



Streamlined 401(k) plan a solid retirement benefit for small businesses

Much more than a gold watch

CORBIS

By David Wight

COSTCO MEMBERS who operate small businesses may be interested in a new retirement plan service being introduced nationwide by Costco and ShareBuilder.

With the Small-Business 401(k) Plans, ShareBuilder updates a popular retirement savings vehicle with the same kind of simple presentation and implementation they have demonstrated to Costco members for more than five years with their online investing service.

Changing retirement needs

A century ago a gold watch and, if lucky, a modest pension were the rewards a worker might expect after putting in a loyal 20 years on a job. Of course, back then retirement didn't take much planning. Average life expectancy for men in 1907 was 45 years, compared to 78 years in 2007.

As life expectancy increased over the decades, paying for retirement became a larger concern, with big companies recognizing the increasing expense and liability of pension programs. Today, fully funded company pensions are nearing extinction.

Fortuitously, a new breed of savings vehicle came along in the early 1980s that gained overwhelming popularity with both employers and employees. The modern 401(k) plan—named after paragraph (k) of Section 401 in the U.S. tax code—was born out of an Internal Revenue Service (IRS) loophole concerning employee pretax salary reductions. Quickly sanctioned by the IRS, 401(k) plans empower employers to

provide a salary-reduction savings plan with tax incentives for employees.

401(k) basics

Companies find 401(k) plans to be a vital tool for recruiting and retaining the right employees, especially in competitive fields. Prospective employees' choice of employers often depends in part on what kind of 401(k) is offered. A 401(k) is likely the largest asset many people own, with the possible exception of their home.

The numerous advantages that employees find attractive about a 401(k) include the pretax nature of this savings vehicle, which lowers taxable income, and the lack of any limit in how much a plan will yield upon retirement. Flexibility to easily change contribution levels and investment types is also a plus.

But probably the biggest draw for employees is the high contribution limits. Up to \$15,500 per year in tax-deferred contributions can be made, with those older than 50 years of age eligible for \$5,000 in catch-up contributions.

The tax code extends a major benefit to self-employed business owners, positioning a 401(k) as a no-brainer. Owners can contribute up to \$45,000 per year in tax-deferred retirement savings.

Retooling the model

For much of the past 25 years, 401(k) retirement plans were practical and affordable only as employee benefits for big companies, with

mutual funds as the primary investment option. The plans were just too costly and complex for small businesses to justify.

Now ShareBuilder has addressed those limitations with a 401(k) plan that is specifically designed for small businesses and includes exchange-traded funds, or ETFs (see sidebar), as a modern and possibly more ideal investment option.

ShareBuilder has also stripped away the hidden broker and transaction fees usually associated with 401(k) plans. What remains is a fee structure that's simple to comprehend, yielding an easy understanding of just what the plan costs a company and its employees.

ShareBuilder 401(k) enhancements

ShareBuilder excels in turning complicated processes into simplicity. The key features of the Small-Business 401(k) plans include:

- Business savings of 50 percent or more over traditional plans
- Paperless plans, simple to set up and administrate online
- Dedicated consultants to assist employers with plan selection
- Free access to a wide array of financial planning tools and resources
- Online access 24/7
- Loans and hardship withdrawals
- Automatic rebalancing of investments
- Simplified business-tax filings
- Access to 15 of the most popular ETFs
- Exclusive pricing for Costco members

For more information, including cost savings, go to costco.com and enter "401(k)" in the search box. You can also pick up a brochure in any Costco warehouse. ☐

What are exchange-traded funds (ETFs)?

EXCHANGE-TRADED funds (ETFs) are baskets of stocks that track an index such as the Standard & Poor's 500 Stock Index.*

- ETFs are not mutual funds.
- ETFs are traded just like company shares on a stock exchange.
- ETFs provide the diversification of an index fund plus the flexibility of a stock.
- ETF prices change throughout the day, fluctuating with supply and demand.

A prospectus for any ETF should be read carefully before investing. It contains important information, including objectives, risks and expenses.

*An index of stock prices issued by Standard & Poor's indicating price movements of the shares of 500 major companies traded on the New York Stock Exchange.

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