

# HICKS NOTES

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## 401(k) PLANS FOR SMALL BUSINESSES, A DOL PERSPECTIVE

The Department of Labor (DOL) has published a great outline on 401(k) plans for small businesses. This fourteen page document also links to other publications aimed at helping small business owners understand the benefits and responsibilities associated with using 401(k) retirement plans. For a look at the entire document and its related links [click here](#).

This publication begins with headings and bullet points that can be used in marketing and to help clients understand the pitfalls of 401(k) plans. If anything, this publication summarizes the need for a good administrator, financial planner and investment company who, together can provide the services and expertise needed to keep this plan in compliance and help benefit the employer and their employees.

### WHY 401(k) PLANS?

The DOL points out that a well designed plan can help attract and retain key employees, provide tax benefits and portability, and provide for individual investment direction. What it doesn't address is the ability of an employer, in many cases, to add additional contributions that can favor different classes of employees through the use of class allocation formula. This has always been a big selling point of ours, and why a [proposal showing different options](#) should always be done.

### ESTABLISHING A 401(k) PLAN

The DOL details the four steps for establishing a plan is 1) adopt a written plan document, 2) arrange a trust for the plan assets, 3) develop a recordkeeping system and 4) provide plan information to employees eligible to participate. While this may seem like a lot, by using a company like ours as third party administrator, this can be done efficiently and at [reasonable cost](#).

In addition, the publication discusses the use of safe harbor provisions, automatic enrollment of participants and default investments, but doesn't give any great details or additional information on the pros and cons of these various plan design options.

With regard to recordkeeping, we like to use a platform that does the recordkeeping along with offering the investments choices, and providing employee communication and enrollment materials. We believe an unbundled approach is the most efficient and service-oriented model. The client knows exactly who does what,

the services provided, and what they are paid. For a view of some of the investment providers we work with, [click here](#).

### OPERATING THE PLAN

The publication spends the next 5 pages on the various issues of plan administration. They cover participation provisions, contribution limits, safe harbor plans, vesting schedules, nondiscrimination testing and fiduciary responsibilities. While much of this may seem daunting to the plan sponsor, for a third party administration firm like us, this is everyday work.

The DOL has a discussion on limiting liability and the role of the fiduciary and trustee with respect to monitoring fees and investments. A good financial planner will help their client handle these responsibilities at least annually and document their work.

In addition, there is a discussion of participant materials required to be provided to participants which includes investment disclosures, summary of plan amendment, individual statement of their accounts, summary annual reports, blackout notices as well as government information returns which are filed each year. While all of this seems burdensome, with a good team of a financial professional, an investment company and a good third party administrator, this work is handed easily and efficiently. 401(k) plans often get in trouble when a bundled provider tries to do it all and really only has expertise in one or limited areas.

### A 401(K) PLAN CHECKLIST AND RESOURCES

The document ends with an operating checklist, references and links to additional information. This is a great one-stop resource for information that can be reviewed by you to further clarify the various issues involved in these plans.

**IN CONCLUSION**, I think this publication does a good job putting all the various issues in one article. In addition, it emphasizes the need for competent professionals or the plan can fail in any number of areas. Remember the deadline for setting up a new safe harbor plan for this calendar year is **September 30, 2016**. Contact your clients who may need a plan this year today. Click here if you need [more information](#) or to receive a [proposal](#) for your client. I will be presenting a 30 minute webinar on How to Sell 401(k) Plans on September 7th and 8th. [Click here](#) to view the invitation. We are here to help.

