4 Reasons to Look Beyond a 401(k)

You may think your employees want it, and as an employer you think you need it. Here’s why you don’t.

October 23, 2019 5 min read

Opinions expressed by *Entrepreneur* contributors are their own.

Like giving away equity, offering 401(k)s has somehow become a given, with many business owners feeling like it’s their only option for attracting and retaining top talent. The Department of Labor (DOL) apparently thinks so too. Its recent rule change makes it easier for small businesses to offer multiple-employer plans, or MEPs. But I always advise my clients, especially small-business owners, to question whether a 401(k) is their soundest option. That’s because the ugliest audit I’ve ever been through with any client was a 401(k) audit. Did you even know 401(k) plans could be audited?

There are alternatives that might be better not only for your employees, but for you as a small-business owner. Here’s why you should be thinking beyond the 401(k).

Related: Let 2019 Be the Year Your 401(k) Loses the Dead Weight

1. It’s expensive and complicated.

The DOL itself acknowledges that 401(k)s are expensive and unwieldy for small businesses. That’s why they’re trying to make MEPs easier to offer. Just how expensive? Well, that’s a loaded question. It all depends on the fund you’re using and

the fees associated with it. There are asset fees, per-person fees, transaction fees and flat-rate fees, to name a few, and it practically takes a degree in algebra to figure it all out. There is no average cost you can point to, because it’s so convoluted and messy that it’s never the same for everyone. And as a small-business owner, that means you or someone on your staff who already has a full-time job doing something else has to become the plan administrator, or shell out cash for a third party to manage it.

You’re also liable for things beyond your control. What happens if a major recession hits and your employees blame you for making the wrong plan elections? Even with MEPs, there’s still significant cost, liability and complexity. I used to offer a 401(k) to my employees and use a third party to manage it. They had to get approval nearly monthly for amendments to the language and plan just to keep up with DOL regulations. If you’re trying to manage that yourself, it can get out of hand quickly, leaving you vulnerable.

2. You don’t want this nightmare to happen to you.

Here’s the thing: Your 401(k) plan, whether it’s your own or part of a MEP, can indeed get audited. But if it does, it’s not going to come from the IRS; it’s going to come from the DOL. One of the added complexities of a 401(k) plan is that the DOL also has regulatory oversight, in addition to the IRS, and I know from personal experience what that means.

The worst audit I ever had was a review of a 401(k) plan. It was document-intensive, contract-intensive, absorbed a ton of resources, and the auditors were far from easy to deal with. It was excruciating. And because the DOL performs audits so rarely, it’s even more difficult to determine why they’re auditing you than with the IRS, which is consumer-friendly by comparison. You don’t know when they’ll show up, and often you

won’t know why.

Related: 13 Reasons Why Your 401(k) Is Your Riskiest Investment

3. There are other options.

The average American believes they need about $1.7 million to retire. So why are we so hung up on using a plan that caps your contributions at $19,000 per year? At that rate, it would take you almost 90 years to save enough money to retire, and with 401(k)s, that doesn’t account for the massive tax hit you’re going to take when you finally withdraw the money.

There are other options, and you should be considering or utilizing retirement savings well beyond qualified plans. The retirement plan I recommend the most often to my clients is the SIMPLE IRA, where SIMPLE stands for Savings Incentive Match Plan for Employees. A SIMPLE IRA is a traditional IRA in which the employee can contribute if they want, and the employer only matches if they choose to do so. Unlike a 401(k), SIMPLE IRAs are easy to manage, and it’s very cheap to get started. Not to mention the DOL doesn’t have audit power.

4. The new rule changes nothing.

The only reason for a business owner to adopt a retirement plan is if it’s needed to attract or retain key employees. And if that’s a need for you, you likely already have something in place. Someone will probably try to sell you on MEPs, but they’re still complicated and expensive.

When deciding on a retirement plan, small-business owners need to first take a step back and decide if that’s something they even need to offer their employees. There are plenty of ways to incentivize employees, and there’s no clear evidence than a retirement plan is a more powerful way to do so than bonus

programs, vacation days or simply a higher salary.

Maybe you'll ultimately decide that a 401(k) plan is right for you, but if you stop to at least question it, then you'll be able to go into the situation with your eyes wide open, ready for the challenges it will present. As small-business owners, there are many things we often don't question that we should. So start questioning.

Bruce Willey has been working with small to midsize businesses across the country for more than a decade, helping them navigate business and tax law in a variety of situations. His services include assisting with business startups, operations, growth, asset protection, exit planning and estate planning.

https://www.entrepreneur.com/article/341210