

## More Small Businesses to Adopt 401(k) Plans

*Thanks to the Pension Protection Act, companies like ePlan Services stand at the ready to provide such plans*

By [Savita Iyer](#)

The micro and small business segment of corporate America has, until now, been relatively underserved by the retirement finance industry, but according to retirement experts like Mark Gutrich, president of Denver-based ePlan Services, it is set to see a marked increase in 401(k) plans in 2008 and beyond, largely as a result of the Pension Protection Act (PPA).

"There are at least six million small businesses with more than two and less than 100 employees, and only 17% of those offer any kind of organized retirement service," says Gutrich, whose company creates online 401(k) plans, offered through banks, for small businesses. "Over the years, successive U.S. governments have been pushing to get small businesses to adopt plans, but it is only now, with the PPA and its automatic enrollment feature in particular, that many have become incentivized enough. The financial services industry has also been spurred to meet the growing demand and is realizing the importance of the small business segment."

To be sure, the greatest challenge thus far and one of the main reasons why the penetration of retirement plans is so low in the small business universe has been getting the financial services industry interested in this section of corporate America. Because financial institutions are compensated in terms of the assets they have under management, most continue to focus on large companies, thinking of small businesses as small fry, Gutrich says. However, banks and other financial institutions that are in the 401(k) business to stay need to have a longer-term view when it comes to the small business market, and think in terms of volume.

"As an individual unit, a small business is not attractive, but if a bank can put a significant number of small business plans under its belt, then these can become really valuable," Gutrich says.

He cites the example of Rochester, New York-based Paychex, the current number one provider of 401(k) plans to small businesses, which has a hefty \$8.5 billion in assets under management in retirement plans and an average of 12 people per plan. The overwhelming majority of Paychex's defined contribution plans began as micro-employer startups, Gutrich says, and this is also the case for Plan Services: 75% of the 2,600 plans the company offers were made for firms that were once startups, and these now account for around \$200 million in contributions.

One of the biggest hurdles for this segment of corporate America has been the high cost of putting a retirement plan in place, Gutrich says. To this end, Web-based companies like ePlan Services have helped make it more affordable for many small businesses, by working with both banks and plan sponsors to come up with the right product at the right price. ePlan Services offers bundled private-labeled product solutions, and also works in partnership with financial advisors and third-party administrators, all with the goal of drawing up plans that are easy to use—a key issue for small businesses.

Like larger companies, small businesses also want the best of breed in terms of well-tailored plans with smart investment options. However, companies like Paychex have proven that the “cookie cutter” approach—providing just a few plans for small businesses to choose from—has worked extremely well.

“People think that small businesses are hard work, that it takes a lot of talking and discussion,” Gutrich says. “Really, it’s quite easy to come up with a good plan for a small business.”

In the long run, though, those financial institutions that will have the most success in the small business universe are those who will be able and willing to offer the sophistication that smaller firms are going to inevitably want as more and more of them sign on for retirement plans, Gutrich says.

“Every financial institution needs to have an incubator solution at first when targeting small businesses, but then they need to be able to move onto customization and greater sophistication as they grow in assets,” he says. “Financial institutions need to have a five- to 10-year horizon when thinking of the small business segment in order to be successful.”