

Prospecting Small Business Retirement Plans: Helpful Tips and Questions

A small business retirement plan offers many benefits to business owners and their employees, yet most small businesses do not have one. Profitability and cash flow are important considerations for business owners in evaluating and prioritizing retirement funding, especially during challenging economic times.

The information below is designed to help financial professionals approach small business owners and find the right prospects for building a successful retirement plan business. See *Overcoming Objections to Establishing a Small Business Retirement Plan* for additional support.

Prospecting Sole Proprietors

Over 70% of U.S. businesses are owned by sole proprietors, which includes consultants, freelancers and contractors.¹ That number is expected to rise in coming years, presenting new opportunities for financial professionals to address the personal financial needs of their clients with employer retirement plans. Many of these new business owners may come from corporate America and have an understanding of the benefits of employer retirement programs. Here are some ideas for prospecting sole proprietors:

- 1 Gauge their interest in funding their personal retirement goals now.** Discuss the personal and tax advantages of establishing a retirement plan. Evaluate whether the business is temporary or something your client is interested in pursuing longer term. Many consider their freelancing activities something they are doing on a temporary basis until they find full-time work again. Even still, deferring taxable income can have great appeal, so do not let that stop you from pursuing a conversation. Keep in mind that the self-employed carry the extra burden of fully funding Social Security benefits, and therefore, have a higher overall tax bill. Be sure to advise your clients of maximum contribution restrictions, especially if they re-enter the corporate workforce and receive retirement benefits.

KEY FACTS

- 91% of small businesses have less than 10 employees (micro market)
- 72% of micro market small businesses are sole proprietor arrangements
- 64% of micro market small businesses are home based

Source: U.S. Small Business Administration, March 2010, "Saving for Retirement: A Look at Small Business Owners"

HOW PERSHING CAN HELP

- Pershing provides the tools and materials you need to help your small business clients select, open and maintain a plan.

- 2 Look for opportunities to assist with assets from former employer relationships.** For clients who have recently left their former employer, did they receive a severance package or a distribution from their retirement plan? If so, explore opportunities to work with your client to develop a strategy that addresses both short-term liquidity needs while not sacrificing thoughtful and important long-term retirement planning. Does your client have an old 401(k) or Individual Retirement Account (IRA)? Offer to create a retirement plan strategy or conduct a portfolio review to uncover opportunities to help your client with retirement matters including rollovers, asset consolidation or new employer-based savings plan suggestions for future retirement funding needs.

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- 3 **Follow up and continue to position the personal and tax-advantages of funding a retirement plan.** For clients with new businesses, cash flow concerns may be an impediment to prioritizing retirement savings—make a note to re-engage them in a discussion before next year’s tax-filing deadline.

SOLE PROPRIETOR TIPS

- Every qualified dollar contributed to a sole proprietor employer retirement program represents a personal income tax deduction
- Sole proprietors have until the federal tax filing date to establish and fund Simplified Employee Pension Individual Retirement Account (SEP IRA) programs; Individual 401(k)s must be set up by December 31, but can be funded up to the tax filing date.
- Mid-to-late career job changers may have special needs associated with potential severance arrangements and the unlocking of workplace wealth, such as long-term incentive programs or former corporate retirement plans such as 401(k)s
- A saver’s credit of up to \$1,000 (up to \$2,000 for married couples filing jointly) may also be available to low- and middle-income employees

Note: Refers to federal taxes only.

Prospecting Businesses with Employees

Chances are if your clients have employees and stable businesses, employee retention and perhaps recruiting may be top of mind. Alternatively, their own personal retirement goals may be a higher priority. Getting to know the business owner’s personal and business goals is key to building the relationship.

- 1 **Look at the business track record.** Has the business been in place for more than two years? Businesses that have beat the odds and are still operating after two years may offer worthwhile opportunities for you.
- 2 **Evaluate and discuss growth prospects.** Is your client considering expanding or recruiting more employees? You may want to highlight the importance of retirement

programs in attracting and retaining talent, particularly if skilled talent is key to the small business. Is your client concerned about employee retention? Retirement programs, particularly employee-funded plans with vesting schedules, can be a valuable tool in building loyalty and sharing the success of the business with employees, while benefiting from business tax deductions.

- 3 **Understand the dynamics of the industry served.** Knowing the industry your client serves can provide important clues into the considerations that may be important for attracting and retaining employees and establishing an effective plan design.
- 4 **Examine the make-up of the employee group.** What is the profile (education, salary range, tenure, average age) of your client’s employee base? A combination of professionals and mid-career employees with low staff turnover may be optimal for a successful retirement program. Establishing a retirement program for businesses with high turnover that employ minimum wage employees can be more expensive and challenging.
- 5 **Determine the preferred features of the retirement plan.** Does the business owner want to allow employees to contribute to the plan? Does the business owner want to commit to mandatory or discretionary employer contributions? Are vesting schedules important for employer contributions? Are loans an important feature? Answers to these questions eliminate certain plan types and help influence plan design considerations.
- 6 **Discuss plan options and recommend an approach for meeting business owner, employee and funding objectives.** There are many choices when it comes to types of retirement plans. Each plan type has different plan features, legal obligations and costs. Typically you will want to help clients select the appropriate plan options that will meet the objectives set out for each business situation.

7 Do your clients currently offer a retirement program to their employees? If so, determine the level of satisfaction and look for an opportunity to discuss how you can offer a plan that provides potentially more investment choices, additional employee support or potentially better plan design approaches. Consider offering your services to help educate employees about planning for retirement. This approach may create new opportunities and position you for attracting IRA rollovers.

Additional Tools and Resources

Visit retirementpowerplay.com for more information and access to tools and resources you can use with your small business owner clients.

¹ SBA.gov, Small Business Administration, "Should You Incorporate Your Freelance or Consulting Business?" March 2, 2012

Pershing LLC does not provide tax or legal advice. Business owners should seek professional advice about their individual circumstances before establishing and maintaining a retirement plan.

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TIPS FOR BUSINESSES WITH EMPLOYEES

- Larger employers tend to need more features and flexibility and may value a 401(k) plan
- In addition to business deductions for employer contributions, a tax credit of 50% of the administrative and education expenses of certain new businesses may be available for those who establish a SEP IRA, Savings Incentive Match Plan for Employees (SIMPLE) IRA or other qualified retirement program including 401(k) and profit sharing plans
- A saver's credit of up to \$1,000 (up to \$2,000 for married couples filing jointly) may also be available to low- and middle-income employees

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