

CREDIT UNION TIMES

Integrating Payroll Service and 401(k) Plans Makes Sense

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The NCUA's recent approval of payroll services as a permitted service will help credit unions be even more competitive in the small business market. We are already reading more about their growing role as a small business lending source, and now they will be able to provide even more value through the offering of payroll services to their small business customers.

Of particular interest to credit unions should be the fact that a relatively new set of online players have recently joined the fray. In this category are large and small companies that specialize in the payroll processing business, providing services directly to the business community. But there is also a small group of payroll service providers that offer solutions through private-labeled platforms that are designed to be marketed by financial institutions that recognize that offering payroll services is a good business strategy.

But, in addition, credit unions can take this simple offering to the next level by combining the basic payroll service with something many financial institutions have already begun to offer: 401(k) plans. In fact, a growing number of credit unions already offer 401(k) plans to small business clients and for good reason. According to the U.S. government, there are more than 6.3 million small businesses without any form of organized retirement savings plan. Another positive marketing opportunity is the growing recognition by small business owners and their employees that they are accountable for accumulating the necessary amount of retirement savings. One survey last year revealed that more than 40% of small business owners were concerned that they would not have enough money to retire. Another recent study showed that more than 30% of them planned to generate a substantial portion of their retirement funds from the sale of businesses. This may account for the fact that 65% of small business owners believe that a 401(k) plan would help them save more for their own retirement.

So, it is no coincidence that many of the online payroll companies have integrated their services with online 401(k) plans. This of course makes perfect sense as employee payroll deferrals, optional employer matching contributions and other plan-related transactions are dependent on payroll processing. Therefore, credit unions that may be considering whether to offer payroll-integrated 401(k) plans may benefit from some perspective.

For decades small business owners have believed that 401(k) plans were too expensive, too difficult to administer or exposed them to too much potential liability. Fortunately, in recognition

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of these factors, the federal government and the private sector have worked to develop solutions that mitigate or eliminate these concerns.

For one, the liability and procedural concerns were effectively eliminated by the passage of the Pension Protection Act of 2006, which provided a variety of safe harbors that limited an employer's potential liability related to employee-directed actions involving their contributions and investment options. Through the practical use of many of these safe harbors, employers can insulate themselves from potential exposure to these historically problematic areas. Furthermore, online 401(k) plans have also effectively addressed the administrative and cost issues. These online 401(k) plans, have been created by companies that utilize Web-based software to perform all of a plan's set-up, administration, calculation, reporting and record keeping services via the Internet. A plan can be set up in a matter of minutes using a series of fill-in-the-blank templates to enter company information plus plan provisions for employer and employee contribution levels, vesting schedules and investment options. Once the plan is in place, software guides the company through processes such as entering employee census information for tracking employee eligibility, as well as enrolling employees and processing scheduled contributions. In addition, because online 401(k) providers have leveraged technology to streamline the plan establishment process and ongoing management requirements, the set-up and annual administrative fees are typically very low.

Payroll-integrated 401(k) plans get high marks from companies that utilize them. They cite the significant time savings, administrative ease, and better processing accuracy, as their key advantages. But, in addition, to fewer mistakes and improved productivity, employers with payroll integrated 401(k) plans also claim higher employee satisfaction and lower stress levels as ancillary benefits.

Nevertheless, writing about 401(k) plans today dictates that current economic conditions be taken into consideration. It is true that the value of many people's retirement accounts have diminished in recent months. However, this does not change the fact that business owners and their employees still need to accumulate funds for their retirement. So, irrespective of how the capital markets are right now, it is not going to change that fact and organized retirement savings tools like 401(k) plans enable them to do that. But, in addition, the tax advantages of qualified retirement plans still provide a tremendous incentive for business owners to establish and maintain them—as well as for employees to participate in them to save for their retirements.

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