MINING FOR GOLD IN THE MICRO 401(k) MARKET

A Guide for Financial Advisors to Build Their Business Using an Efficient Platform

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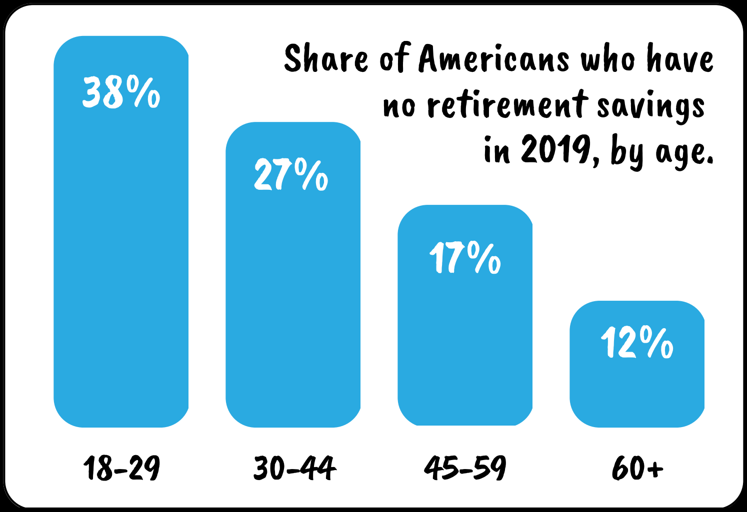
INTRODUCTION.

Doomsayers proclaim the U.S. retirement system is broken, that there are too many retirees, without access to a corporate retirement plan, who lack funds to supply their basic needs.

Unfortunately, that's true.[1] 401(k) plans, by far the most popular choice for people wanting to save for retirement, only had a 32% participation rate in 2017 according to data from the U.S. Census Bureau;[1] additionally, in 2020 only 55% of Americans had access to any kind of retirement plan.[2]

That leaves a lot of workers in danger of becoming part of the 20% age 65 and older for whom Social Security is their only source of income.[3] And that's another problem because Social Security is predicted to be unable to pay full benefits beginning in 2036.[4]



Workers also hope to have two other means of retirement income – company-sponsored defined benefit pension plans and personal savings – the other two legs on the traditional three-legged stool of retirement income.

Unfortunately, these also tend to fall short or be non-existent.

[1] Referenced in Backman, Maurie. "Does the Average American Have a 401(k)?" The Motley Fool. April 2017. Retrieved from https://www.fool.com/retirement/2017/06/19/does-the-average-american-have-a-401k.aspx.
[2] U.S. Department of Labor as reported by Horan, Stephanie. "The Prevalence of Employer-Sponsored Retirement Plans in the U.S. – 2021 Study." Yahoo Finance. June 17, 2021. Retrieved from https://www.yahoo.com/now/prevalence-employer-sponsored-retirement-plans-110012008.html.
[3] National Academy of Social Insurance. "The Role of Benefits in Income and Poverty." National Academy of Social Insurance. Retrieved from https://www.nasi.org/learn/social-security/the-role-of-benefits-in-income-and-poverty-2/.
[4] Goss, Stephen C. "The Future Financial Status of the Social Security Program." Social Security, Office of Retirement and Disability Policy. Social Security Bulletin, Vol. 70, No. 3, 2010.

Enter the 401(k) plan.

401(k) plans were meant to supplement defined benefit plans. But defined benefit plans have become increasingly rare and the 401(k) plan has had to take its place in supplying the basic retirement income for American workers.

Large companies are the most likely to sponsor a 4o1(k) plan. The smaller the company, the less likely its employees have access to a 401(k). Small-to-medium business owners with fewer than 100 employees, those in the micro market, often think they're too expensive.

That's changing.

The micro 401(k) market doesn't evoke thoughts of gold, yet the gold's there. It's just waiting for advisors to discover it and help owners of small businesses benefit from its riches. New tools are needed, however, to make the effort to go after it worthwhile.

Technology drives many of the new tools, of which automation is key. Fintech administrators use their advanced technology picks and axes to automate many 401(k) functions which are essential to find and smelt the ore that lowers the costs for small business 401(k) plans. They're discovering there's gold in the small business market and are looking for ways to develop low-cost 401(k) solutions for it.

This report looks at 401(k) plans for small businesses, the opportunities and challenges this market presents for advisors and fintech providers, and how to discover the gold in that market.

Not enough advisors truly understand how to generate strong results from their prospecting.

You have likely done some research into the market. You may have considered traditional tools for panning for gold and mining it, but these are not without their challenges. They're often designed for a broad, "one size fits all" approach.

Instead, you're using advanced, automated tools to mine the micro 401(k) goldfield. To do this you'll need to:

Become energized

about the potential of the small business market and its impact on your business' growth

Appreciate

the small business owner's need for an affordable and administratively simple 401(k) plan.

Understand

the products fintech 401(k) providers offer and how their automated solutions can best help you serve your clients.

The retirement industry has traditionally ignored small-to-medium-sized businesses. Fintech automation creates new opportunities to earn money with small company 401(k) plans. After all, 401(k) plans are expected to grow exponentially in the next few years.

This presents enormous opportunities for you. Seek and find a strong 401(k) fintech partner and together mine that untapped gold.

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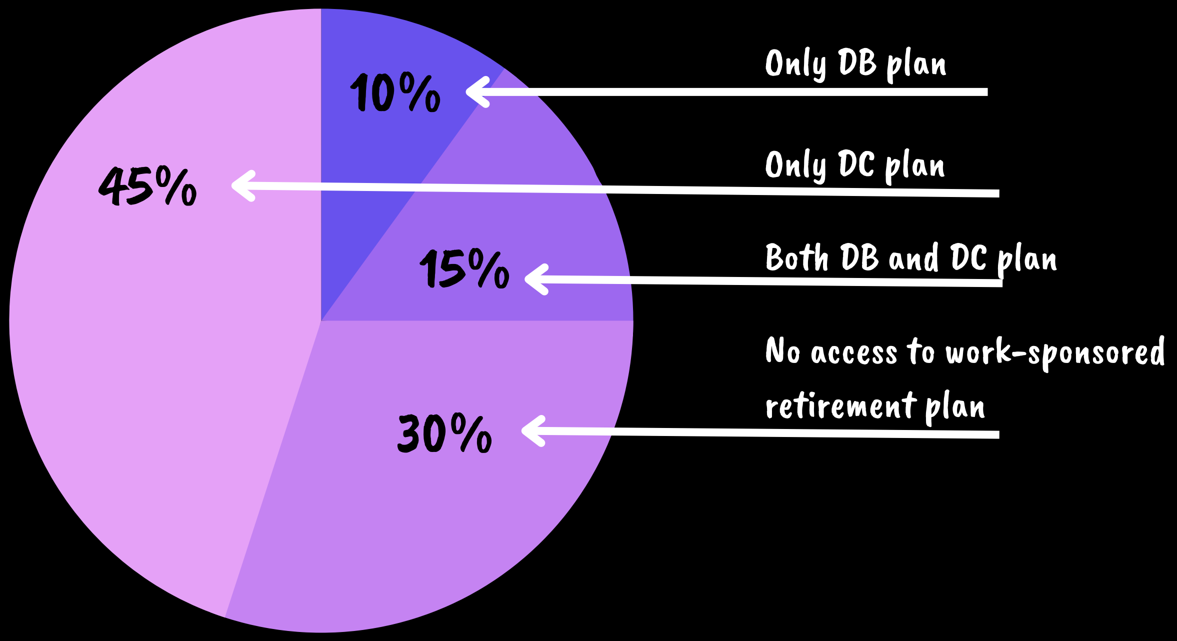
CHALLENGES TO MINING FOR GOLD.

“The U.S. retirement system is broken,” proclaimed Bruce Shutan, writing in Employee Benefit News in 2o19.[5] Too many retirees, without access to a corporate retirement plan, lack funds to supply their basic needs. But it doesn’t have to stay that way.

Lack of access

The Bureau of Labor Statistics’ 2020 National Compensation Report seems to support this viewpoint, saying that in 2020 only 45% of workers had access to a 401(k)-type defined contribution plan and only 55% had access to any plan at all.



[5] Shutan, Bruce. “Helping clients build a better 401(k).” Employee Benefit News. March 28, 2019. Retrieved from https://www.benefitnews.com/advisers/news/helping-employers-build-a-better-401k-retirement-plan.

That low a percentage of access to 401(k) plans, by far the most popular choice for people wanting to save for retirement, needs to be a lot higher if participation rates are to help workers achieve a more financially secure retirement. As a result, fewer than one in four U.S. workers (24%) are "very" confident they'll be able to retire comfortably, according to A Compendium of Findings About the Retirement Outlook of U.S. Workers, a 2021 study by nonprofit Transamerica Center for Retirement Studies in collaboration with Transamerica Institute.[6]

There's no gold in the 401(k) plan hills for these employers.

Why?

The smaller the company, the less likely its employees have access to a 401(k) because small-to-medium business owners often think they're too complex and expensive. Only about half of small and midsize businesses offer a retirement plan of any kind.

Benefits Offered by Small and Mid-Sized Businesses

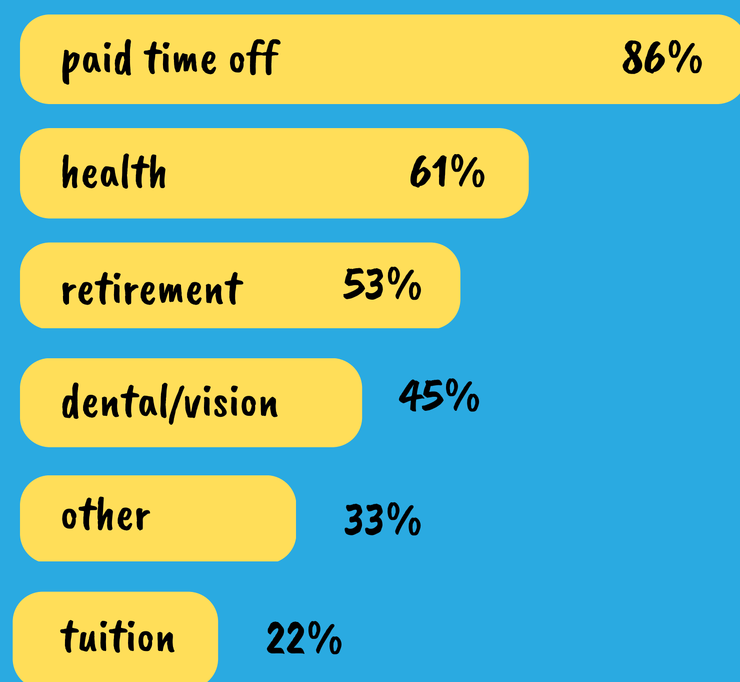


Figure 2 [7]

[6] Transamerica Center for Retirement Studies. "Recognizing and Addressing Risks and Realities Negatively Impacting Retirement Security." Transamerica Center for Retirement Studies. Press Release. November 30, 2021. Retrieved from https://www.transamericacenter.org/retirement-research/21st-annual-retirement-survey.
[7] The Pew Charitable Trusts. "Employer Barriers to and Motivations for Offering Retirement Benefits: Insights from Pew's national survey of small businesses." The Pew Charitable Trusts. June 21, 2017. Retrieved from https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits.

“Almost half of workers in the U.S. don’t have access to an employer-provided retirement plan,”

said Chad Parks, CEO and founder of Ubiquity Retirement + Savings, as referenced in Shutan’s article, a phenomenon largely confined to businesses with 100 or fewer employees.[8]

[8] Shutan, Bruce.

Reasons

Many employees of small businesses want a retirement plan, however, and believe their employer has some degree of responsibility to help them save for retirement.[9]

Yet small employers say they experience the following challenges when even thinking about adopting a 401(k) plan, including not realizing their employees really are interested in a plan.

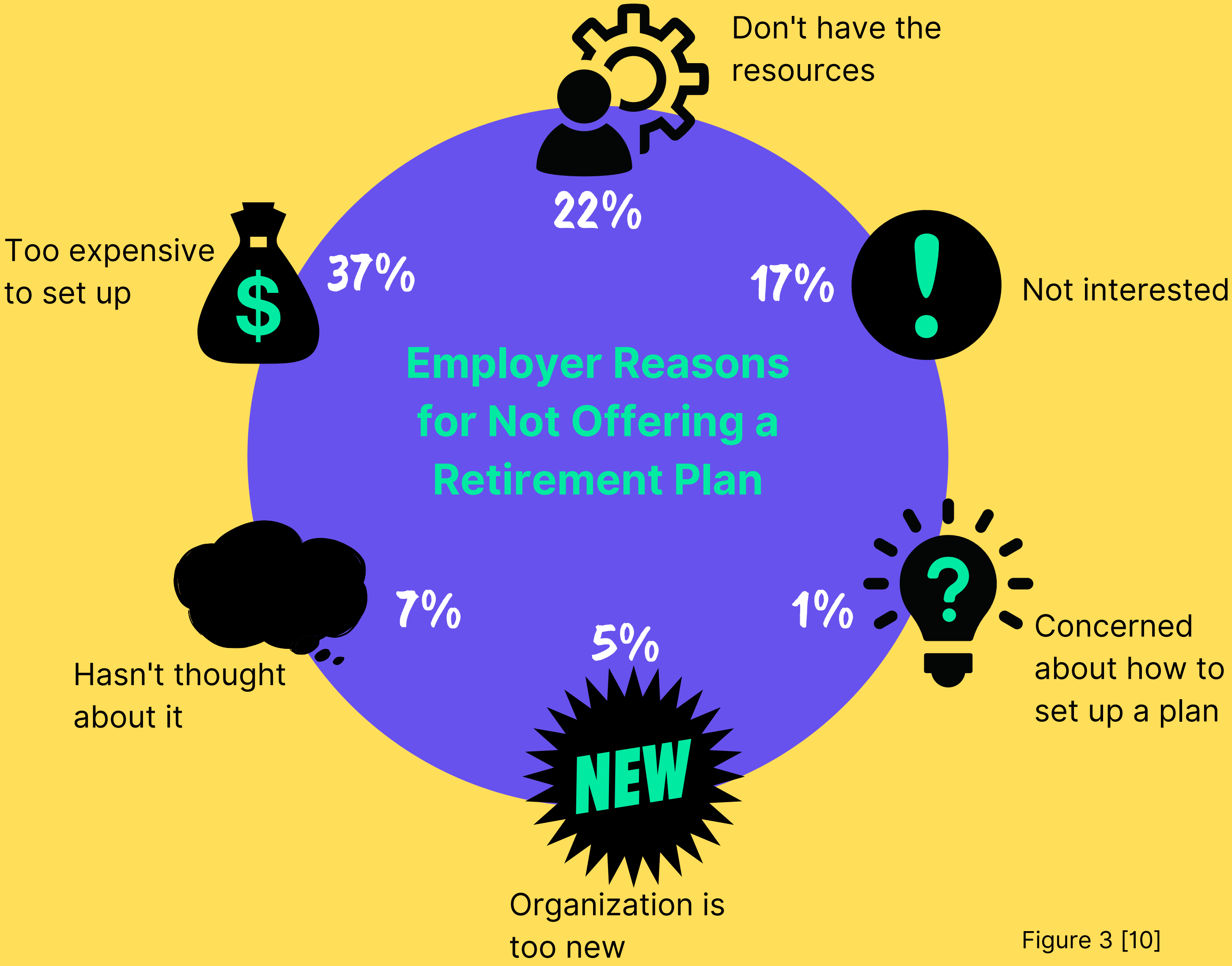


Figure 3 [10]

[9] Jacobson, Meghan and Nobile, Alexandra. "Three reasons why small businesses are increasingly offering 401(k) plans." J.P. Morgan. December 3, 2020. Retrieved from https://am.jpmorgan.com/us/en/asset-management/adv/insights/retirement-insights/defined-contribution/401k-small-businesses-survey/.
[10]The Pew Charitable Trusts. "Employer Barriers."

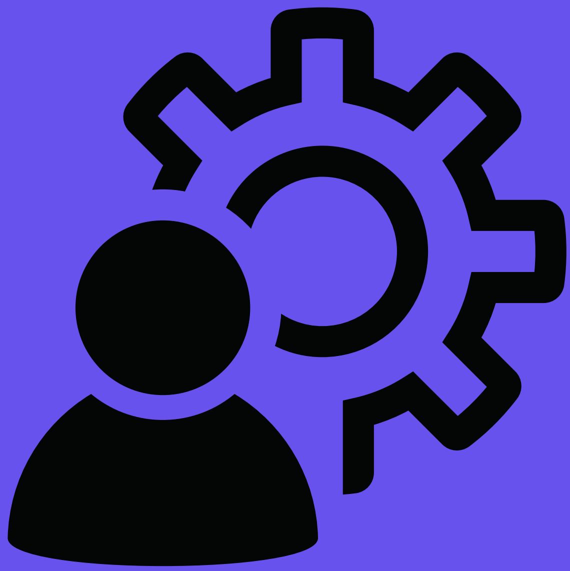
Small business owners cite setup fees and lack of administrative resources–in-house staff–as the two main reasons for not offering a 401(k) plan.

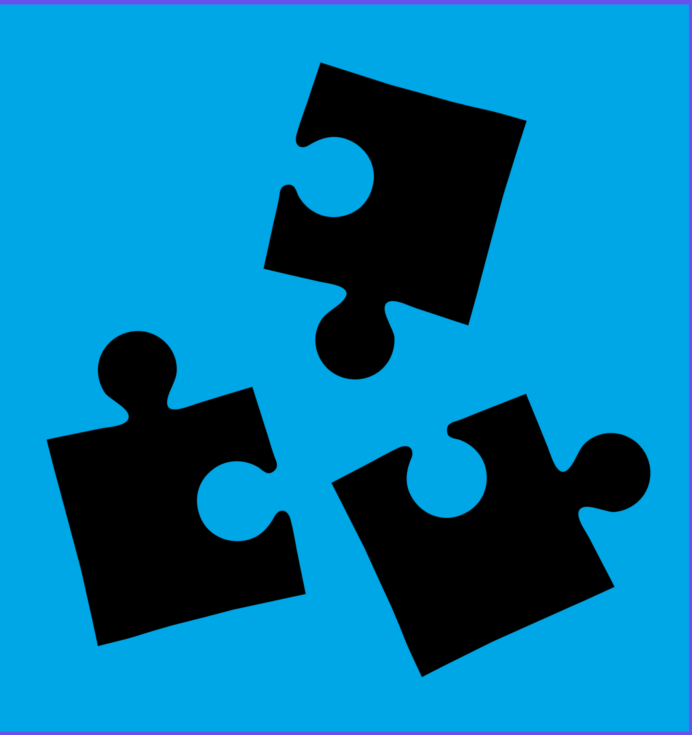
Cost

Cost is a huge issue for small plan sponsors. 401(k) plans can be expensive, with the plan sponsor bearing most of the cost, including fees for setup, administration, and recordkeeping/TPA services. It also doesn't help that plan fees vary widely depending on the provider and aren't always spelled out clearly. Large plans often receive price breaks based on the number of participants in the plan. Small plans don't receive these breaks and so end up paying full price.

Lack of in-house staff

Large companies have the staff in their Human Resources or Benefits Departments to administer, or at least help in, administering, the company's 401(k) plan. They coordinate payroll feeds, track employee deferrals and investment changes, approve loans and hardship withdrawals and termination distributions, and educate employees about the plan. If a recordkeeper or TPA is hired, they coordinate administration with those providers. Small businesses don't have the staff to perform these functions or the funds to hire outside providers.



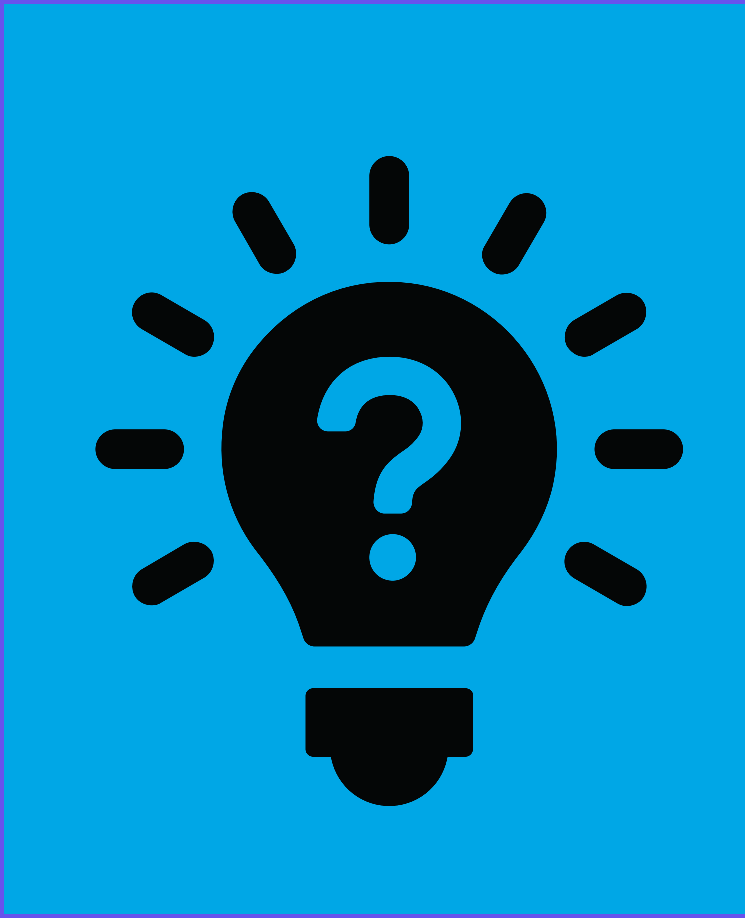


Administrative complexity

The paperwork required to set up a plan and then run it can be almost overwhelming, though more providers are using online technology to ease that workload. Complexity especially comes with the annual non-discrimination testing and IRS-mandated forms. Payroll processing, reconciliation of census data and contributions, and loan and distribution processing add to the administrative burden.

Lack of familiarity with 401(k) plans

The responses “lack of familiarity,” “haven’t thought about it,” and “company is too new” present different challenges. It’s hard to adopt something and then try to sell it to employees when the employer isn’t sure what it is. Many small companies often don’t have someone like a CFO who could educate employees about their 401(k) plan, though perhaps the owner or accountant could fill that role. But they could get a financial advisor who is well suited to help employees understand the 401(k) plan and how the plan can help supply greater retirement savings and security.



Advisors can help.

Advisors are important in introducing small business owners to 401(k) plans, then helping with plan design and selecting qualified providers. They also often act as an investment manager in selecting and monitoring the plan's investments and even serve as a 3(21) or 3(38) fiduciary to the plan.

Most advisors in the 401(k) world who receive their compensation in asset-based fees generally ignore small businesses because the asset balances in their plans don't generate enough revenue for them, noted Park in Shutan's article.[11]

Advisors can be paid in one of three main ways, including asset-based fees:

1. Commission-based advisors are paid through the investments they sell, i.e., they charge asset-based fees
2. Fee-only advisors charge an annual, hourly, or flat fee for a bundle of services
3. Fee-based advisors earn a combination of a fee plus a percentage of assets

Small 401(k) plans won't have a huge asset base that generates a lot of revenue in the beginning, though the amount does grow over time. So, a flat fee or sliding fee that's a combination of fees plus a percentage of assets might work better both for you and for the participants. You can earn a reliable source of income from any, or a combination, of these pricing models. And once you earn a person's trust, they'll stay with you for a long time, maybe even after they retire, and their assets will grow over that time as well.

[11] Shutan, Bruce.

Additionally, not all advisors are familiar with plan designs that fit small employers, so knowing the available plan options will give you an advance start on the road to the goldmine.

This is especially true for small employers. Many don't have Human Resources or Benefits professionals on staff to provide input about retirement plans. Many also don't know about the incentives provided by the SECURE Act for small businesses to offset start-up costs with Uncle Sam's help – up to $5,000 per year for three years to pay for start-up costs – so they think a 40(k) plan would be too expensive for them.

Advisor prospector guides can help answer employer questions and guide them to the right mining solutions for them.

Advisors:

Educate and inform small businesses about

- How 401(k) plans work
- Why they should adopt a 401(k) plan
- The complexities of a 401(k) plan

Consult with plan sponsors on the best design features of a 401(k) plan so they can maximize their tax savings and so can their employees.

Help in developing an investment policy statement specifying the sponsor's investment objectives and goals and the strategies for meeting those goals.

Add value to the sponsor by helping educate participants about the plan to:

- Improve employee outcomes
- Improve employee satisfaction

Supply financial advice and guidance to participants

Small business owners and plan sponsors value an advisor who can be their gold-mining partner.

TRADITIONAL APPROACHES TO PANNING FOR GOLD.

The traditional solution to retirement security is what has for a long time been called the three-legged stool.

The three-legged stool

The three-legged stool is a metaphor used for the trio of traditional sources of retirement income: Social Security, employer-provided pensions, and personal savings.

Unfortunately, all three legs have become rickety and no longer dependable.

Leg of the stool	How it works	How it's rickety	Comments
SOCIAL SECURITY	Retirement program run by government; provides guaranteed fixed benefit with cost-of-living increases; benefits paid to seniors, disabled people, and young survivors of deceased workers	Pay-as-you-go system—lockbox doesn't really exist; will only have enough money to pay full benefits until 1936; beginning 1937 will only pay out 78% of scheduled benefit	Was never intended to be sole source of retirement income; full benefits no longer begin at 65 but at a higher age depending on date of birth; reduced benefits available at age 62
DEFINED BENEFIT PLANS (DB)	Retirement program run by companies though there are local, state, and federal governmental plans; provides guaranteed fixed benefit; employer paid, employee contributions rare; employees like the benefit	Employers don't like the cost; reasons given: • Employees are living longer, which increases benefit costs • Decreased tolerance of fluctuating contribution requirements • Increasingly higher PBGC rates	Number of plans decreased from 103,346 in 1975 to 46,870 in 2019,[12] and with a total of only 32,795 participants in 2019[13]
PERSONAL SAVINGS	Program run and funded by individual	U.S. savings rates have historically been low, and the COVID-19 pandemic made things worse	More than 1/3 of full-time Millennials, Gen Xers, and Baby Boomers have less than $1,000 emergency savings

[12] U.S. Department of Labor. "Private Pension Plan Bulletin Historical Tables and Graphs 1975-2019." Employee Benefits Security Administration, U.S. Department of Labor. 1. Version 1.0. September 2021. Retrieved from https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf.
[13] U.S. Department of Labor. 1.

The first leg.

The first leg, Social Security, is wobbly and predicted to only have enough funds to pay full benefits until 2036. No, it won't run out of money as long as people are paying taxes into the system. But beginning in 2037 it will only pay out 78% of scheduled benefits, according to 2010 estimates.[14]

Run by the U.S. government, Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living. Its benefits are based on the earnings on which an employee pays Social Security taxes up to a maximum amount.

[14] Goss, Stephen C.

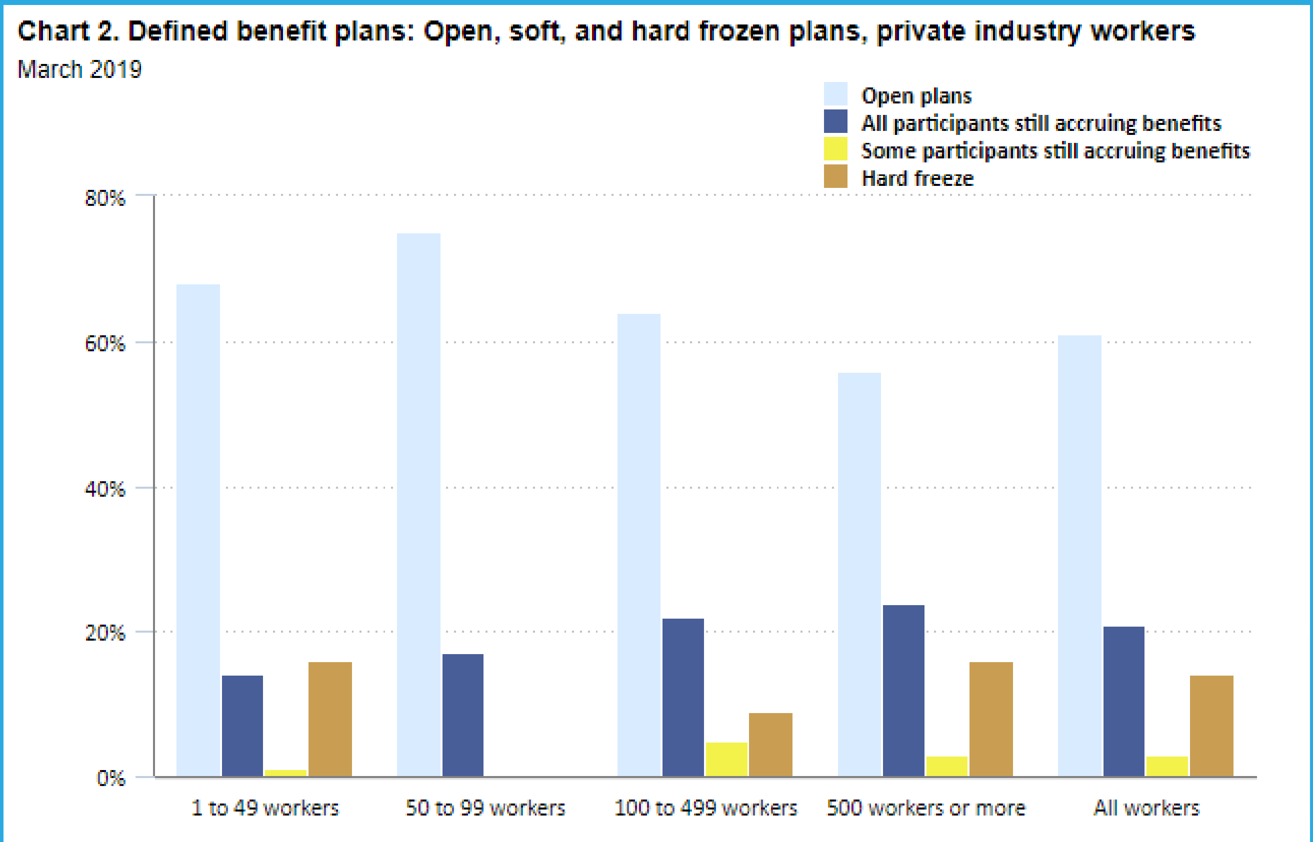
The second leg.

The second leg, defined benefit pension plans, is almost broken. A defined benefit pension plan is an employer-provided plan that pays a guaranteed fixed benefit to employees. The amount is based on a set formula usually based on a combination of age, service, and pay.

Defined benefit pension plans are popular with employees and were once the main source of workers' retirement income. They've been dwindling for years, however, as companies stopped sponsoring them until they covered only 4% of private sector workers in 2021.[15] In addition to ceasing to sponsor these plans, companies have also been freezing and terminating them.

Fortunately, just because a plan is frozen, however, doesn't mean that participants no longer earn benefits. In March 2019, 62% of private industry workers still participated in a plan open to new participants and 24% participated in a soft frozen plan (participants in a soft frozen plan still accrue benefits).

Figure 4 [16]

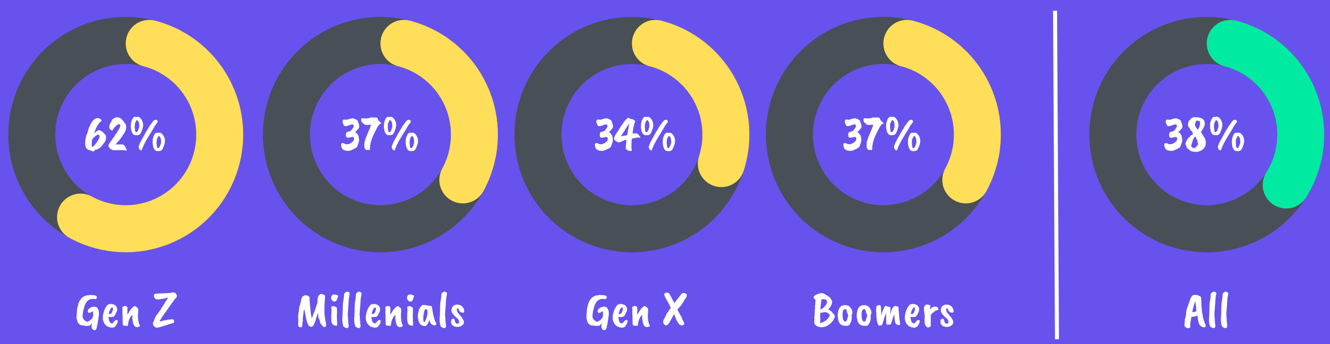


[15] CNN Money. "Ultimate guide to retirement: Just how common are defined benefit plans?" Cable News {Network. 2021. Retrieved from https://money.cnn.com/retirement/guide/pensions_basics.moneymag/.
[16] U.S. Bureau of Labor Statistics. "Employee Benefits Survey." U.S. Bureau of Labor Statistics. 2019. Retrieved from https://www.bls.gov/ncs/ebs/factsheet/defined-benefit-frozen-plans.htm.

The third leg.

The third leg, personal savings, is in danger of cracking. More than one-third of full-time Millennials, Gen Xers, and Baby Boomers have less than $1,000 emergency savings, according to a recent PwC Employee Financial Wellness Survey.[17]

Less than $1000 saved to deal with emergency expenses



The COVID-19 pandemic has had a devastating effect on Americans and their ability to save. And then, in the fourth quarter of 2021, just as many workers were starting to save again, inflation increases dampened their resolve. Yet personal savings are critical for a financially secure retirement. Low savings will mean many will work long after they had originally planned to retire.

[17] Allison, Kent E. and Harding, Aaron J. PwC's 9th annual Employee Financial Wellness Survey 2020 COVIC-19 Update. PDF. PwC, May 2020. Retrieved from https://www.pwc.com/us/en/industries/private-company-services/images/pwc-9th-annual-employee-financial-wellness-survey-2020.pdf.

What next?

Looking at the numbers and analyzing the stability of the three legs of the traditional retirement stool, there are obvious concerns by many over how and when they will be able to retire. None of these three legs of the traditional retirement stool will help workers with retirement security. These vehicles have lost their luster.

Employees of small companies have been especially hard hit by the pandemic – many didn't have a company-sponsored retirement vehicle to begin with and they were forced to used savings for basic expenses.

This is your goldfield. This is where you'll find gold – the micro 401(k) market. So, get ready to start panning for the gold that's there.

But first, a few obstacles to overcome.

OBSTACLES TO PANNING FOR GOLD.

Traditional approaches for panning for gold call for 401(k) providers that supply extensive, and expensive, administrative help. These providers use manual processes that require paperwork and call centers that are managed by people who, of course, have to be paid for their efforts.[18] Small businesses aren't able to pay their fees and so thought that 401(k) plans weren't made for them.

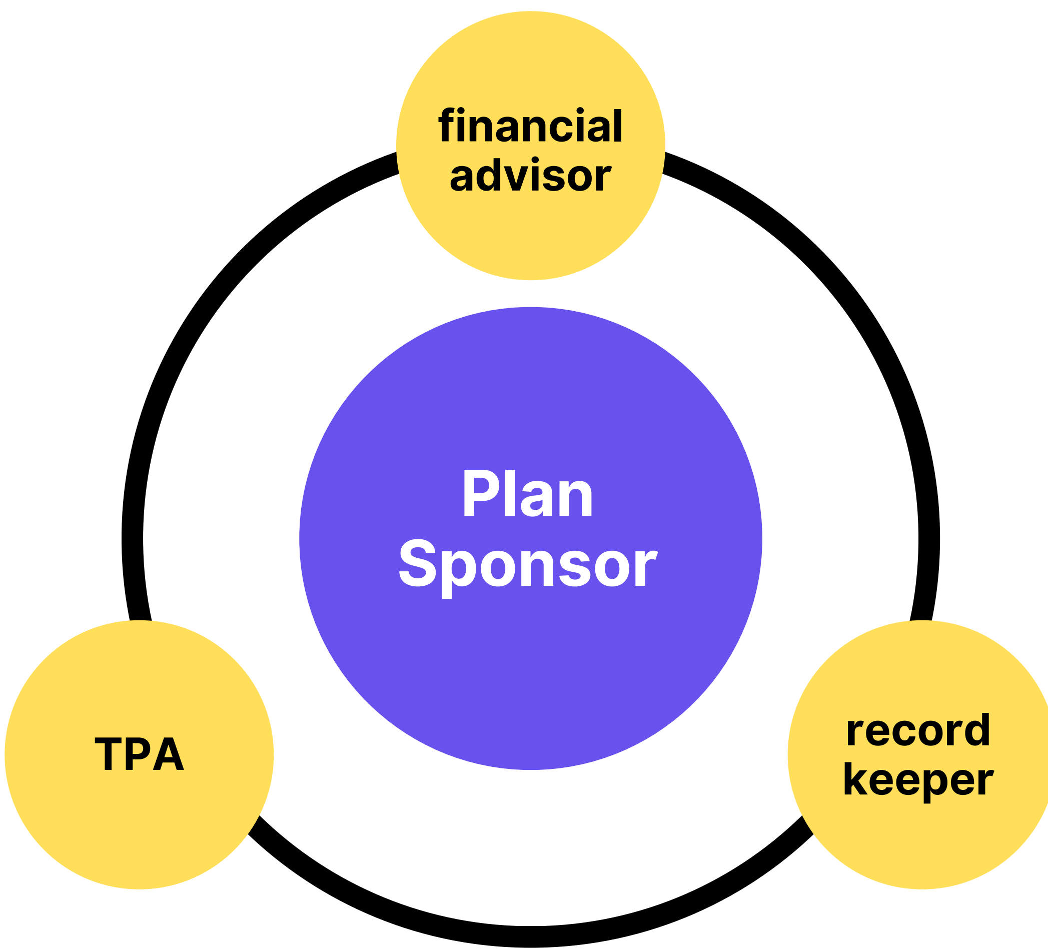
Small businesses aren't able to pay their fees and so thought that 401(k) plans weren't made for them.

[18] Over 70% of organizations relied on manual and paper-based processed at the beginning of 2020 according to a 2020 report by Forrester, reported by the EverythingBenefits Blog. January 20, 2021. Retrieved from https://www.everythingbenefits.com/blog/what-to-look-for-employee-benefits-software-in-2021.

Costly providers

A typical 401(k) plan can easily have multiple companies involved in setting up and monitoring the plan. As a result, confusion can easily ensue, and the plan sponsor left holding the bag and wondering who to call when and for what. Additionally, costs can easily increase since the more providers are involved, the more the plan sponsor pays.

Three of these plan providers include a financial advisor, Third Party Administrator (TPA), and recordkeeper (Figure 8).



financial advisors

A financial advisor's role is to advise the plan sponsor and to work with him, plan fiduciaries, and other providers with the 401(k)'s investments. The advisor's role can remain as an advisor, or he can elect to become a 3(16) administrator, 3(21) investment advisor, or 3(38) investment manager. Financial advisors are paid on commission as asset-based fees, a flat fee paid by the employer, or a combination of the two. Costs typically are about .25% to 1.0% of plan assets.[19]

TPA

A TPA's role is to help the plan sponsor with plan reporting, compliance, and plan documents. A TPA handles day-to-day plan operations and administration with such items as employee eligibility, calculating matching contributions, and preparing the Form 5500. A TPA is paid a flat fee plus a per-head fee, paid by either the employer and/or employees and can generally range from $750 to $3,000 a year plus per-participant fees in the range of $15 to $60 a year per participant.[20]

recordkeeper

A recordkeeper's role is to offer investments to the plan sponsor and to serve as the custodian of the plan's assets in many instances. The recordkeeper's role generally includes processing employee enrollment in the plan, creating and providing requisite 4o1(k) documents to participants, and creating and mailing regular participant benefit statements. A recordkeeper is generally paid from plan assets which could run from .10% to 2% of plan assets.[21]

[19] Stebbins, John. "How Much Does Offering A 401(k) Cost An Employer? Pricing And Fees." Complete Payroll Solutions. October 5, 2o020. Retrieved from https://www.completepayrollsolutions.com/blog/401k-cost
[20] Stebbins, John.
[21] Stebbins, John.

Administrative complexities

401(k) plans are popular for businesses of every size. There are several obstacles, however, that small business owners need to consider.

Increased workload.

Sponsoring and maintaining a 401(k) plan is a lot of work. It takes a team of administrative and financial professionals under the leadership of the employer. The employer has a fiduciary duty as the plan sponsor to administer the plan for the sole benefit of the plan participants and their beneficiaries. This includes the selection and monitoring of outside experts.

Operations.

401(k) plans can be cumbersome to set up and administer. A plan can also be very expensive if the plan sponsor decides to outsource the recordkeeping, investments, and administration.

Government regulations.

401(k) plans are heavily regulated by the Internal Revenue Service (IRS), Department of Labor (DOL), and the Employee Retirement Income Security Act of 1974 (ERISA). The rules can be complex and require annual compliance testing and reporting. Errors can result in fines and penalties and can even cause the plan to lose its tax-favored status.

Because of being better able to handle these complexities, in addition to cost breaks, companies with at least 500 employees are more likely to sponsor a retirement plan than small businesses with fewer than 10 employees.[22]

But do these plans designed for large companies really work for small businesses? Where's the gold for their employees?

All too often unavailable. All is not lost, however. That's changing. A new goldfield has surfaced. Stay tuned.

[22] John Scott. "Employer-Based Retirement Plans: Access Varies Greatly." The Pew Charitable Trusts. May 27, 2016. Retrieved from https://www.pewtrusts.org/en/research-and-analysis/articles/2016/05/27/employer-based-retirement-plans-access-varies-greatly.

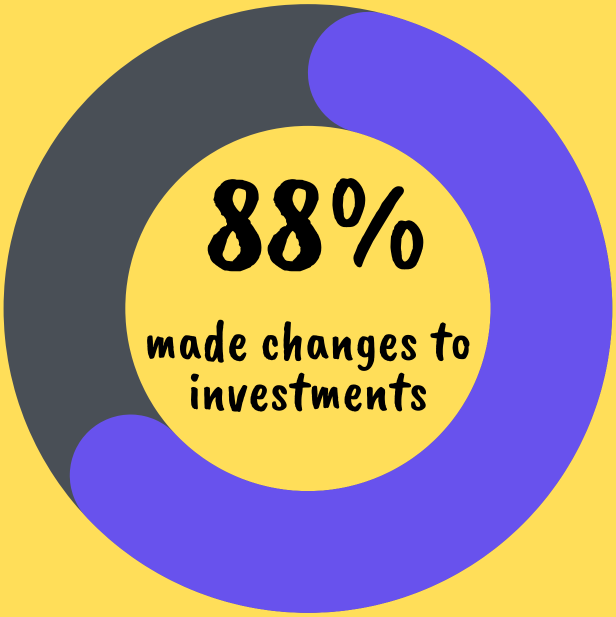
GOLD MINERS TOOLS NEEDED.

A new goldfield awaits the enterprising advisor. Traditional tools aren’t enough to find the deeply hidden gold in the micro 401(k) placer stream, however. You need special tools to uncover the riches and help the small business owner have a 401(k) plan.

Plan design

Plan sponsors are looking for a lot of help when it comes to deciding on their 401(k) plan features, and they are increasingly turning to their financial advisors for that help.

That's what Fidelity found when conducting research for the 12th edition of its Plan Sponsor Attitudes Study. The study showed that plan sponsors are focused on improving outcomes for their participants, with 88% making changes to their investments and 82% making changes to their plan designs in the past two years.[23]



Plan sponsors are looking for advisors (93%) to help guide them with investment menus and plan design, and to help employee engagement and greater financial well-being.

This is where you can shine. But it's going to take a prospecting team. Partner with an excellent fintech TPA/recordkeeper partner who provides bundled services combined with great technology and automation, and you'll find the gold you're looking for. You'll also be serving your plan sponsors and their employees well.

Your fintech partner can administer and record keep the plan correctly. But your partner's most important function is plan design. There's no cookie-cutter solution to retirement plans regarding their design and related plan documents. Every plan sponsor has different goals and objectives for the plan, as well as different employee demographics to consider.

[23] Fidelity Institutional. "Since the Start of the Pandemic, Plan Sponsors Are Increasingly Focused on Ways to Support Employees; Heightened Demand for Advisor Expertise, According to Fidelity®" Press Release. July 2, 2021. Retrieved from https://newsroom.fidelity.com/press-releases/news-details/2021/Since-the-Start-of-the-Pandemic-Plan-Sponsors-Are-Increasingly-Focused-on-Ways-to-Support-Employees-Heightened-Demand-for-Advisor-Expertise-According-to-Fidelity/default.aspx.

That's why there are so many types of 401(k) plans – seven (six if you don't count 403(b)s) according to an article by Rick Pendykoski in an article from 10 years ago but still relevant.

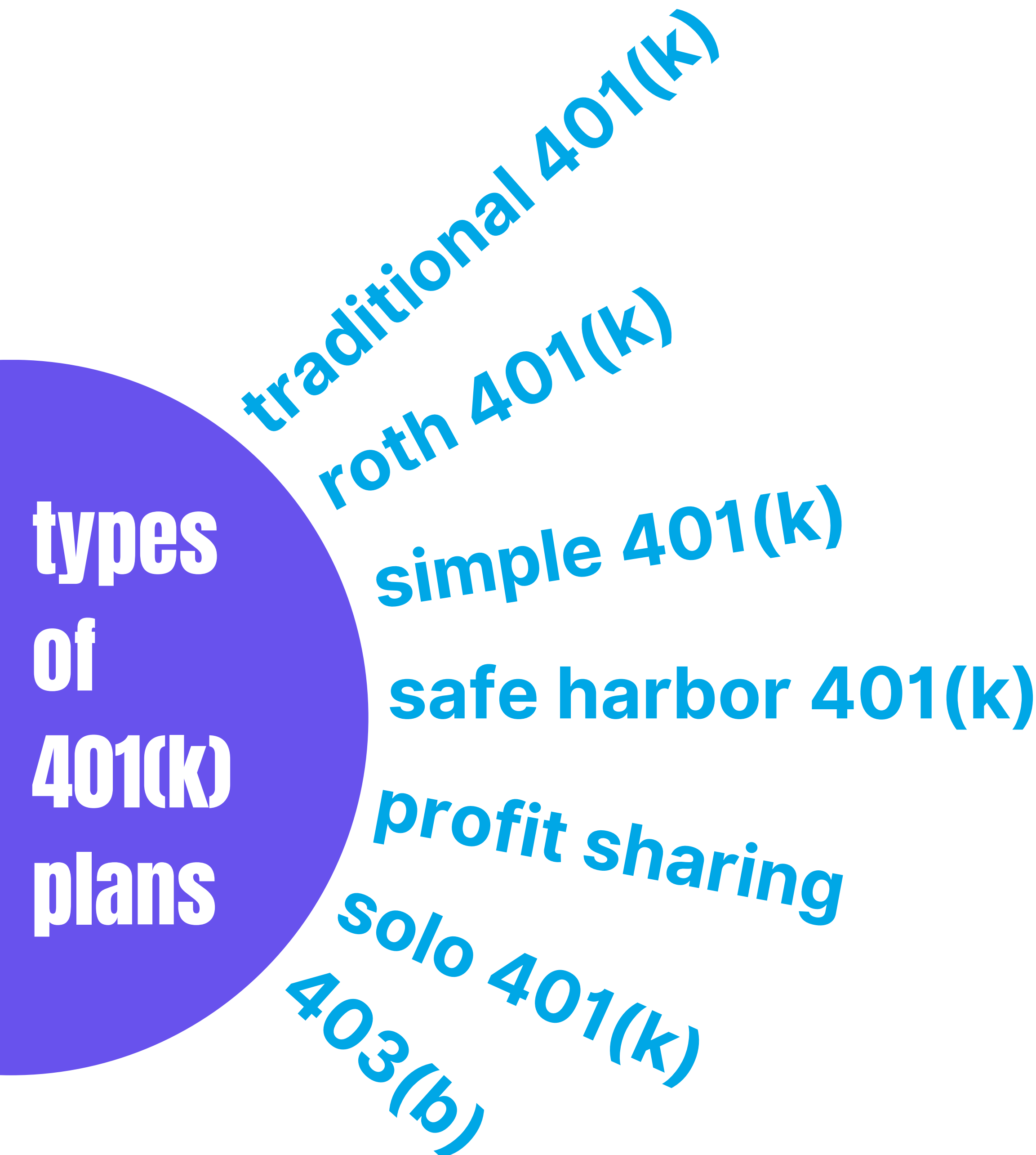


Figure 5 [24]

[24] Pendykoski, Rick. "Types of 401(k) Plans." Self Directed Retirement Plans, LLC. December 19, 2012. Retrieved from https://www.sdretirementplans.com/types-of-401k-plans/.

The first decision an employer makes is what type of 401(k) plan to have. Then comes plan design and a plan document that reflects the provisions chosen.

Top plan design decisions	Investment decisions	Top reasons to use an advisor
Auto-enrollment	Number of options	Help understanding how well plan is working
Auto-increases	Include a TDF	How to improve plan design
Employer contributions	Include an index fund	Help understanding the process of administering a retirement plan
Loans		
Hardship withdrawals		

You understand your plan sponsor client and can readily assist your fintech partner in designing the best plan possible that will meet the needs of that client. Together you can help the plan sponsor balance both company and employee needs to ensure all concerned have access to the gold that's there.

You can grow your business with a strong fintech partner. It's a team effort, so join forces with the right fintech TPA/administrator and discover how your gold nuggets will multiply.

But don't forget – you need the tools of how basic plan design knowledge as well some understanding of IRS, DOL, and ERISA rules and regulations to be able to work with your fintech partner to give your client the plan design they want and need.

Compliance

A 401(k) plan offers an employer and their employees an opportunity to save for retirement on a tax-favored basis – but with a catch. To keep the plan's tax-favored status, the plan sponsor must ensure the 401(k) plan is administered according to its plan document and in compliance with the myriad of IRS rules and regulations by conducting annual non-discrimination testing and filing annual reports with the IRS and DOL.

Under IRS regulations, a retirement plan must meet certain requirements to be considered a tax-qualified plan:[25]

- Plan eligibility
- When participants have a right to 100% of their plan benefits
- Employer and employee maximum contributions
- Distribution requirements

General qualification rules must also be met:[26]

- Plan assets must be used only for the benefit of plan participants and their beneficiaries; they can't be used by or diverted to the employer
- Plan must not discriminate in favor of highly compensated employees and to prove this it must pass certain non-discrimination tests or elect to be a Safe Harbor plan
- Amount of contributions and forfeitures must not exceed certain limits
- Deferral amounts are limited to specified amounts that are indexed annually
- Plan must satisfy certain requirements as to vesting, i.e., when employees have a right to 100% of their benefits
- Plan eligibility rules must be followed
- Distribution rules must be followed
- Benefits can't be assigned or alienated, though a loan from the plan by a participant is allowed
- Plan must meet top-heavy requirements

[25] Internal Revenue Service. "401(k) Plan Qualification Requirements." Internal Revenue Service. November 12, 2021. Retrieved from https://www.irs.gov/retirement-plans/plan-sponsor/401k-plan-qualification-requirements.
[26] Internal Revenue Service.

No wonder a plan sponsor, especially the owner of a small business, needs help with their 401(k) plan! Not only are there complicated rules to observe, but it's easy to make a mistake. Common, but serious, mistakes include:

Compensation

Not using the correct plan definition of compensation for allocations can cause major problems, such as when overtime and bonuses are to be excluded but payroll is including them. Plus, different definitions of compensation can be used for different purposes such as deferrals and non-discrimination testing.

Eligibility

Ensuring all eligible employees can participate in the plan once they meet the plan's eligibility criteria. Common eligibility is 12 months of service and age 21. Once the employee is eligible, the plan sponsor must provide enrollment materials to ensure they are properly enrolled, and their deferrals are started.

Delayed deferrals

It's easy for employers to misunderstand the timing rules for depositing employee deferrals. Elective deferrals must be deposited into the plan no later than the earliest date the funds can be segregated from the employer's general assets. That means as soon as possible! A special rule, however, applies to small plans (those with fewer than 100 participants as of the beginning of the plan year) giving them more time to deposit the deferrals.

Plan document

The plan must be in writing and be timely amended for changes in the rules and regulations that apply to 401(k) plans. A Summary Plan Description (SPD), which is a summary of plan provisions written in everyday language, must be given to every participant, and must be updated every time the plan is amended.

Plan operations

The plan must not only be put in writing, but it must be operated according to the provisions of the written document.

Nondiscrimination tests

The plan must pass special annual non-discrimination tests which include the Actual Deferral Percentage test (ADP) and Actual Contribution test (ACP) (if there are employer contributions). The tests are to ensure the plan does not discriminate in favor of highly compensated employees.

The plan sponsor has a fiduciary responsibility to understand the roles and duties of the key providers involved in administering the plan and ensure these providers are well versed in the rules and regulations as well.

Reporting

5500

Another burden employers face when sponsoring a 401(k) plan are government reports. A Form 5500 must be filed annually with the IRS regardless of plan size. A Form 5500 is the annual report for an employee benefit plan. It can be tough for business owners to know how to fill one out plus whoever signs it is responsible for the information in it. This holds true even if they hire someone else to complete it and whether or not it's correct.

The Form 5500 must be filed by the IRS deadline of the last day seventh month following the end of the plan year (July 31st for a calendar year plan); a 2 ½-month extension can be granted (to October 15th for a calendar year plan).

A regular Form 5500 is filed for plans with 100+ participants as of the beginning of the plan year; small plans (fewer than 100 participants) can file the much shorter Form 5500-EZ.

If a plan has 100+ participants as of the first day of the plan year (January 1 for calendar year plans), it's required to have an audit conducted by an independent auditor. Costs can run into tens of thousands of dollars depending on the size of the plan.

Small plans of fewer than 100 participants are exempt from an audit.

Once the Form 5500 has been filed, a summary of the information on the form is compiled in a pre-set format and sent to all participants, including a statement that a copy of the full report is available upon request. The Summary Annual Report (SAR), as it's called, must be furnished to all participants, including terminated employees with balances and retirees, no later than two months following the Form 5500 deadline.

Fiduciary responsibility

"Fiduciary" is a term that's tossed around a lot. Articles and discussions about who's a fiduciary, and related topics, abound. Being a fiduciary is serious stuff, but it's sometimes unclear exactly who's considered a fiduciary.

So, what does fiduciary mean? In general terms, it's someone who must act in the best interests of others, especially when it involves money.

In the retirement world, a fiduciary (in plain English) is one who acts only in the best interest of a plan's participants and beneficiaries with the care that a "prudent person" would. A fiduciary can be an investment advisor or a plan administrator.

Fiduciary duties are established by ERISA. Plan fiduciaries are responsible for:[27]

- Administering a plan for the sole benefit of the plan's participants and their beneficiaries
- Carrying out their duties on a prudent basis
- Following the terms of the plan document
- Maintaining reasonable plan fees
- Selecting diversified investment options

[27] U.S. Department of Labor. "Meeting Your Fiduciary Responsibilities." Employee Benefits Security Administration, U.S. Department of Labor. PDF. 4. September 2021. Retrieved from https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/publications/meeting-your-fiduciary-responsibilities.pdf.

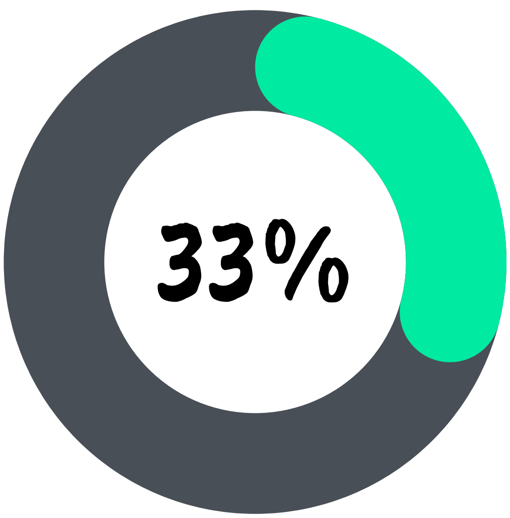
The DOL goes on to say,

"The duty to act prudently is one of a fiduciary's central responsibilities under ERISA. It requires expertise in a variety of areas, such as investments. Lacking that expertise, a fiduciary will want to hire someone with that professional knowledge to carry out the investment and other functions."

(That's you!)

Under ERISA, fiduciary status is based on duties and responsibilities, not job title. A plan sponsor is always a fiduciary.

Being a fiduciary is serious. Many business owners don't realize the burden they're assuming when they decide to sponsor a 401(k) plan.



Concern about fiduciary responsibilities is the number two issue plan sponsors have about their plan. In 2021, 33% of plan sponsors said they weren't sure if they fully understood their fiduciary responsibilities.[28] They were much more confident if they were working with a good advisor, and 75% of sponsors with a 3(38) advisor were very confident they completely understood what their fiduciary obligations were all about.[29]

Plan sponsors can look to service providers for help, but this doesn't mean they can delegate all their fiduciary responsibilities. **They can't.**

As a prospector, having a fintech partner who not only provides automated bundled services but is also willing to take some of the fiduciary responsibility from the plan sponsor, is a wonderful find that puts you on the fast track for finding your gold mine.

[28] Fidelity.
[29] Fidelity.

What's the difference between these three fiduciaries?

Type of fiduciary	Focus	Responsibilities
3(16) ADMINISTRATOR	Discretionary responsibility for administration of the plan, such as plan reporting and disclosures	Evaluating plan fees, handling participant communications, governmental filings, plan distributions and loans, ensuring plan is operating correctly from a fiduciary perspective; may serve as fiduciary for limited purposes
3(21) INVESTMENT ADVISOR	Investment advice to trustees for a fee; trustees make final decisions	Investment consultant to help with monitoring and oversight of plan investments such as recommending changes and monitoring possible investment share class changes; serves as co-fiduciary with plan sponsor or trustees
3(38) INVESTMENT MANAGER	Discretion over management of the plan or control of assets; assumes liability for investment decisions	Investment manager is decision-maker with fiduciary authority for actual plan assets, may decide investment policy and asset allocation, may hire and fire other investment managers

Fiduciary outsourcing can save plan sponsors a lot of time and can even insulate them from liability in certain circumstances. They always retain a basic fiduciary responsibility, though, since the selection of a service provider is a fiduciary action. They also have a duty to be aware of what's going on in their plan.

As you've seen, your plan sponsor needs a lot of help to find the gold in their 401(k) plan. Serving as a 3(21) or 3(38) fiduciary for them will give them reassurance when it comes to understanding compliance issues as well as the investment of plan assets.

Want to go prospecting for gold? Understanding fiduciary responsibilities is a required tool for gold mining.

Fidelity bonds

Small business owners have a lot to think about when they first decide to sponsor a 401(k) plan: what kind of 401(k) plan to have, design, providers, investments, how to best communicate the plan to their employees so they appreciate the benefit their employer is proving them. Probably the last thing on their mind is plan insurance. Yet they need to consider it.

Every 401(k) needs a fidelity bond. It's not a tool a plan sponsor usually knows to ask about, however, so you're going to need to help them get it.

What is a fidelity bond?

It's an insurance policy that protects a plan against losses caused by acts of fraud or dishonesty – theft, embezzlement, larceny, and misappropriation – by someone who handles or has access to the plan's assets.

"Handling" includes such actions as:[30]

- Processing cash, checks, or similar items connected with the plan
- Transferring funds from the plan
- Disbursing funds from the plan
- Signing checks on the plan
- Holding decision-making responsibility for related activities

[30] Department of Labor. "Getting It Right: Know Your Fiduciary Responsibilities." Department of Labor. PDF. Retrieved from https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/protect-your-employee-benefit-plan-with-an-erisa-fidelity-bond.pdf.

A fidelity bond is required as soon as a 401(k) plan is set up. ERISA requires every person who handles a plan's funds to be bonded. Be sure to have the right people covered by the bond. Being a fiduciary is not just someone named by the plan document, it's also determined by a person's duties.

A fidelity bond is different from fiduciary liability insurance, though they're often confused with each other. Fiduciary liability insurance insures plan officials against losses caused by a breach of fiduciary responsibilities, whereas a fidelity bond insures against acts of fraud or dishonesty.

How much coverage is required?

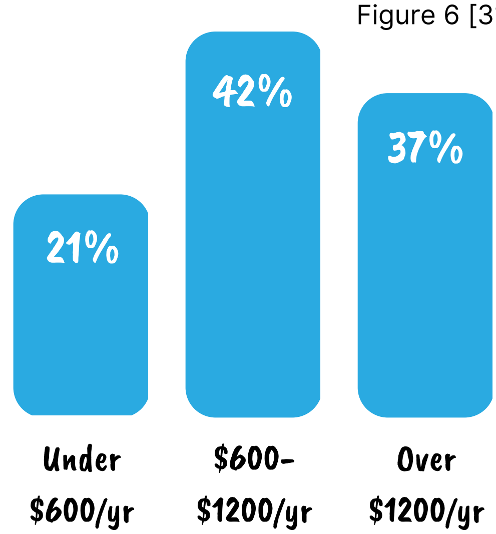
Generally, at least 10% of the value of the plan's assets. Regardless of the asset values, however, a bond must be at least $1,000 but no more than $500,000.

The cost for a fidelity bond mostly depends on the amount of coverage. The amount of sensitive information handled by a company also affects cost, plus how many employees can access the sensitive information.

Small businesses generally pay a median premium of $1,055 per year, but the amount varies widely.

The bond amount is set once a year, even if there has been a significant increase in plan assets during the year.

Figure 6 [31]



[31] Insureon. "Fidelity Bonds for Small Businesses." Insureon. Retrieved from https://www.insureon.com/small-business-insurance/fidelity-bonds/cost.

Where to purchase a bond?

Plan sponsors can obtain a fidelity bond by a provider approved by the Department of Treasury on its Listing of Approved Sureties.[32]

Failure to have a fiduciary bond is a fiduciary breach, so be sure your plan sponsor has one.

Having these tools in place is essential to having an IRS-qualified 401(k) plan.
So, you've gathered the special tools needed to establish yourself as a serious gold miner, one who knows the ins and outs of what it takes to be a miner, one who can follow the prospector's map to the goldfield.

Now it's time to start mining the gold.

[32] Available at fms.treas.gov/ c570/c570.html.

MINING THE MICRO 401(k) GOLDFIELD.

The micro 401(k) market doesn't evoke thoughts of gold, yet the gold's there. It's just waiting for advisors to discover it and help owners of small businesses benefit from its riches.

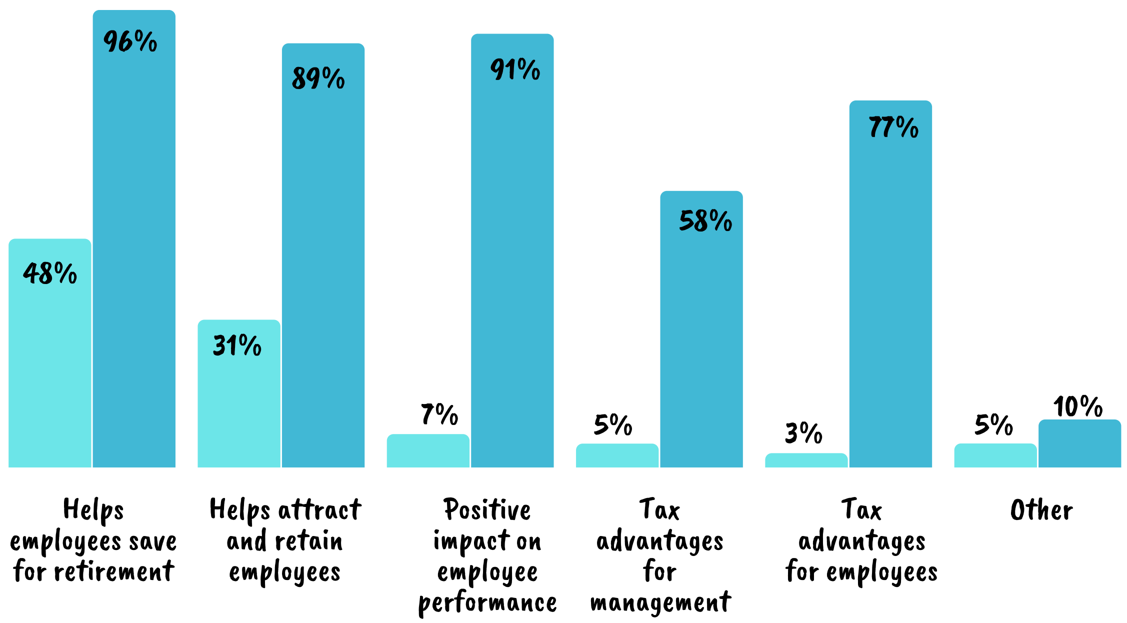
Identifying the gold

The 401(k) plan has become the most popular retirement plan in America, the gold for American workers. Offered by 52% of employers in 2020,[33] it's the main retirement vehicle for millions of employees, becoming a 4th leg of the retirement stool of sorts. It wasn't designed to replace defined benefit pension plans, but that's what it's having to do.

401(k) plans offer a wide range of benefits for sponsoring companies. They're important in helping their employees save for a more financially secure retirement. They're also a very good way to attract and retain good employees, the third most important factor driving employee loyalty[34] – an important consideration in these days of the "Great Resignation". And according to a 2012 MetLife study, retirement benefits are the third most important factor driving employee loyalty, behind salary and medical benefits.

Reasons Employers Offer a Retirement Plan

Figure 7 [35]



[33] Kuehner-Hebert, Katie. "Employer-sponsored retirement plans: HR's new recruiting tool?" benefitsPRO. June 16. 2021. Retrieved from https://www.benefitspro.com/2021/06/16/employer-sponsored-retirement-plans-hrs-new-recruiting-tool/.
[34] According to a 2012 MetLife study, reported by Passy, Charles. "Why Small Firms Should Consider Setting up 401(k)s." The Wall Street Journal. September 30, 2013. Retrieved from https://www.wsj.com/articles/SB10001424127887324063304578523611742888812.
[35] Pew Trusts.

In 2020, there were about 600,000 401(k) plans with about 60 million active participants plus millions of former employees and retirees. As of June 30, 2021, 401(k) plans held $7.3 trillion in assets and represented nearly one-fifth of the $37.2 trillion U.S. retirement market.[36]

38 million

employees without access to a retirement plan

53%

work at companies with fewer than 100 employees

Of the 38 million employees who don't have access to a retirement plan according to figures from the DOL, only 53% of these in 2018 worked at companies with fewer than 100 employees.[37] This despite two-thirds of the 401(k) plans in 2017 being small plans with less than $100 million in assets each according to a report by Cerulli Associates.[38]

Yet although there are many benefits of offering a 401(k) plan, the number of small businesses that offer one is still fairly small. There are over 30 million small businesses in the U.S., yet only 600,000 401(k) plans (as mentioned above).[39]

[36] See Investment Company Institute. "The US Retirement Market. Second Quarter 2021." Retrieved from https://www.ici.org/statistical-report/ret_21_q2_data.xls.
[37] O'Brien, Sarah.
[38] Referenced in McCarthy, Ed. "Don't Overlook the Micro Market." Wealth Management. April 25, 2018. Retrieved from https://www.wealthmanagement.com/retirement-planning/don-t-overlook-micro-market.
[39] Vestwell. 2020 Retirement Industry Trends Report. Vestwell. Pdf. 2021. Retrieved from https://www.vestwell.com/retirement-trends-report-2021.

Bringing the gold to the surface

It’s no secret that Americans have trouble saving for retirement, as this paper has shown. The Federal Reserve has reported that almost 25% of Americans have no retirement savings at all.[40]

There are many reasons for this, but perhaps one of the main ones is that approximately 55 million workers don’t have access to a company-sponsored 401(k) plan that would incentivize them to save.[41]

This despite estimates that the SECURE Act’s Pooled Employer Plans (PEPs) will lead to approximately 600,000 to 700,000 new retirement accounts.[42] However, as J. Mark Iwry, Senior Fellow at The Brookings Institute, said,

> “There’s no way the SECURE Act comes close to solving the coverage gap in the United States.” [43]

But state-run IRA programs might.

[40] Agamata, Amie. “5 Things You Need To Know About The Rise Of State-IRA Programs.” Insurancenewsnet.com. March 25, 2021. Retrieved from https://insurancenewsnet.com/innarticle/5-things-you-need-to-know-about-the-rise-of-state-ira-programs.
[41] Konish, Lorie. “New programs aim to help the 55 million people without workplace retirement savings plans.” Cnbc.com. January 30, 2o20. Retrieved from https://www.cnbc.com/2020/01/30/new-programs-to-help-the-55-million-people-without-workplace-retirement-savings-plans.html.
[42] Konish, Lorie.
[43] Konish, Lorie.

Secure choice programs

Some are called Secure Choice, others go by different names. But these state savings programs have one goal in common: to give workers more access to retirement programs while at the same time reducing the financial and administrative burdens of their employers.

As of October 31, 2021, 14 states and two cities had enacted these types of programs. Some of the programs are active; others aren't effective yet. They're all different from each other, but many share common features:[44]

Investments through Roth IRA accounts

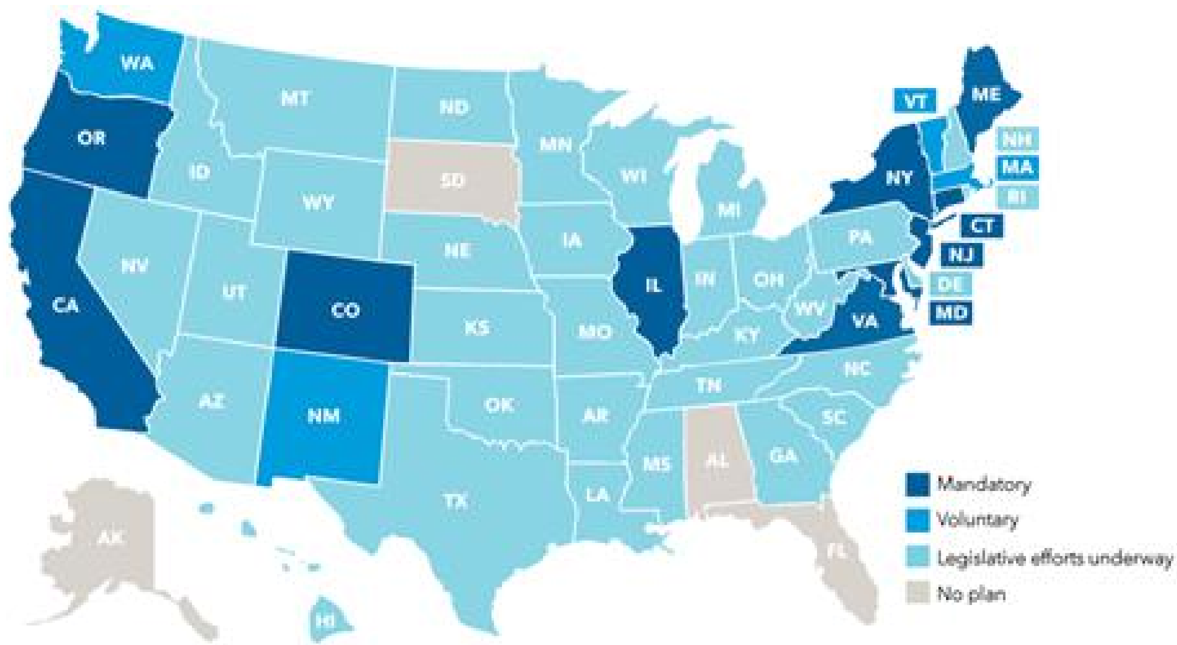
Automatic payroll deduction, usually voluntary

Investment firms chosen by the state

[44] Capital Group. "The current state of state-sponsored retirement plans." Capital Group Advisor Insights. Retrieved from https://www.capitalgroup.com/advisor/insights/articles/ir-state-sponsored-plans.html.

Ten states, including California and Illinois, require employers with a certain number of employees to make the state-run IRA plan available if they don't offer another type of plan. Other states, such as New Mexico and Washington, employers can shop for a plan using a state-approved menu of IRA and 401(k) providers.

Figure 8 [45]



Source: Georgetown University's Center for Retirement Initiatives, December 31, 2021

These state-run auto-IRA programs are expected to help bridge the savings gap for millions of workers. Proponents hope they will lead to a national auto-IRA program.

Do these programs take small employer business opportunities away from you?

Perhaps.

[45] Capital Group.

Secure Choice programs are bringing the gold to the surface – forcing business owners to decide the type of retirement plan they will sponsor for their employees.

Some companies like the state-run programs. But many small business owners don't want to be part of a state IRA program but would prefer a 401(k) plan instead. After all, contribution levels are much higher in a 401(k) plan, contributions are pre-tax versus after-tax, and the employer is allowed to contribute.

Knowing the prospecting tools you need and where to prospect gives you an advantage over your competitors. It's important to understand enough details about Secure Choice plans so you can advise your clients about their best options. Decisions on what type of retirement plan to sponsor have far-reaching consequences for both employers and their employees.

So, when prospecting, here are a few questions to ask your prospective clients to see if they're going to be a good fit for a 401(k) plan:

1

Is the employer technology-challenged?

Secure Choice programs require an employer to log into an online portal and coordinate with their payroll provider to upload employee data, deferrals, and so forth. Automated payroll integration generally isn't available.

2

What can the employer afford to pay?

Secure Choice programs tend to be free. But even if the employer only has a small budget to spend for a 401(k) plan, many low-cost 401(k) options are available for him to consider, plus the federal start-up credits can be a big help.

3

Is the employer comfortable with being a fiduciary?

An employer doesn't have any fiduciary responsibilities under Secure Choice programs. They will always have some with a 401(k) plan, however, even if they outsource the majority to service providers.

4

How much time does the employer have?

Although there may not be any cash expenses associated with a Secure Choice plan, the employer still incurs costs for the time spent handling payroll and employee data. Little, if any, assistance is available if typos or errors are made, of if questions arise. There's also a risk of penalties for not sending contributions. A good automated 401(k) fintech administrator can relieve the employer of much of the time-consuming day-to-day administration with reasonable fees, thus freeing up his time for other tasks.

The answer to these and similar questions will give you a map to the goldfield. For there's a lot of gold just waiting to be discovered. Be sure to have your ax and pick sharpened and ready to dispel any objections.

The gold you're looking for is closer to the surface than you think. Time to go prospecting!

Finding the gold

Fintech 401(k) providers, using technology to automate and improve the delivery of their products and services, are discovering along with you that there's gold in the small business market and are looking for more ways to develop low-cost solutions for it to help you and your clients.

You'll need to discover new tools. Panning for gold hasn't changed much over the years, although modern panners use specially designed grooved panning pans instead of dishpans, and small water sluices and metal detectors are tools the gold rush prospectors didn't have. The gold rush prospectors also didn't have specially designed geological hammers, nugget scoops, crevice tools, and even metal detectors that modern prospectors do. But the successful prospectors did know how and where to look, the best tools for the terrain, and the best methods for extracting the gold once they found it.

Basic tools:

- Leveraging your client list
- Creating good strategic alliances with referral partners
- Perfecting your elevator pitch
- Leveraging your website

Other tools:

- Estimator
- Newsletter provider
- Social media manager
- CRM

Technology.

You'll probably want to add even more advanced tools, joining the 85% of advisors who place a greater emphasis on technology than they did before the pandemic according to Vestwell's recent study on retirement industry trends.[46] Zoom meetings have replaced cold calling and networking events to a great extent and social media and the ability to supply digital solutions have come to the forefront in prospecting. Technology can also help when it comes to flexibility in plan design and investments.

Fintech provider.

Vestwell also reported in its 2021 Retirement Industry Trends Report that 93% of advisors think that working with a fintech recordkeeper would make it easier to manage their plans, up from just 7% in Vestwell's 2020 report.[47] This and other reports emphasize the importance of whole-heartedly embracing technology as one of your major tools.

Customer service.

Another important tool is your customer service. Small business owners need a lot of help with the responsibilities they have, and many would benefit from your expertise. It's an underserved market that offers huge opportunities for advisors interested in panning for gold there.

Preparation.

And a third tool is the importance of being prepared and knowing your market. Working with 401(k) plans requires an understanding of federal rules and regulations, especially ERISA.

And if you need a provider, there's a growing field of TPAs/recordkeepers who specialize in 401(k) administration for small plans. This is where a fintech partner can be invaluable.

[46] Vestwell. "2021 Retirement Industry Trends Report." Vestwell. 2021. Retrieved from https://www.vestwell.com/retirement-trends-report-2021. The drastic increase from 2020 to 2021 no doubt reflects the drastic changes caused by the onset of the pandemic.
[47] Vestwell.

Solving challenges

Fintech disrupters to the financial industry aren't new. But they're beginning to make their presence known in the retirement industry, which has been slower than other areas to adopt technological advances.

Just as Alaska Klondike Gold Rush prospectors solved the challenge of getting into the interior of Alaska in wintertime by ascending Canada's Chilkoot Pass, a good fintech 401(k) company solves many of the challenges that deter small businesses from adopting a 401(k) plan. They do it through advanced technology and automation, areas that have exploded since the COVID-19 pandemic hit in 2020.

Cost.

Fintech companies often have substantially lower fees than conglomerates. And they're joining with more established recordkeeping and administration companies who work with the micro 401(k) market to present ever lower-cost solutions for their plans. Modernization and automation can help plan sponsors speed up processes, reduce turnaround time, and improve their Return on Investment (ROI).

Lack of in-house staff

Administrative help comes in the form of improvements in payroll integration and connectivity; automated benefits reconciliation; greater ease with non-discrimination testing and other compliance tasks with automation that automatically delivers necessary payroll data, contributions and deductions, employee demographics, and salary data; and help with plan designs which are often less complicated than those for large companies.

Administrative complexity.

Fintech companies often have substantially lower fees than conglomerates. And they're joining with more established recordkeeping and administration companies who work with the micro 401(k) market to present ever lower-cost solutions for their plans. Modernization and automation can help plan sponsors speed up processes, reduce turnaround time, and improve their Return on Investment (ROI).

Lack of familiarity with 401(k)

Administrative help comes in the form of improvements in payroll integration and connectivity; automated benefits reconciliation; greater ease with non-discrimination testing and other compliance tasks with automation that automatically delivers necessary payroll data, contributions and deductions, employee demographics, and salary data; and help with plan designs which are often less complicated than those for large companies.

Advisors are now key players and fill a significant role between plan sponsors and fintech companies. Fintech TPAs/recordkeepers know 401(k) plans and are familiar with the technology that now drives them. A good advisor can be an invaluable asset in mining for that gold.

Prospecting tools

Once you've resolved to mine the micro-market for 401(k) gold, it's time to get targeted prospecting tools geared for your market.

Price.

Pricing is important to small business owners as has been shown. Fintech companies are at the forefront of technology for 401(k) plan administration. They typically charge per participant per month or a flat per day fees. Some do not charge for plan setup, administration fees, or government filings.

Setup.

Most fintech companies have automated their onboarding and administrative functions, so can set plans up quickly, whether the plans are new or take-overs.

Paperwork.

Many fintech companies support participants in making deferral election changes and investment changes online; other online applications include loan and hardship applications. This means less paperwork for the plan sponsor.

Access.

As more small businesses discover offering a 401(k) plan is not prohibitively expensive, they'll leave the ranks of the five million small businesses that don't offer a retirement savings plan and join the growing number who do, thus offering their employees a means to save for their retirement.[48]

[48] American Retirement Association. "Millions of American Workers Still Lack Access to 401(k)." American Retirement Association. July 24, 2019. Retrieved from https://www.usaretirement.org/millions-american-workers-still-lack-access-401k.

Employee attraction.

Millions of employees are leaving or considering leaving their current employer in the "Great Resignation" that started during the pandemic in 2020. Employee benefits such as 401(k) plans are a valuable tool in attracting new hires and keeping valuable employees with the company (Figure 11).

Fiduciary responsibility.

Fiduciary responsibility can be quite heavy for a plan sponsor. A fiduciary is responsible for acting solely in the interest of plan participants and beneficiaries when making decisions about such matters as plan providers and investments. The business owner can delegate some – but not all – of that fiduciary responsibility to a 3(16) administrator or a 3(38) fiduciary, if the advisor is willing to assume the responsibility.

Adherence to regulations.

The IRS, DOL, and ERISA require the plan sponsor to follow a whole set of complex rules and regulations, plus special reporting. These requirements present a substantial burden to an employer.

These are the basic tools you'll need for mining the micro 401(k) gold mine. They aren't the only tools you'll need, however. You have one more important tool to add to your tool belt. It's perhaps the most important tool of all.

[48] American Retirement Association. "Millions of American Workers Still Lack Access to 401(k)." American Retirement Association. July 24, 2019. Retrieved from https://www.usaretirement.org/millions-american-workers-still-lack-access-401k.

AUTOMATED MINERS TOOLS MAKE GOLD MINING EASIER.

The $64,000 question still is how to make mining for the micro 401(k) market easier than the traditional approaches?

You need ultra-modern tools and approaches.

Whereas over 70% of organizations were relying on paper processes and outdated recordkeeping technology in early 2020,[49] the pandemic created a sense of urgency among service providers to adopt more technology. And some have, if for no other reason that self-preservation, to stay in business.

[49] EverythingBenefits.

Technology matters.

In a 2021 webinar titled “Better Technology, Better Retirement Savings: Why Operations and Administrative Technology Matters for Saver Outcomes,” a webinar that was part of the Aspen Institute of Financial Security Program and the Future of Work Initiative, three expert panelists discussed whether the proliferation of technological applications was helping increase retirement plan participation and savings.[50]

The panel reported mixed findings. On one hand, technology has driven administrative costs down, which has resulted in more workers having access to plans. On the other hand, the industry continues to experience difficulties in moving a retirement plan from one recordkeeping platform to another because the systems don’t talk to each other. This poor information sharing results in:

- Employees losing track of their benefits and costs
- Not being able to make sure services are unbiased early on rather than with hindsight
- Difficulty in converting benefits into reliable retirement income

There’s general agreement that the traditional solutions to supply retirement services and stop retirement plan savings leakage need upgrading, and fast.

[50] Summary reported by Iekel, John. “Putting Technology at the Service of Retirement Plans.” American Society of Pension Professionals and Actuaries. March 22, 2021. Retrieved from https://www.asppa.org/news/putting-technology-service-retirement-plans.

Modern approaches call for 401(k) providers that feature streamlined administration through automation and robo-advising for employees plus added features for employer onboarding and employee education. This extensive automation cuts costs while still maintaining data accuracy, making 401(k) plans accessible to more companies, including small businesses.

The path for efficient 401(k) administration has been strewn with obstacles, exceptions, and distractions that have created challenges for small business owners wanting to establish a 401(k) plan. But never fear! The technology and automation used by your fintech partner uncovers the gold in the placer stream and brings order and simplicity to a process that could seem chaotic at times.

Automation matters.

Automation impacts three main areas:

- ✓ **Pressure on cost savings.**
- ✓ **Emphasis on customer experience.**
- ✓ **Automation efficiencies.**

Pressure on cost savings.

Everybody in the retirement space is demanding more value and increased service for their money. Service providers are recognizing that in order to offer their services at the lower fees that are now expected, they'll need to automate to a greater degree. Providers who cling to their manual, paper-heavy processes will find it hard to make bare minimum profit margins, if they're able to be profitable at all. Automation streamlines a lot of work, which reduces the cost per participant.

Emphasis on customer experience.

Automation and artificial intelligence can greatly improve user experience in such areas as smoother onboarding, payroll integration, investments, and loans and withdrawals. Plan participants want to find what they're looking for, make a change or start a process as quickly and as seamlessly as possible. Robo-advisors started in the investment management field but have quickly moved into the retirement industry. They can be an enormous asset in helping plan participants decide on the best investment mix for them based on their circumstances.

Automation efficiencies.

Under traditional approaches, onboarding a 401(k) plan first for the plan sponsor and then for participants leaves a lot to be desired. Automation can make the whole process of data management and customer experience significantly better. Some of the uses for automation for greater efficiencies in mining are:[51]

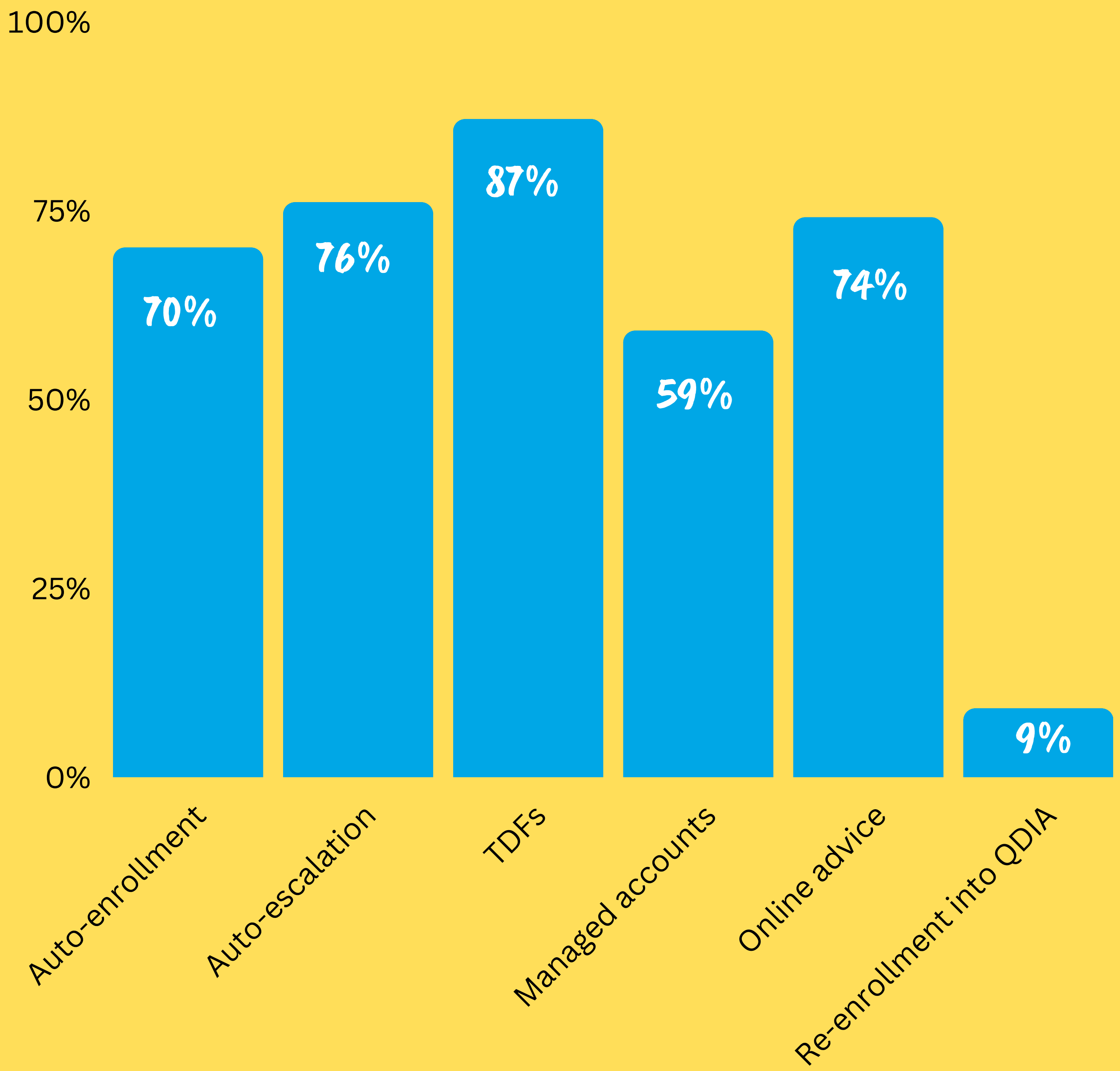
- Automating repetitive tasks, freeing up plan administrator time
- Setting up alerts and reminders for compliance deadlines
- Building automated dashboards for each participant

[51] Congruent Solutions. "Driving Business Value from Automation in the Retirement Plan Industry." Congruent Solutions. Blog. July 5, 2021. Retrieved from https://www.congruentsolutions.com/blogposts/driving-business-value-from-automation-in-the-retirement-plan-industry/.

Employees of large plans have quite a few gold nuggets in their retirement plan. Given the opportunities that automation brings, why can't these same solutions be available to participants in small plans? Where are their nuggets? Automatic plan solutions are just as relevant to them; they need to find gold too.

What it takes to bring these types of auto solutions to employees of small 401(k) plans is a knowledgeable advisor teamed with a fintech provider who understands the importance of automation and has the systems to implement it.

Availability of Auto Solutions Among Large Plan Sponsors



Automation for compliance.

The IRS, DOL, and ERISA have a lot of rules and regulations for 401(k) plans that plan sponsors are expected to know and follow – as this paper has discussed – and to ensure the plan's providers are kept in the loop. To do this, systems must be in place that allow data to flow back and forth between the plan sponsor and the providers.

A good automated system supports a company's 401(k) plan, integrates with the employer's employee database, and automatically delivers necessary payroll data, contributions, deduction information, employee demographics, and salary-related information to the providers.

Automation keeps track of compliance due dates so neither the plan sponsor nor provider is caught unawares. Year-end census data can be screened for errors and sent through the automated interface to the TPA who loads it into their system and seamlessly performs annual compliance tests on a timely basis. This allows plenty of time for the plan sponsor to make any corrections necessary before the March 15 deadline. It's important that there are no surprises, and the reporting is accurate. This keeps costs down so prices can be low, and the setup time kept short.

This keeps costs down.

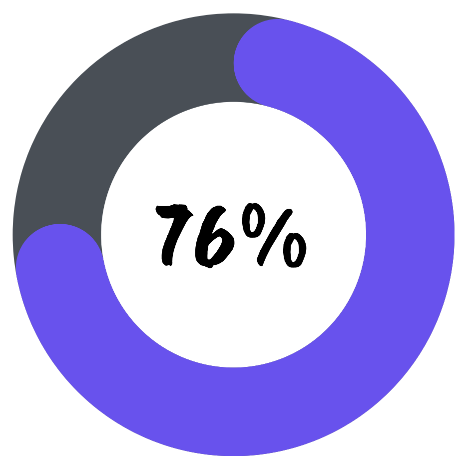
Automation for the micro-market.

Many 401(k) platforms run online, but they include little, if any, extensive automation. They are built to provide easy administration for the plan sponsor.

Many of these platforms, however, have a serious flaw. They may ease administrative burdens for the plan sponsor, but they fall short on plan design. They don't give plan sponsors and participants the best plan for their situation with the highest participation rates.

Understanding the many advantages automation brings to a 401(k) plan and the use of technology is a must for advisors prospecting for gold. If a provider has extensive automation, it allows the advisor to have trust in their product and it takes some of the work off their plate.

Technology is also the number one way to differentiate yourself from the other prospectors. It gives you an ability to understand your clients' needs and objectives better according to Michael Kitces, head of planning strategy at Buckingham Wealth Partners, citing a third-party survey showing that 76% of advisors in the survey gave that answer.[52]



So, armed with a working knowledge of retirement plans and the latest technology, you're ready to go prospecting in your chosen niche, the micro 401(k) market.

[52] Reported by Berman, Jeff. "5 trends shaking up the advisor world: Michael Kitces." benefitsPro. October 6, 2021. Retrieved from https://www.benefitspro.com/2021/10/06/5-trends-shaking-up-the-advisor-world-412-122045/.

The micro 401(k) market.

The potential of the micro 401(k) market is catching the attention of a more advisors, fueling expectations of significant growth in the amount of gold found there in the next few years. With your prospecting tools of technology and automation, you'll be able to find the gold that will enable you to serve plan sponsors profitably and competitively.

But you need a capable, experienced fintech partner. They're not easy to find, but it's in your best interest to find one.

Time to go exploring!

FINDING THE RIGHT MINING PARTNER.

Once you've assembled the right tools, you're ready to start laying a foundation for mining for gold.

401(k) plans are a different kind of precious metal, so it takes different methods and tools to mine it.

The key to successful mining is to have a mining partner who also has the tools to uncover the hidden gold. It's not always easy to find one, but it's well worth the effort.

A good mining partner should bring the following tools to the partnership:

- Simplicity with extensive automation and a short setup time for new plans
- Proactive client service teams that use automation to constantly ensure plans comply with federal rules and regulations
- Affordable transparent pricing that allows plan sponsors to forgo setup, compliance, and filing fees
- Game-changing full-stack modern solutions
- Participant/outcome-focused offering designed to make 401(k)s easier to administer
- Small-business-focused on the untapped potential of the micro 401(k) market
- Human-centric where they believe the best outcomes are when an advisor can be paired with technology with the result of increased employee participation

DISCOVERING GOLD IN THEM THAR HILLS

Many of the challenges faced by small businesses wanting a 401(k) plan can be resolved with the right advisor, the right plan design, and the right fintech partner working with technological and automation innovations.

Many of the challenges to having a 401(k) plan in place are being addressed. But what about the Pew research that showed one of the company's challenges was that they didn't think employees wanted a plan even if one was set up?

Many sources have debunked this notion, a summary of which was posted in the December 2020 issue of Financial Planning. The article by clientfocusedadvisors.com reports that 40% of current small business employees would leave their job for another company if that company offered a 401(k) plan and that 90% of employees between 18 and 34 years old would prefer more benefits to a pay raise.[53]

And that answers the question posed by Bradford Campbell, a partner in the Washington, D.C., office of law firm Drinker Biddle when he asked, "How do we get plans to more workers?"[54]

Mine the gold that's just waiting to be discovered.

[53] Referenced in clientfocusedadvisors. "401k For Small Businesses With Less Than 10 Employees." Clientfocusedadvisors. December 2, 2o20. Retrieved from https://clientfocusedadvisors.com/401k-for-small-businesses-with-less-than-10-employees/.
[54] Referenced in O'Brien, Sarah. "Small firms may have a new way to offer 401(k) plans to their workers." cnbc.com. September 30, 2019. Retrieved from https://www.cnbc.com/2019/09/30/small-firms-may-have-a-new-way-to-offer-401k-plans-to-their-workers.

There is gold in them thar hills of the micro 401(k) market. The future is bright. The number of small businesses that set up new 401(k) plans is estimated to grow by over 100,000 new plans a year beginning in 2025.[55] This is good news for you. You will already have discovered gold in the hills of the micro 401(k) market and be able to reap the rewards of working your mine for a long time.

You'll be able to grow your business and earn comfortable fees. You'll also have the satisfaction of being able to offer restructured/lower fees to get more small businesses as clients without losing efficiency because you'll have a capable fintech provider partner.

Go search for your goldmine with your fintech partner.

[55] Schumm, Aaron. "5 years forward: Retirement industry predictions from a fintech entrepreneur." benefitsPRO. December 21, 2021. Retrieved from https://www.benefitspro.com/2021/12/21/5-years-forward-retirement-industry-predictions-from-a-fintech-entrepreneur/.

CONCLUSIONS.

401(k) plans were created after an almost accidental inclusion in the Revenue Act of 1978. The first plan was introduced in 1981, and although never intended to replace defined benefit pension plans, they have become the favorite retirement solution of millions of participants and retirees.

Large 401(k) plans tend to get the most attention. They have the most assets and participants and have the resources to explore and find the richest goldfields. But they're not the majority of plans, however. Small plans are – despite being traditionally ignored by the retirement industry and left to prospect for gold on their own.

No more.

The small plan 401(k) market is projected to grow by 111% and will reach 1,000,000 plans by 2025.[56] That's a lot of plans! Some are sure to have your number on them.

This shows the enormous potential of the small business market and its impact on your business' growth. Confident you have what you need to find a strong 401(k) fintech partner and together pan for that untapped gold in the micro 401(k) market?

401GO is that fintech partner you're looking for. To find out how the two of you can pan for gold in the micro 401(k) market, visit us at 401go.com.

[56] Schumm, Aaron.

ABOUT 401GO.

401GO was founded in 2019 by a group of entrepreneurs and business owners who have run multiple small businesses. They understand that most employers know little about 401(k) plans and are simply looking for a quick, easy-to-use, and affordable solution. While focusing on the needs of a small business wanting a 401(k) plan, they had to rethink everything from industry jargon to the processes in place for setting up and administering a 401(k) plan.

They coupled this fresh approach with automation and built a fully integrated and intuitive proprietary system that does the work of 3-4 providers. Ultimately, through their efficiency and automation, they save employers and employees money, time, and hassle, giving them the opportunity to save for retirement.

They also have a separate investment fiduciary that reviews and monitors investments within the 401(k) plan.

401GO is full-service and makes it look easy.

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