



Your 401(k) Guide

How to choose the right plan
for your business



A 401(k) is no longer a benefit reserved exclusively for large businesses with budgets to match. Now, smaller businesses and their employees can reap the rewards of having this valuable investment vehicle in place, without the big price tag to go along with it.

We know that 401(k) may not be your particular area of expertise, so we've put together this 401(k) guide to summarize some of the most important and relevant information for you.

What you won't find in here is a lot of confusing language and financial jargon. Just some plain talk and good old-fashioned advice to consider when shopping around for a 401(k) provider.

Here's what we'll cover:

- ▶ The 401(k) basics
- ▶ Why you should consider a 401(k)
- ▶ How 401(k) compares to other retirement plans
- ▶ Most common 401(k) myths
- ▶ What to look for in a plan



Not too familiar with 401(k) plans?

No problem – we'll give you the lowdown.

What it is

A 401(k) plan is a type of company retirement plan under Section 401(k) of the Internal Revenue Code. That part isn't so important — here's what is: A 401(k) allows you to save for retirement by putting away money on a pre-tax basis, which helps you to lower your taxable income. What's that mean to you? It means you'll get less of a tax bite on your annual salary in the short term, while your long-term investments grow tax-free until you're ready to retire. Some 401(k) plan providers also offer an after-tax (Roth) option, which means you won't be taxed at the time you withdraw that money because you've already paid taxes on it.

Eligibility rules

Eligibility requirements can vary from plan to plan and will be designated in your plan documents. Your plan documents define all the rules and optional features for the plan, such as eligibility requirements, ability to borrow from your account, etc. Typically, an individual must be 21 years of age or older to be eligible to participate in a 401(k) plan.



Employee contributions

Contributions (also called “deferrals”) refer to the money put into a 401(k) plan. You can have up to \$18,000* deducted from your paycheck and contributed to the plan in 2015. If you are age 50 or older, you can contribute an extra \$6,000, for a total of \$24,000.

Employer contributions

Contrary to popular belief, a 401(k) plan does not require an employer match – but it is an option. An employer match means an employer contributes to the plan on an employee’s behalf. This employer 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 tax-deferred and tax-deductible.

Total contribution limit per individual

The maximum contributions allowed per individual (including employee and employer contributions) is \$53,000 (or \$59,000 if age 50 or older). This means if you put away the full \$18,000 in individual contributions, the maximum amount that can be contributed on your behalf in the form of employer contributions is \$35,000.



x \$18,000

+



x \$35,000

=



MAX. AMOUNT YOU CAN PUT AWAY IN 2015
(PLUS \$6,000 MORE IF AGE 50 OR OLDER)

MAX. AMOUNT EMPLOYER CAN CONTRIBUTE IN 2015
(EMPLOYER CONTRIBUTIONS ARE OPTIONAL)

TOTAL OF \$53,000 IN 2015 = BIG BUCKS!
(OR UP TO \$59,000 IF AGE 50 OR OLDER)

\$53,000



The most popular reason for having a 401(k) plan is the tremendous savings potential for you, your employees and your business. This comes in the form of not only long-term tax-deferred retirement savings, but also in short-term tax benefits for the individual and the company.

Benefits for the company

Small Business Tax Credit

According to IRS rules, if this is your company's first 401(k) plan, your business may qualify for a tax credit of up to \$500 per year for the first three years of the plan. That will cut the cost of some plans by half.¹

Tax-deductible employer contributions

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

¹ Credit equals 50% of the cost to set up and administer the plan and educate employees about the plan, up to a maximum of \$500 per year for each of the first 3 years of the plan. Read more about this credit on the IRS Web site. Please consult a tax professional if you are interested in taking advantage of this credit.

Benefits for the individual

Maximum retirement plan contributions

With a 401(k), individuals may contribute the most of any retirement plan, up to \$18,000 (or \$24,000 if you are age 50 or older). If your company offers a profit-sharing or employer match feature, an additional \$35,000 may be contributed on behalf of the individual, bringing the total investment for the year up to \$53,000. That's \$53,000 that will continue to grow tax-deferred over time!

Lower taxable income

If you personally contribute the maximum amount to the plan this year, you may be eligible to save up to \$5,000 in federal personal income taxes.

Tax-deferred savings

When you contribute to a traditional 401(k) plan, that money is invested before it is taxed. That means you will not pay taxes on it until you retire and need to start withdrawing it from the account. The benefit of this is you will likely have a lower tax rate at retirement because you'll have a lower overall income than you have while working (depending on your rate of income and how tax rates may change in the future).

Saver's Credit

The government offers a tax credit up to \$1,000 (or \$2,000, if filing jointly) for low- to moderate-income workers who contribute to a qualified employer-sponsored retirement plan. You can read more about this on the IRS Web site.

How 401(k) compares to other retirement plans



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With so many different types of retirement plans, it can be difficult to know which one is right for you and your employees.

The table below is an introduction to the most common types of plan options for smaller businesses and how they differ. Keep in mind, however, that no two businesses are exactly alike and your needs will be unique, so it's always best to discuss your options with a specialist. Contact us at sales@MyUbiquity.com if you would like more information.

Features	401(k)	SIMPLE 401(k)	SEP IRA
Who can contribute?	Employer (optional) and employee	Employer and employee	Employer only (employees are not permitted to make individual contributions)
How much can employees contribute (if applicable)?¹	\$18,000 (with a \$6,000 catch-up contribution for participants who are age 50 or older)	\$12,500 (with a \$3,000 catch-up contribution for participants who are age 50 or older)	Not applicable
Is employer match/contribution required?	No, profit-sharing and/or Safe Harbor features are optional	Yes (only applies if employees contribute; up to first 3% of employee's compensation OR a 2% non-elective profit-sharing contribution)	Yes, all owner/employees must receive the same % of pay as employer contribution
What is the max annual contribution per individual (employer + employee contributions)²	\$53,000 (or 25% of eligible compensation)	\$12,500 (+ 3% of compensation)	\$53,000 (or 25% of eligible compensation, whichever is less)

¹ Contribution limits for 2015. Limits are adjusted each year for inflation. Employee contributions may not exceed 100% of compensation.

² Several formulas exist; this is one example of how to compute employer contribution. This chart is not considered a comprehensive review of each plan type. It is intended to be general in nature, and is not intended to provide legal, tax or investment advice.



The 401(k) is one of the most commonly misunderstood plan options available to small businesses.

Here we've addressed some of the myths you're likely to run across when researching this option.

Myth #1:

401(k) plans are too expensive for small businesses.

It's true that many 401(k) plans are designed to only suit larger businesses. But the growing trend is to offer efficient, Web-based 401(k) plans that are more affordable to businesses of all shapes and sizes. Plans can start as low as \$105 per month, and employers have options for splitting costs with their employees, much like group health insurance plans.

Myth #2:

401(k) plans require an employer match.

An employer match or profit-sharing contribution is entirely optional with a 401(k). If you choose to offer this feature to your employees, it could help to boost participation. Keep in mind that employer contributions are also tax-deductible for your business.

Myth #3:

Our employees won't participate because they don't make enough money.

There is no minimum contribution required with a 401(k). Offering an employer match can provide additional incentive for your employees to participate in the plan.

Myth #4:

It's too complicated.

Starting a 401(k) plan doesn't have to be complicated. With the right plan, you can get a new plan running in just a few hours of your time. And it's easy to manage, with tools and reports available right at your fingertips.



When you're in the process of shopping for a 401(k), here are the four key features you should look for and the questions you should ask to be sure your plan has them.

Features	Question to ask	Why does it matter?	Answer you want
Affordable pricing	Do you charge a flat fee? What are the asset fees you charge (if any)?	Most 401(k) providers charge asset fees on account balances. This means they are making money off of the size of the plan – as your account balance grows, so do the fees. Because these fees are shaved right off the top of your 401(k) account balance and are never included in a bill, you may not be aware of how much you're losing. Providers that depend on asset fees for revenue may also require that your plan quickly reach a high level of assets or else you'll be charged a penalty.	A flat fee that you understand, 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	How easy is it to set up the plan? How much time will it take to manage it?	Setting up and managing your 401(k) plan should be quick and easy.	Setup should not take more than two hours of your time. Ongoing management should not take more than one hour per month.
Choice of investments	What investments do you offer?	Many providers offer only one brand of fund or a very limited range for small businesses, which means you and your employees will not have the flexibility of investment options that you deserve.	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	How do I get help?	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.

Ready to chat?

If you still have some questions about 401(k) in general, or about your 401(k) options in particular, we have 401(k) specialists who are ready and waiting to talk with you.

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