



Why should plans pay 401(k) expenses with company assets?

Many 401(k)s are set up to have participants pay plan costs from plan assets. Plan sponsors may instead elect to pay plan costs out of company funds. This has benefits for both employers and employees:



Additional tax deduction for employers

Out-of-pocket plan fees are a tax-deductible expense, and startup plans may qualify for a tax credit.



Lower participant fees can have multiple benefits

In addition to potential higher account balances, employers may be able to better attract and retain quality workers.



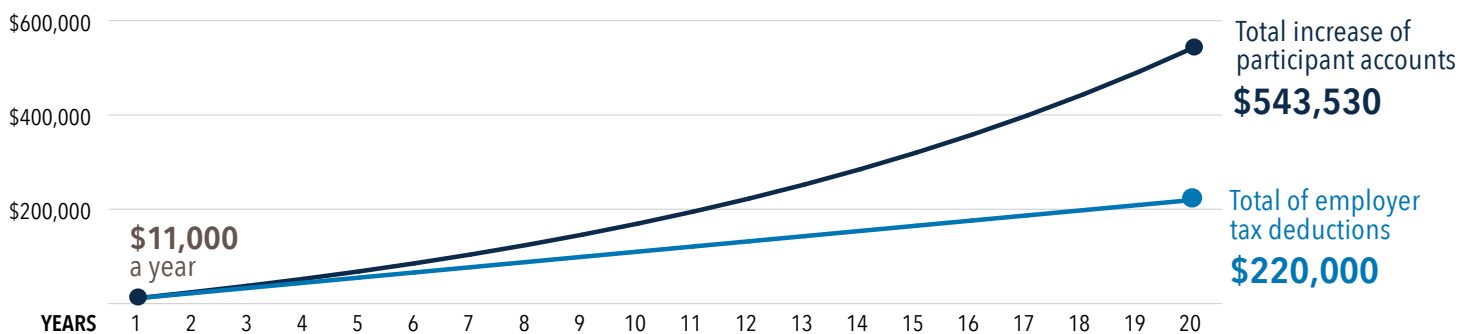
Reduced litigation risk

Paying plan costs with company assets can help sponsors reduce exposure to excessive fee claims.

The hypothetical example below illustrates how benefits for employers and participants might add up over time.

Tax savings for employer, increased assets for employees

Assumes \$1 million in plan assets, 30 participants, \$11,000 in annual plan costs and an 8% annual investment growth rate over 20 years



This hypothetical example was developed by third-party retirement plan consultant Patrick Shelton, GBA and managing member of Benefits Plans Plus, LLC. The example assumes annual recordkeeping costs of \$4,000, annual advisor costs of \$5,000 and annual TPA costs of \$2,000. To estimate the increase of participant balances, one-fourth of \$11,000 (\$2,750) is invested quarterly with an annual growth rate of 8% compounded quarterly over 20 years. Sponsors can elect whether or not to pay plan expenses each year, depending on business conditions.

Put this idea into action

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