IBM and Kodak run their plans with total investment and administrative costs of less than 15 basis points (0.15 percent). You can't match this result if your plan has only a few million dollars of assets, but you don't have to accept a 401(k) product that charges 200 or more basis points (2 percent or more) in fees, regardless of your plan's size.

Unfortunately, some employers are only concerned about the fees *the company* pays. These employers fail to realize that they must also effectively manage the fees that *participants* pay. A good financial deal for the company doesn't have to result in a bad deal for employees.

Selecting a plan provider

Looking for investments with low fees to include in your plan is only the beginning. In fact, the biggest challenge facing most employers today is finding a way to include the investments they want in their 401(k) plan.

The funds that are offered may all be *proprietary* funds of the financial organization. For example, a mutual fund company may offer only its own funds. However, this is less than ideal, because a single fund family won't have top performers across all investment categories. The plan would do better to offer top-performing funds from several companies.

On the other hand, the provider may offer *non-proprietary* funds (funds run by another financial institution). Typically, a provider selects only funds that are willing to pay a portion of their management fees to the provider, meaning that the management fees are likely high.

The rest of this section is for employers who want to run their plans by focusing on getting the investments they want rather than being limited to what financial organizations offer as *bundled* (packaged) 401(k) products.

Considering how many investment choices to include

The first step you should take in selecting a plan provider is to determine the number and type of investment choices you want your plan to offer. You should either hire a professional asset consultant or use other research tools to help you. The funds you choose should depend largely on the needs of your participants, including factors such as how many participants you have and their level of investment knowledge.

For example, if most of your participants aren't very interested in or knowledgeable about investments, you should probably offer fewer than ten funds so that they won't be overwhelmed. However, this limited menu won't satisfy the investment-savvy folks who are used to sorting through thousands of funds when they invest outside the plan. The easiest answer is to give the investment-savvy participants an unlimited fund menu by offering a mutual fund *brokerage window* (see Chapter 6).

Figuring out what types of funds to offer

In Chapter 6, we discuss the different asset classes in detail. Participants should have the opportunity to invest in large-cap, mid-cap, and small-cap stocks. They need a bond or stable value fund. A money market fund isn't a good long-term option, but it is a good place to park money during uncertain times. An international stock fund is another alternative many participants like. You should also provide a mix of managed and index stock funds, and value and growth funds.

It's important to give participants the opportunity to diversify their investments. By this we don't just mean that you should offer both stocks and bonds (or other fixed investments), although this is certainly true. We mean that you should offer different types of investments within the stock and bond categories.

After you decide what type of funds to offer, you're ready to consider the specific funds to use. You should use an *independent* investment consultant or research to help you through this process, because you can't always rely on the descriptions that come from the fund company.

A good way to find reliable independent consultants or other sources of information is by asking human resources officials at other companies for references. We can also suggest a couple of good independent sources of information:

- Morningstar (`www.morningstar.com`) can provide hands-on support to help you build the investment selections for your plan and to monitor performance, or you can use the company's material to help you do it on your own.
- The Institute of Management and Administration (`www.ioma.com`) publishes three items that can help you pick your funds and manage your plan:
    - *Report On Managing 401(k) Plans,* a 16-page monthly newsletter. $269 per year at the time of this writing.
    - *Managing 401(k) Plans Yearbook,* a comprehensive and authoritative 220-page annual book on the latest 401(k) plan strategies and approaches being used by sponsors. $229.
    - "Managing 401(k) Operations & Costs," an exclusive research study on the best ways to manage 401(k) plan costs. $119.

Opting for administrative alternatives

If you like the idea of picking investments for your plan, rather than just accepting what one company offers, you may wonder how to find someone to provide the record-keeping and other administrative support functions you need to run your plan.

Enlisting a third-party's help

Selecting a *third-party administrator* (TPA) to provide the non-investment services is one way to handle administration of the plan. TPAs are organizations that design and administer retirement plans, but don't actually manage funds.

TPAs specialize in this business, so they're usually good at it, but you still need to be as discerning as you would with any other supplier of a product or service. For example, a TPA may have strong ties to a major financial organization. In this case, it will probably encourage you to use 401(k) funds offered by this financial organization. You should make it clear early on that you want investment flexibility. If a particular TPA can't give you the investment flexibility you need, consider another one.

TIP

Third-party administrators that manage plans with limited investment restrictions, or no restrictions at all, must have a record-keeping system that supports the investment flexibility you're looking for. One specific way to find a TPA is by contacting a firm that sells record-keeping software and asking about TPAs in your area. Two possibilities are:

- **SunGard Corbel.** This company's Quantech record-keeping system is popular with TPAs. Call 1-800-326-7235, or go to `www.corbel.com`.
- **Cascade Technologies, Inc.** This company sells PC-based record-keeping software. Call 732-906-2020, or go to `www.cascadetechnologies.com`.

Handling the job internally

You may also handle the record-keeping function for your plan internally. Doing so will give you a lot of investment flexibility and tighter control of the plan. For example, you can acquire a license to use the Quantech system (mentioned in the previous section). At the time of this book's writing, the initial cost (including hardware) was approximately $10,000, and the annual fee for technical support, updates to the software to reflect changes in the law, and so on, was in the $3,000 to $4,000 range. You'll need a staff member with basic computer and accounting or math skills to maintain the participant accounts.

You'll need to factor in the cost of this staff member if you use an internal record-keeping system. However, keep in mind that significant staff time is also required when you use an outside firm. As a result, the additional time required to operate the plan internally is likely to be much less than you expect. You can also use plan assets to pay the expense related to running the plan internally.

An additional advantage of running the plan internally is that you eliminate the costly and time-consuming process of looking for a new provider every three years or so.

Complying with the rules and regulations

The tough part in running your 401(k) is complying with all the laws and regulations, including the *nondiscrimination testing* (see Chapter 3). Most TPAs have retirement consultants who can help with the tougher compliance issues. If you don't use a TPA, you'll need outside technical support from a professional who specializes in this area of the law. You can retain a local retirement plan consultant to help you. Or, you can use the Technical Answer Group (TAG), an online firm that provides answers to retirement professionals and employers who administer 401(k)s and other retirement plans. You can reach them at `www.tagdata.com` or 770-565-8445.

Looking at the Packaging of 401(k) Plans

Some providers offer to run 401(k)s without charging employers any fees. Not surprisingly, these providers win most of the business. You may wonder how they can survive without charging you a fee. The answer is that your plan does pay fees, indirectly. In this section, we help you understand the most common ways 401(k) products are packaged.

Major mutual fund companies such as Fidelity, Putnam, T. Rowe Price, and Vanguard control a large segment of the 401(k) business. These fund companies offer full-service (*bundled*) 401(k) products that provide everything you need. If your plan is large enough and has high average account balances, Fidelity, Putnam, and T. Rowe Price will run the plan without charging any fees other than the normal fund management fees. (Fund management fees are deducted by the fund company, reducing participants' returns.) Vanguard actually *reduces* its fund management fees for larger investors. As a result, it may charge fees for non-investment 401(k) services such as record keeping and compliance testing. (All fee information was correct at the time of writing, but it may, of course, change.)

For example, the funds you select with Fidelity, Putnam, and T. Rowe Price may charge investment fees averaging around 90 basis points (0.90 percent). If your plan has $30 million of assets, the fees will be $270,000 per year. The fund mix you select with Vanguard may average 30 basis points (0.30 percent), or only $90,000. This is why Vanguard may have to charge additional fees for non-investment services.

The fees for non-investment services can be paid from plan assets — in other words, they can be paid from participants' accounts rather than by the employer. Assume that Vanguard charges $15,000 in addition to its $90,000 in investment management fees. That's a total of $105,000. If this money is deducted from plan assets, the total cost to the participant rises to 35 basis points (0.35 percent) — still much lower than what the other three fund companies charge. The point here is that you don't have to select higher-priced funds for your participants in order to give yourself (the employer) a break from paying fees. If you select funds with lower investment management fees, any additional administrative fees may be paid by the plan rather than the employer. This can substantially reduce the cost to participants without changing the employer's cost. This is an example of a win-win strategy for both participants and employers.

Of course, fees aren't the only reason for selecting a particular investment. The ultimate goal is to get the best investment return for your participants, which means that you must consider the actual net return after expenses.

The previous example is just that — an example. The situation for your particular company may be different. Be sure to do thorough research before selecting the firm or firms to provide 401(k) services for your company.

Most of you run plans that are a lot smaller than $30 million. Your plan may be so small that none of the fund companies we mention earlier in this section want to handle it. For example, assume that your plan is in the $1 million to $5 million range. The people calling you get paid for selling 401(k) plans. They usually represent a group of providers offering a product that carries additional *asset-based fees* (fees charged as a percentage of the assets in the plan) to cover the compensation paid to the broker, and other costs of the provider. These additional charges are usually around 100 to 150 basis points (1 to 1.5 percent). When these fees are added on top of the fund management fees, the total fees are typically in the range of 200 to 250 basis points (2 to 2.5 percent).

If your plan has $5 million of assets, 200 basis points is $100,000 per year — a substantial sum. These fees come directly from plan participants. It's amazing that business-savvy senior executives, who are paying the largest share of these high fees, are willing to accept this result.

TIP

One alternative for avoiding these high fees is to hire a third-party administrator (TPA) to run your plan. (See the section, "Enlisting a third-party's help," earlier in this chapter for more info.) Typically, a TPA will charge about $15,000 annually for all non-investment services for a plan with $5 million of assets and 200 participants. Say your current provider is charging 200 basis points (2 percent), or $100,000, in fees for the bundled plan. Further assume that the investment management fees total $50,000 (100 basis points), and the provider charges an additional $50,000 (100 basis points) for non-investment services. You can replace the provider with a TPA that lets you keep the same funds in your plan and lower the total cost of the plan from $100,000 to $65,000 ($50,000 plus $15,000). The additional $35,000 would go directly to your participants.

You may be able to find other ways to lower the plan's costs even further, such as working with the TPA to select lower-cost and better-quality funds.

By the way, although most plans let employees choose how to invest their contributions, some plans don't. Ted knows of a $40 million plan that doesn't let the employees choose how to invest their contributions. This doesn't mean that the CEO and Chief Financial Officer are picking the stocks that the plan invests in. (This is to be discouraged!) The employer hired a name-brand mutual fund company to manage a portfolio of individual stocks. The investment management fees are approximately one-fourth of what this company charges for its mutual funds with comparable investments. A bank handles all the record keeping and administration. The total cost for running this plan is approximately 40 basis points.

A 401(k) Is a Terrible Thing to Waste: Educating Employees

If you run your plan on your own, an area where you'll need help is investment education for your employees. One of the many *Section 404(c)* requirements is to provide adequate information for employees to make informed investment decisions. The TPA that you select may be able to run investment education meetings, but many don't offer them. If yours doesn't, you'll have to look elsewhere.

TIP

Two organizations that provide education on investment and financial matters are The EDSA Group and Successful Money Management Seminars:

- The EDSA Group (which stands for Educational Solutions and Awareness) offers a workshop to help employees maximize the benefits of their 401(k)s, as well as other programs dealing with more general money management issues and retirement planning. The cost typically ranges between $30 and $70 per employee. The EDSA Group Web site is `www.theedsagroup.com`, and its phone number is 1-800-942-2777.
- Successful Money Management Seminars (SMMS, Inc.) licenses generic financial education courses to financial professionals. These professionals offer the SMMS courses throughout the United States and Canada. You can find out about courses available in your area at `www.smms.com`.

Getting Up Close and Personal — Why You Shouldn't

The most common mistake employers make is to let a personal relationship, rather than economics, influence the selection of a 401(k) plan provider. We have both heard stories from participants about bad plans that were run by a friend, nephew, uncle, and so on of the boss. Participants are often afraid to complain because they can lose their jobs.

Smaller employers often rely on personal relationships when selecting a provider. A personal friend who is a broker, financial advisor or 401(k) consultant can add value to the selection process and to your participants, but you need to know what you're buying and have solid reasons for your decision. All costs should be revealed so you and your participants can evaluate costs versus the services the friend provides. Unfortunately, higher-cost 401(k) products are usually sold through personal relationships. Blindly buying a 401(k) product from a friend without comparing it to others isn't a good way to handle the ERISA fiduciary requirement of picking investments that are solely in the best interest of your participants. Thoroughly checking the quality of the investments and all direct and indirect costs is in the best interest of all parties involved — including you.