

A Q&A ON OFFERING A 401(k) PLAN

BY TRANSAMERICA RETIREMENT SOLUTIONS

For hard-working Americans whose companies do not offer a retirement plan, retirement income will likely come from sources such as Social Security, which typically only covers about 37% of an average retiree's income, and personal savings and investments.¹

According to the Thirteenth Annual Transamerica Retirement Survey,² only 81% of small business employers, with 10-499 employees, reported that they provide a 401(k) or other retirement savings plan for their employees, compared to 92% of large employers, with greater than 500 employees. There are many reasons for the disparity: a lack of financial or administrative resources, a sense that the company is too small to offer a plan, company management is not interested, concerns about cost, concerns about fiduciary liability, and administrative complexity.

Many small-business owners may be intimidated by the prospect of offering a retirement plan and might have questions. The following question and answer section may help put business owners at ease by offering them a clearer view of the benefits of offering a 401(k) retirement plan; in particular, the advantages of sponsoring a retirement plan under a Multiple Employer Plan are addressed.

Q. Is offering a retirement plan expensive?

A. With today's Multiple Employer Plans (MEPs), small businesses may receive the economies of scale that have generally been reserved for large businesses. A Multiple Employer Plan, also referred to as an MEP, is a retirement plan for businesses that typically have a common interest, but that

www.TA-Retirement.com



are not commonly owned or affiliated. These businesses are referred to as **"Adopting Employers"** when they elect to join the MEP. These plans can be defined contribution (DC) or defined benefit (DB) plans.

The chief advantages of sponsoring a retirement plan under an MEP are the savings in administrative costs and burdens. The MEP Sponsor is responsible for the administration, and the Adopting Employer does not need to be bothered with it. An MEP files a single 5500, so the costs of preparing that 5500, as well as other plan related costs, such as legally required amendments, can be spread over all the Adopting Employers. This may result in major savings to the MEP Sponsor and all Adopting Employers compared to the costs of maintaining a standalone plan.

Q. What are the tax benefits of offering a 401(k) retirement plan?

A. Employer contributions are typically deductible on the Adopting Employer's federal income tax return to the extent that the contributions do not exceed the limitations described in the Internal Revenue Code (IRC). In addition, contributions have to be made in accordance with the terms of the plan and must meet other IRS requirements. Refer to the Retirement Plans for Small Business Publication 560 at www.irs.gov/pub/irs-pdf/p560.pdf for more information about deduction limitations.

Q. How important is a 401(k) retirement plan to my employees?

A. Employees find retirement plans extremely valuable, and to drive this point home, here are a few statistics. According to the results from the Thirteenth Annual Transamerica Retirement Survey:²

- **62%** of employees whose employer doesn't offer a retirement plan said they would likely leave their current job for a company that offered one.
- **58%** of employees said they'd prefer a job with excellent retirement benefits over a higher salary.
- **90%** of employees said it is important that a company offer a 401(k) plan or other employee self-funded plan.

Q. I have a small business, how can I possibly handle the administration and paperwork involved with offering a 401(k) retirement plan?

A. By participating in a Multiple Employer 401(k) Plan with a quality provider, virtually all retirement plan administrative tasks can be offloaded to the MEP Sponsor. Tasks that can be shifted may include: distribution processing, due diligence duties, plan compliance, nondiscrimination testing, annual reporting, participant education and enrollment, and participant assistance.

Erik Barker, ebarker@namic.org
Account Manager -
Membership & Insurance Services
National Association of Mutual
Insurance Companies (NAMIC)

3601 Vincennes Road,
Indianapolis, IN 46268

Phone: (317) 876-4264
Fax: (317) 415-0186

Visit NAMIC Online at www.namic.org
Or send an email to
specialmarkets@transamerica.com

Transamerica Retirement Solutions and its representatives cannot give ERISA, tax, or legal advice. This material is provided for informational purposes only based on our understanding of material provided and should not be construed as ERISA, tax, or legal advice. Clients and other interested parties must consult and rely solely upon their own independent advisors regarding their particular situation and the concepts presented here. Although care has been taken in preparing this material and presenting it accurately, Transamerica Retirement Solutions disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it.

Transamerica or Transamerica Retirement Solutions refers to Transamerica Retirement Solutions Corporation.

1. Social Security Administration, Fact Sheet Social Security: 2008 Social Security Changes.

2. The 13th Annual Transamerica Retirement Survey was conducted online within the United States by Harris Interactive® on behalf of Transamerica Center for Retirement Studies® between January 13 -31st, 2012 among 3,609 full-time and part-time workers. Potential respondents were targeted based on job title and full-time and part-time status. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted as needed for the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

About Harris Interactive: Harris Interactive is one of the world's leading custom market research firms, leveraging research, technology, and business acumen to transform relevant insight into actionable foresight. Known widely for the Harris Poll and for pioneering innovative research methodologies, Harris offers expertise in a wide range of industries including healthcare, technology, public affairs, energy, telecommunications, financial services, insurance, media, retail, restaurant, and consumer package goods. Serving clients in over 215 countries and territories through our North American, European, and Asian offices and a network of independent market research firms, Harris specializes in delivering research solutions that help us—and our clients—stay ahead of what's next. For more information, please visit www.harrisinteractive.com.

The Transamerica Center for Retirement Studies® ("The Center") is a non-profit corporation and private foundation. The Center is funded by contributions from Transamerica Life Insurance Company and its affiliates or other unaffiliated third-parties. The Center is not affiliated with Harris Interactive. For more information about The Center, please refer to www.transamericacenter.org.

