

SMALL TO MEDIUM BUSINESS GUIDE TO  
**SETTING UP  
A 401(K)**



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## Small to Medium Business Guide to Setting Up a 401(k)

Setting up a 401(k) plan is a strategic decision for small businesses aimed at enhancing their benefits package and supporting their employees' financial future. While not federally mandated, offering a 401(k) is becoming increasingly common as a means to attract and retain talent. Here's a guide to navigating the complexities of establishing a 401(k) for small business owners.

Note that we have published a detailed guide on this topic on our website at: <https://www.saveday.com/small-business-guide-set-up-401k/>

What follows below is a summary of that information to provide you with a quick reference guide.

### Understanding 401(k) Plans

A 401(k) is a tax-advantaged retirement savings plan sponsored by employers that allows employees to save a portion of their paycheck before taxes are deducted. Contributions reduce taxable income, lower the employee's tax liability for the year, and allow investments to grow tax-deferred. Employers can match contributions, and the plan's funds are invested, offering potential growth through dividends, interest, and capital gains.

### Key Roles in 401(k) Plans:

The setup of a 401(k) involves multiple roles:

- **Plan Sponsor:** Selects the plan provider – usually the employer.
- **Plan Administrator:** Manages the plan's compliance and day-to-day operations.
- **Third-Party Administrator (TPA):** Handles administrative tasks and ensures compliance.
- **Fiduciaries:** Include those managing the plan's assets and making administrative decisions required to act in the best interest of the participants.
- **Custodian:** The Custodian holds the investments chosen by the plan's fiduciaries.

- **Trustee:** A Trustee selects the plan Advisor and ensures the best interest of the participants.

## Related Legislation

These laws influence 401(k) plans:

**The SECURE Act of 2019:** This is perhaps one the most important pieces of federal legislation. It eases the process for small businesses to set up 401(k)s, offering tax incentives and allowing part-time employees to participate. [Learn more here.](#)

Additional legislation includes:

- Pension Protection Act of 2006
- Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001
- Small Business Job Protection Act of 1996
- Revenue Act of 1978
- Employee Retirement Income Security Act (ERISA) of 1974

For a detailed explanation of important legislation, [see this link.](#)

## Plan Options for Small Businesses

There are several types of 401(k) plans tailored to different business needs:

- **Traditional 401(k):** Offers pre-tax benefits with employer matching options.
- **Safe Harbor 401(k):** Bypasses some compliance tests required of traditional plans, requiring employers to vest when contributions are made fully.
- **SIMPLE 401(k):** Suitable for businesses with fewer than 100 employees, this plan mandates employer contributions.
- **Solo 401(k):** Best for self-employed individuals with no employees other than a spouse, allowing higher contribution limits.

Choosing the right plan involves balancing the costs, administrative responsibilities, and the benefits you aim to provide. To learn more about Traditional 401(k)s, Roth 401(k)s, and Safe Harbor 401(k)s

## Costs and Setup Process

The cost to set up and maintain a 401(k) can vary. Initial setup fees can range from a few hundred to several thousand dollars, with ongoing costs depending on the provider and services required. The SECURE Act provides tax credits that can offset these costs significantly.

Setting up a 401(k) involves:

- **Choosing a Plan Type:** Assessing needs and aligning them with the right 401(k) option.
- **Plan Design:** Deciding on features like matching contributions, vesting schedules, and profit-sharing.
- **Provider Selection:** Choosing a provider that offers the necessary services at a competitive price.
- **Official Establishment:** Filing with the IRS, setting up a trust for plan assets, and creating a recordkeeping system.
- **Plan Maintenance:** Ensuring ongoing compliance, managing contributions, and handling participant notices.

## Choosing the Right Provider

When selecting a 401(k) provider here are some considerations:

- **Costs:** Transparency in fees for setup, administration, and fund management.
- **Services Offered:** Adequacy of support for plan design, compliance, and participant education.
- **Investment Options:** Diversity and quality of investment choices.
- **Experience and Technology:** Provider's track record with small businesses and the technology solutions they offer.

## **Benefits of a 401(k) for Small Businesses**

Offering a 401(k) can significantly benefit both employers and employees. Employers enjoy tax deductions on contributions and may qualify for tax credits for setting up new plans. Employees benefit from tax-deferred growth on their savings and the potential for employer-matched contributions, which can compound over time.

While setting up a 401(k) involves several considerations and responsibilities, the benefits can greatly enhance a small business's attractiveness to current and prospective employees. With proper planning and the right partners, small businesses can successfully implement a 401(k) plan that supports their employees' retirement goals while managing the company's fiscal health.

For a deeper dive on this topic visit our comprehensive guide at:

<https://www.saveday.com/small-business-guide-set-up-401k/>

# 401(k) Solved

*Astonishingly convenient to start, simple to use, and wildly affordable for SMBs.*

Our mission is to democratize the 401(k) so that more working Americans can confidently secure their financial future.

We cover everything your business needs to provide reliable 401(k) plans:

- ✓ Automatic Enrollment
- ✓ Recordkeeping
- ✓ Fiduciary Services
- ✓ Compliance
- ✓ Government Filings
- ✓ Custodial Services
- ✓ Managed Investments
- ✓ Optional Employer Matching

**Signup takes 15-minutes or less for most new plans.**

[Learn More About Our Plans](#)

