

HOW TO MAKE MEP APPEALING TO SMALL BUSINESSES

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Small businesses have not adopted retirement plans, explaining that the cost, complexity and risk are the main reasons. Further analysis, however, shows that this explanation is deceptively simple and the fact is that plans are not *worth* the cost, complexity and risk!

In order to be widely adopted, retirement plans must be shown to be worth the effort for small businesses. It is evident that reduced cost, less complexity and lower risk alone will not be sufficient to achieve widespread adoption.

While MEPs distribute the fixed cost of that plan over a larger number of employees and can use buying power to negotiate lower fees, the highest cost is not addressed. That high cost is the employer contributions that are driven higher by competitive pressures to attract and retain employees. An effective MEP must incorporate measures to control the cost of employer contributions.

The primary challenge is increasing the worth (or value) of plans to make them appealing to small business.

Motivating Small Businesses to Offer Plans

While the top motivator for small businesses is to produce revenue, the second most important is to attract and retain talent in a highly competitive local environment. Competitors in the area are perpetually seeking to recruit the most talented workers, often after the business has invested years in developing and honing the individual's skills.

Retirement plans specifically designed to protect the business from raids of talented employees by local competitors will be welcomed by small business owners. Expenditures that businesses make to attract and retain talent can be very worthwhile, when made effectively, particularly when it is difficult for competitors to make an equivalent offer.

To be most effective, expenditures should add more to the employees own financial worth than the cost to the business. Consider the following scenarios:

One dollar expended in the form of:

- Salary... results in addition of \$0.75 to an employee after taxes
- 401(k) contributions results in \$1.50 to the same employee, due to appreciation.

Small business owners who understand this value proposition will certainly choose to make the contribution.

Promoting the Plan

The economic value shown here needs to be aggressively promoted for the plan to be effective in attracting and retaining talented employees.

Large plans dedicate significant resources to promoting their plan in their recruiting of new employees as well as to their existing workers. Small businesses, on the other hand, find this burdensome, simply because of the fixed costs. The result is that the benefits to the business are not realized!

An effective MEP should include a pre-packaged promotion that relieves the business owner of the burden of promoting its retirement plan. Such a promotion will also fulfill the requirements of plan participant communications and increase voluntary contributions to the plan.

Because of its larger scale, the MEP can also include the flexibility and features that are typically available only in large plans. Flexibility includes the ability to roll over assets from another plan without changing investments plus a variety of retirement options. Large plan features include personalized investment advice for participants and post-retirement support.

Spending and Competition

This retirement plan contribution expenditure is only useful when competitors seeking to raid talent cannot make the same offer! Large businesses do not combine plans with their competitors, primarily because it is essential that the plans need to be unique for them to gain a competitive advantage in attracting and retaining critical talent.

MEPs that limit their constituency to competing small businesses defeat the reason the business would adopt the plan. The effectiveness of the contribution expenditure to retain talent is wasted if the competing business has the same reward. Additionally, when competitors share the same MEP, contribution expenditures escalate, with no long term change in the ability to retain talent.

This competitive standoff is the main reason the MEPs have not flourished in the past.

MEPs would become far more appealing to small businesses if the constituent businesses were non-competing. Non-competing businesses would also create the scale to afford highly attractive plan features, further leveraging the cost of contributions.

The non-competing MEP has the advantage of even greater economies of scale, thus further reducing the cost, complexity and risk to the business.

The non-competing MEP becomes an effective tool for constituent businesses to attract and retain talent without the fear that local competitors can match the benefits.

Recognizing the Value of Experience

Another important consideration for small businesses is the way in which employer contributions are distributed. It is clear that talent retention becomes more important over time as the employee gains experience and skills. A plan that increases matching contributions over time (Graduated Matching) permits the business to reward talented employees by changing the way contributions are allocated.



By using a safe harbor plan to avoid ADP and ACP testing, the MEP can utilize a tenure based contribution. For example, the match increases every five years of employment, from 50% to 70% to 90% to 100%!

In Conclusion

A locally focused non-competing MEP with Graduated Matching and a powerful pre-packaged promotion can deliver the value to the small business that makes the cost, complexity and risk worthwhile, leading to widespread adoption.

And finally, the well-designed MEP also adds to the valuation of the constituent business in the event that business is sold.