

Vanguard®

401(k) 101:

Understand the basics



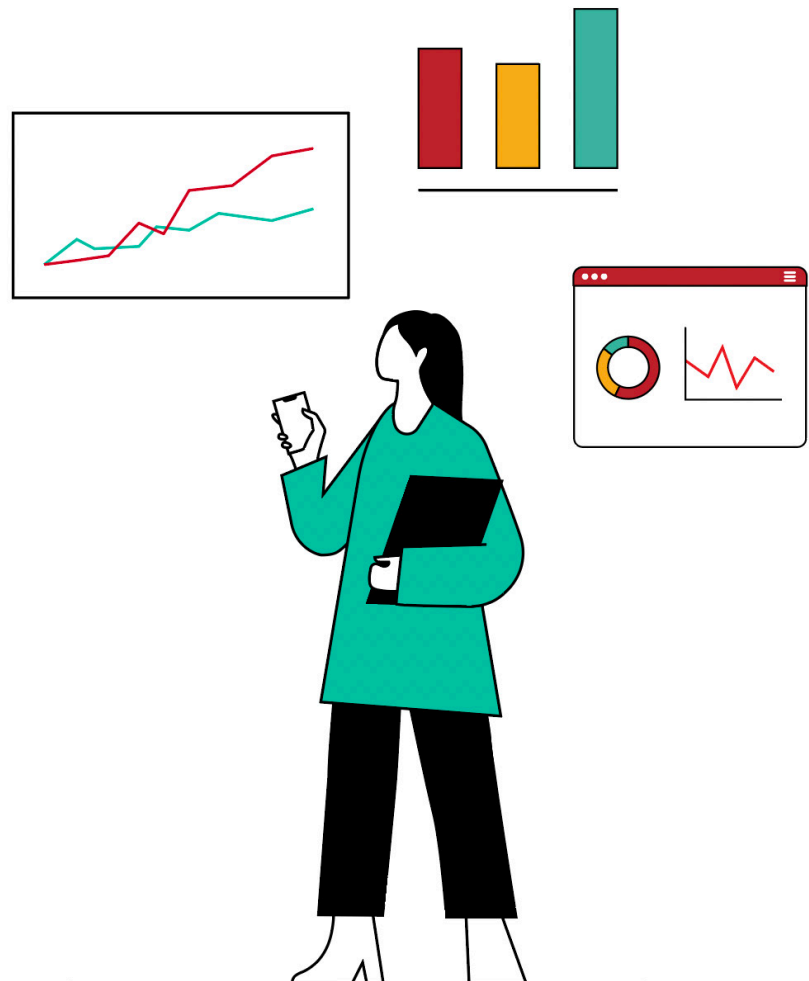
Offering a 401(k) plan

sends a message to current and prospective employees that you're invested in them and their futures. It can give you a competitive edge in the job market and also provide tax benefits whether or not you choose to contribute to employee plans.

So where does a business owner start?

There's a lot to consider around the resources, costs, and time required (45–60 days or longer) to set up a 401(k) plan.

Our guide walks you through it all.



Step 1. Know the benefits.

A 401(k) plan offers many advantages for your business, including:

- It can help you attract and retain top talent.
- Employers may benefit from an annual tax credit.
- Expenses such as employer contributions, including matching and profit sharing, are tax-deductible.

Step 2. Learn about your 401(k) plan design options.

Did you know there are different types of plans with different rules and requirements?

Plan types and features

Key considerations

A traditional 401(k) plan is the most common and flexible plan type. Employees can make pre- and post-tax elective deferrals through payroll deductions. Employers may make contributions for all participants, match employees' contributions, do both, or do neither.

- For businesses of any size.
- Could boost retention with a vesting schedule.

A safe harbor 401(k) plan allows a plan sponsor to automatically pass certain annual tests to ensure compliance with IRS regulations if specific contribution, vesting, and participant notification requirements are met.*

- For businesses of any size.
- Reduces plan maintenance by eliminating annual testing requirements and the obligation of maintaining a vesting schedule.
- Maximizes deferrals for highly compensated employees.
- Relieves a plan's top-heavy status.
- Provides additional employee benefits with profit-sharing or matching contributions.

An automatic enrollment feature allows an employer to automatically reduce an employee's wages by a fixed percentage and contribute that amount to the employee's plan account. Automatic enrollment can be an effective way for employers to increase participation.

- For businesses of any size.
- Employees may select their own investments.

A profit-sharing component is ideal for all types of businesses with fewer than 50 employees—including corporations, partnerships, and sole proprietorships. Plan sponsors have the flexibility to allocate discretionary contributions in their favor and in favor of key personnel.

- Can benefit businesses in which the owner is older than the majority of the employees.
- Optimal for owners seeking to maximize their contributions.
- Flexibility to grow in step with a small business.

*If an employer makes contributions—either matching, nonelective, or discretionary—that exceed certain limits/requirements, the employer is required to treat them as non-safe harbor contributions and subject the plan to actual contribution percentage (ACP) and top-heavy testing. After-tax employee contributions also subject the plan to these tests.

Step 3. Understand the responsibilities.

Every 401(k) plan requires these essential services:

Recordkeeping

- A recordkeeper maintains participant records of investments, loan payments, distributions, earnings, vesting, and forfeitures.
- A recordkeeper also keeps records of contributions, allocating them to the appropriate accounts and funding options.
- From providing quarterly participant statements to sharing required plan and participant disclosures, a recordkeeper helps participants track what money is going in and out of the plan.

Plan administration

- A plan administrator creates and maintains plan documents, including an adoption agreement and summary plan description.
- An administrator is tasked with preparing 5500 and 1099-R forms for tax purposes.
- The administrator also helps ensure that the plan remains compliant.

Fiduciary support

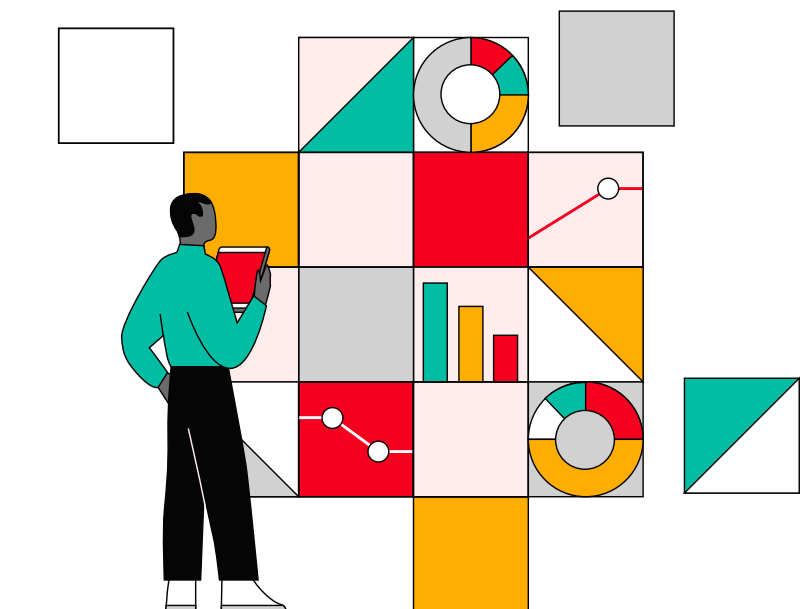
- A fiduciary exercises discretion over management of the plan or authority over plan assets.
- A plan fiduciary renders fee-based investment advice, either directly or indirectly, or has discretion over plan administrative issues.
- A fiduciary is required to share plan information with participating employees and with the government.



Step 4. Set up your 401(k).

Employers have a fiduciary duty to ensure that the 401(k) plan provides a benefit to participants. Here's a checklist of what you need to do in partnership with your retirement plan provider:

- Create a 401(k) plan document.**
This plan document outlines the details of your 401(k) plan and must comply with the Internal Revenue Code (IRC).
- Select a recordkeeper.**
Maintaining accurate records of employee contributions and plan values is essential.
- Set up a trust to hold plan assets.**
Plan assets are held in trust to ensure that they're used to benefit participants and their beneficiaries. A trustee (usually named by the plan sponsor) must handle the plan's activities, including contributions, plan investments, and distributions.
- Obtain an ERISA fidelity bond.**
An ERISA fidelity bond is a type of insurance that protects a 401(k) plan from losses caused by acts of fraud or dishonesty (e.g., theft, embezzlement, or forgery). Fidelity bonds are obtained through a surety or reinsurer that is named on the Department of Treasury's List of Approved Sureties.
- Share plan information with plan participants.**
Employers must provide participants and beneficiaries with a summary plan description describing their rights, benefits, and responsibilities under the plan. They must also communicate account-related fees and investment changes on a regular basis. A simple disclosure form ensures that this communication follows IRS guidelines.



Estimated timeline

Week 1	Choose a plan design and review investments.
Week 2	Sign off on plan design and investment selections.
Week 3	Schedule and execute installation call with plan provider and, if applicable, financial advisor.
Week 4	Receive fee disclosure for review and distribution.
Week 5	Sign and return Recordkeeping Service Agreement and other plan documents. Meet with payroll provider to set up a calendar and submission and funding methods.
Week 6	Begin plan enrollment for employees.
Week 7	Submit first payroll for processing.

If you'd like more information—or help with the setup process—please call Vanguard at 888-684-4015.

401(k) FAQs

1. How much should employers contribute?

The amount you contribute is entirely up to you and can be based upon your organization's unique business goals. For example, if culture and retention are important, a sizable contribution can help boost morale and make employees feel valued. Note that there are IRS limits for combined employer and employee contributions.

2. Can employees make Roth contributions?

Yes, you can elect to offer a designated Roth feature that allows employees to designate some or all of their elective deferrals as Roth contributions (which are included in gross income) rather than traditional, pre-tax elective contributions.

4. What does it cost to set up a 401(k) for my business?

Depending upon the size of your business and the types of benefits you choose, costs will vary. A retirement plan expert, like Vanguard, can walk you through all of the expected costs and any potential tax credits for which your plan may be eligible.

5. Are employer contributions tax-deductible?

Employer matches are deductible on the employer's federal tax return. Select administrative fees associated with managing a plan are also tax-deductible.

6. How long does it take to set up a 401(k) plan?

A new plan generally takes 45 to 60 days to set up, but it could take longer.

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P.O. Box 2900
Valley Forge, PA 19482-2900
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