

# Helping Small Businesses Start a Retirement Plan

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**401(k) plans are: Not FDIC insured - Not Bank guaranteed - May lose value**

shareBUILDER 401K<sup>SM</sup>

Confidential

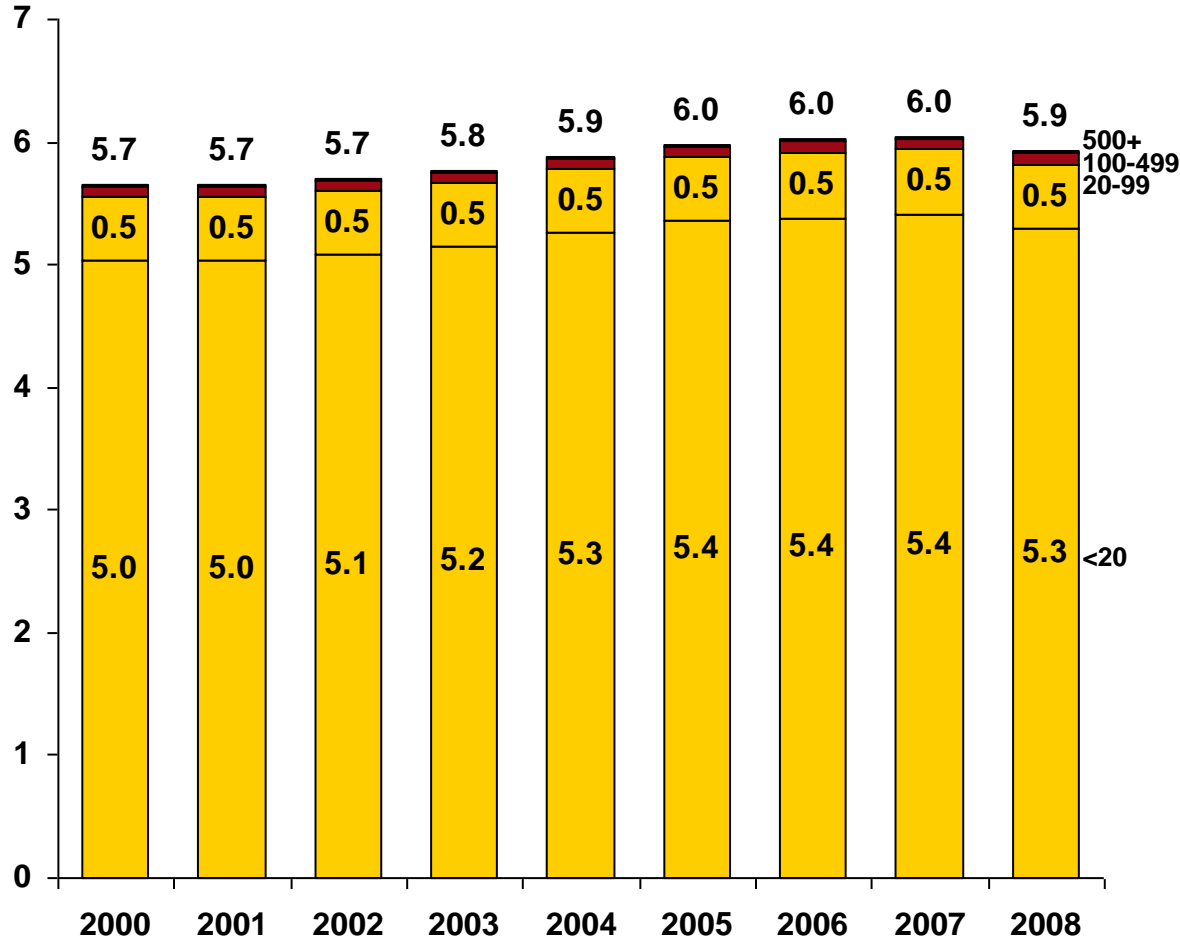
# Background

- **Stuart Robertson has run the ShareBuilder 401k unit since 2007 and joined ShareBuilder in early 2006**
- **ShareBuilder 401k entered the market in late 2005 to help the vastly underserved small businesses of America afford a 401(k) plan**
- **ShareBuilder 401k serves over 3,500 small businesses across America**
- **The ShareBuilder 401k offering is typically about 40% less than traditional offerings and remains just one of a handful of companies that enables businesses to purchase and setup a plan online**

# Small businesses employ nearly 1/3 of the US population, but of the 5.8M tax paying small businesses, only 10% offer a 401(k) plan

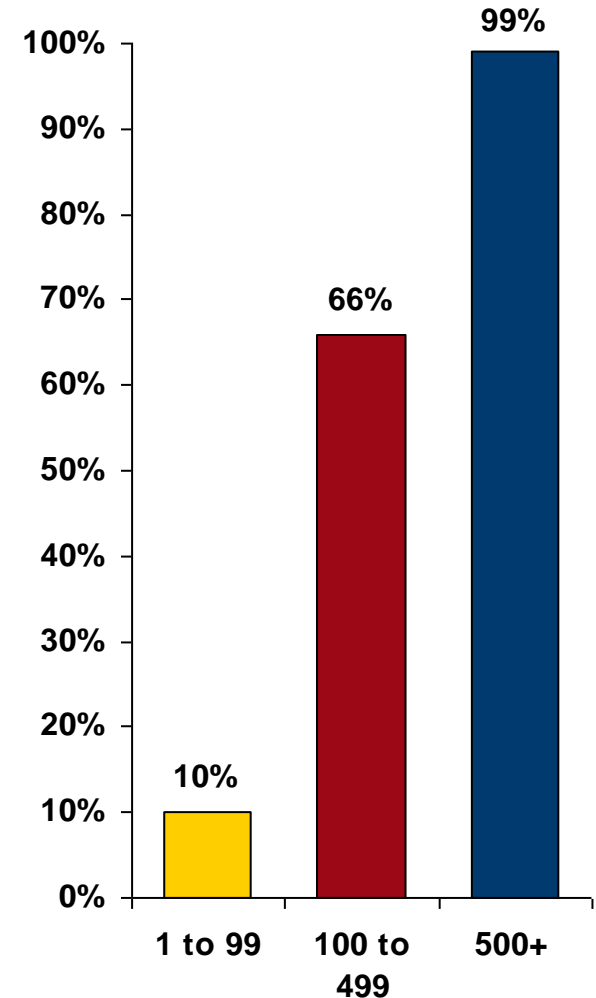
## Number of U.S. Firms

Millions, 2000-2008, by employee size



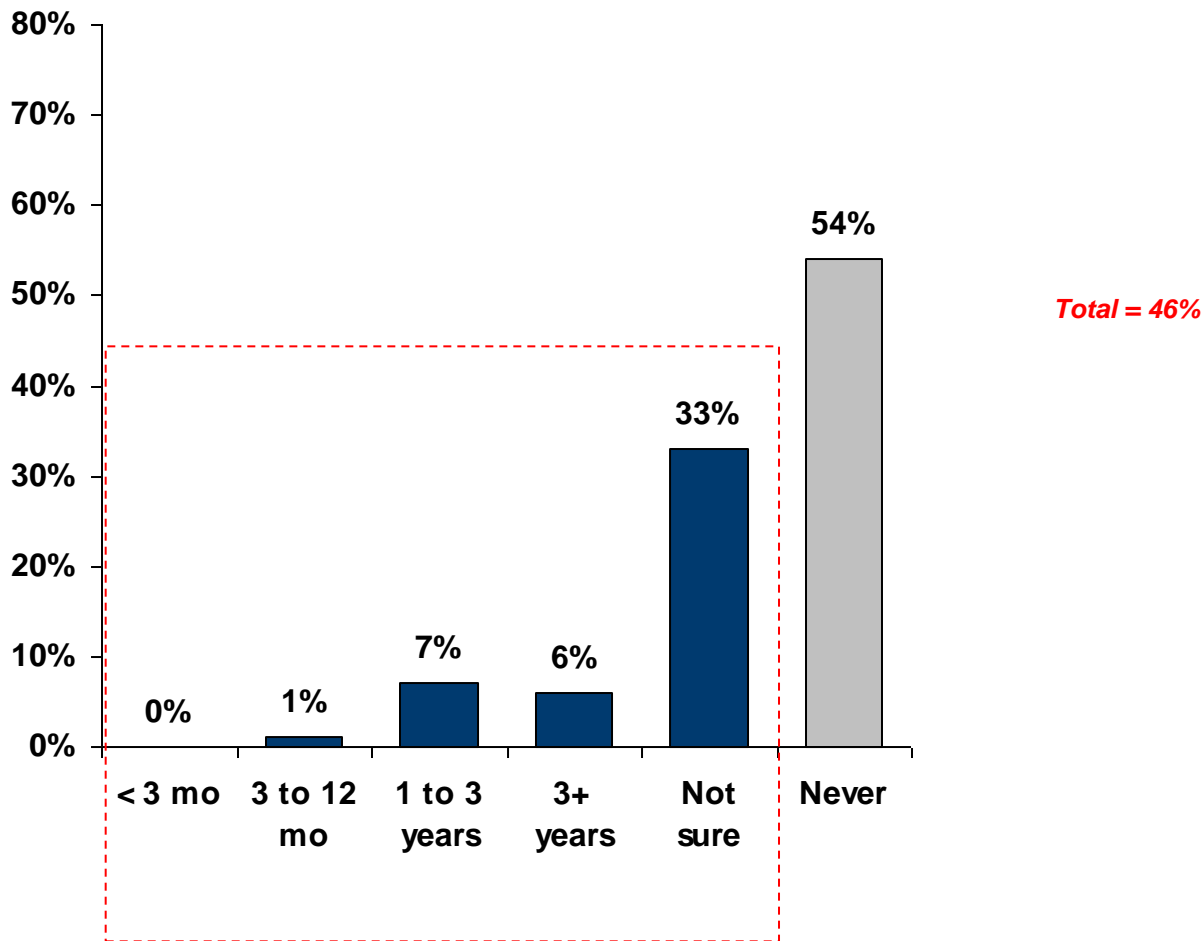
## 401(k) Plan Penetration

2009, by employee size



**With only 10% of small businesses offering a 401(k) today and ~50% willing to consider one, the untapped market is significant**

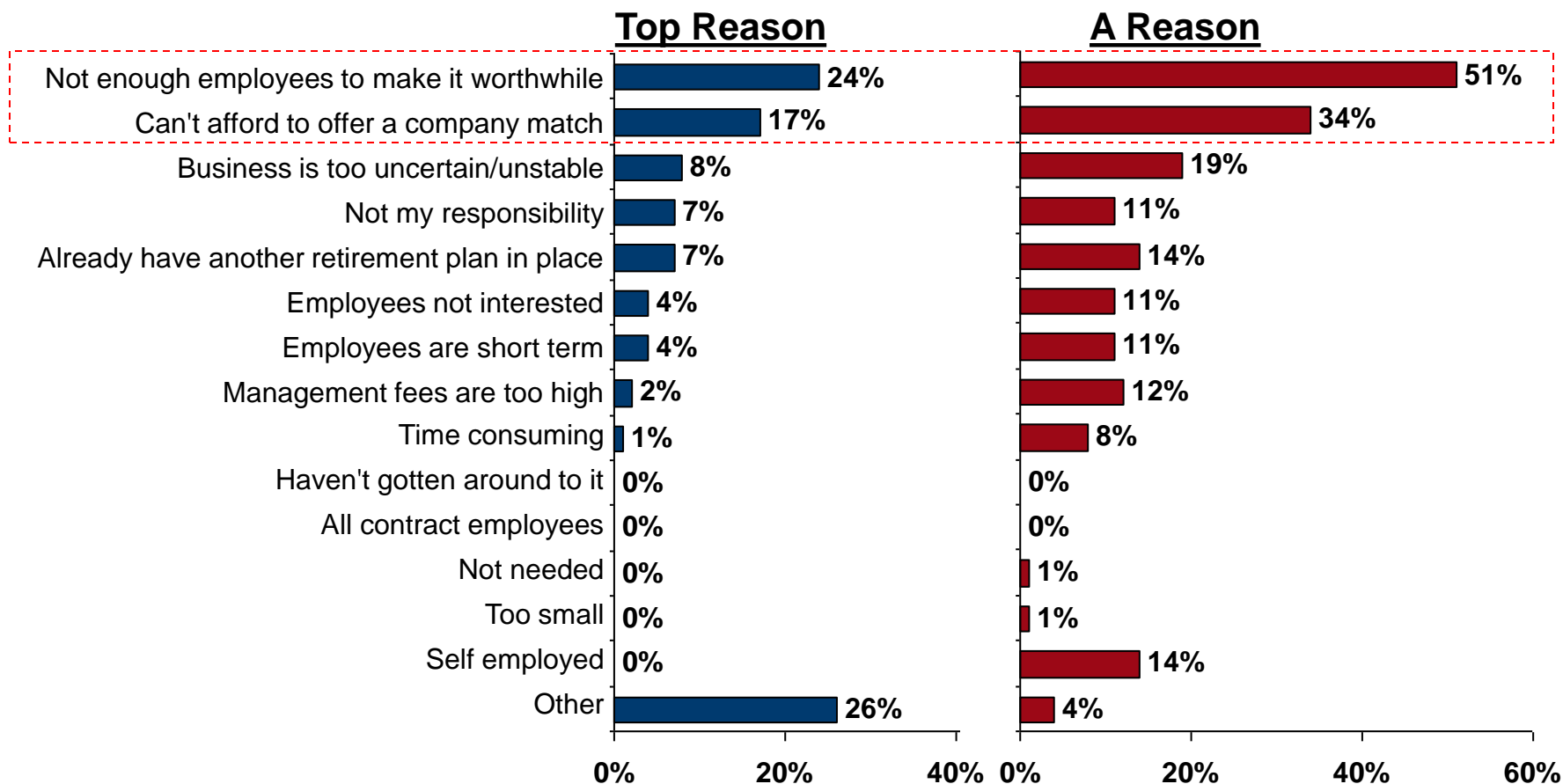
**Timing of Offering a 401(k) Plan**  
*of small businesses without a 401K*



# When asked why owners don't offer a 401K today they cite their business size and affordability concerns

## Reasons Why Small Business Owners Do Not Offer 401(k) Plans

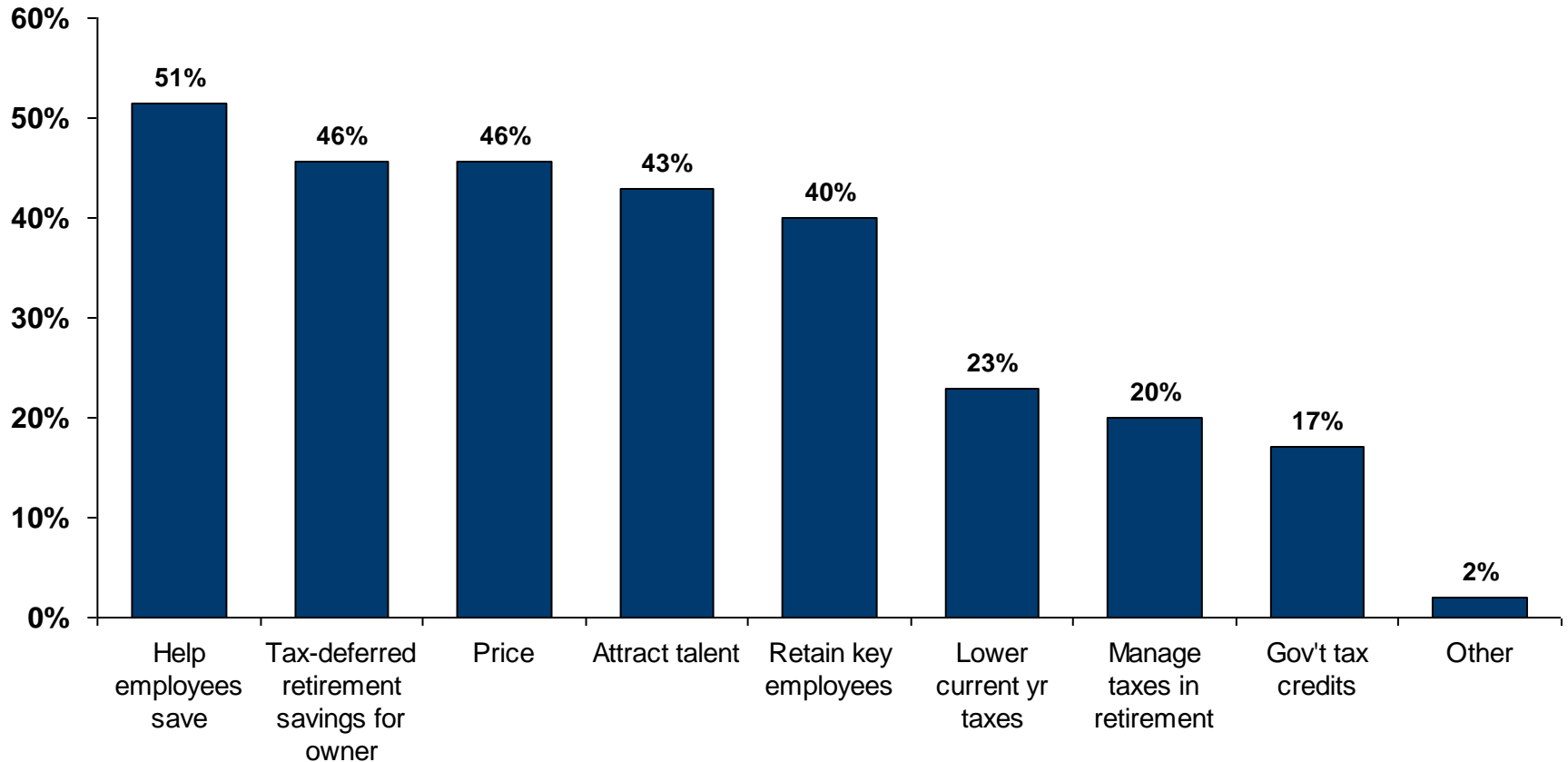
2008



# Business owners are motivated by the desire to help and attract employees as well as the financial benefits for themselves

## Reasons for Purchasing an Employee-based 401K Plan

*2012, Self-reported by ShareBuilder customers*



# For small businesses with employees, there are three primary options worth considering

## Employee-Based Retirement Options

	401(k)	SIMPLE IRA	SEP IRA
<b>Type of Business</b>	All Companies	Sole Proprietor; Small Companies	Sole Proprietor; Partnerships, Small Companies
<b>Max Employee contribution</b>	\$17,000 w/\$5,500 catch-up if 50+ years of age	\$11,500 w/\$2,500 catch-up if 50+ years of age	Not applicable; employees can not contribute
<b>Max Employer contribution</b>	Optional; up to 25% of W-2 payroll with \$50K cap (\$55.5K if 50+ years of age) plus profit sharing options	Employer must match 100% of first 3% of participating employee contributions or 2% of all eligible employee salaries	Only way to fund is by employer contributions; up to 25% of W-2 payroll with \$50K cap
<b>Vesting timing for employer contributions</b>	Multi-year options or immediate	Immediate	Immediate
<b>Access to fund before age 59 ½</b>	Penalty-free loans or 10% penalty for early withdrawal	25% penalty for withdrawing within first 2 years of participating; 10% thereafter	10% penalty for withdrawal before age 59 ½
<b>Roth Contributions</b>	Yes, up to the \$17,000 employee contribution limit	No	No

# How can the City or State help small businesses consider a plan?

- **What common touch points does the city have with small businesses that could be used to address misperception issues?**
- **Are there any incentives the city could offer for those that start their first plan?**
- **Given that there are easy and inexpensive 401(k)s, SEPs and SIMPLE IRAs designed for small businesses in the market, what would a WA voluntary retirement accounts program offer that private industry isn't / can't?**
  - The matching, number of employees, and motivation to start a plan are the issues
  - 401(k)s for a WA voluntary retirement account are not likely an option unless ERISA MEP (multi-employer plan) regulations change
  - The state would assume costs to run the program (either paid by participant fees or tax dollars) and fiduciary liability for determining the investment offering