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Small retirement plans

A new market for financial advisors

In today's small business economy, small-asset and start-up plans are increasing in popularity. This rapidly expanding small-plan market gives financial advisors new opportunities to play a vital role with clients.

The US retirement landscape: State mandates

About 20% of the total US domestic retirement market consists of 401(k) plans. That's roughly 600,000 401(k) plans with 65 million active participants and $6.9 trillion in assets.[1] These plans are mostly employer-sponsored defined benefit and defined contribution plans, IRAs and annuities.

However, only 66% of private industry workers have access to a retirement plan.[2] To fill this gap, at least 25 states are implementing retirement savings programs where employers automatically enroll employees in a state-managed plan, usually an IRA. Many of these states are requiring businesses to offer retirement savings programs by law. Businesses can opt out of the state program by providing a private plan of their own, such as a 401(k). Non-compliance can come with hefty penalty fees, especially for small businesses. Because of this growing trend, small businesses will be looking for retirement solutions from their financial advisors.

The SECURE Act: Making retirement plans accessible

One of the issues for small businesses is they simply don't feel equipped to manage a complex plan like the 401(k). Many small business owners feel they can't justify the time, cost and fiduciary responsibility involved in plan administration.

To remedy this, the SECURE Act of 2019 created the Pooled Employer Plan (PEP). This revolutionary 401(k) allows employers to pool assets in a plan without having to belong to an industry or similar group. More importantly, most fiduciary and administrative duties are handled by a Pooled Plan Provider, relieving small businesses of the burden of paperwork and compliance.

Both the SECURE Act and its follow-up legislation, SECURE 2.0,[3] have relaxed retirement plan restrictions and provided incentives for small business employers and employees alike, such as:

- Employer tax credits to start new plans.
- Tax credits for employer contributions, up to $1000 per employee.
- Changes in the law designed to increase employee participation, such as allowing part-time employees to enroll in a plan, catch-up contribution increases and student loan contributions.

These sweeping legislative reforms are now making it easier for small businesses to adopt 401(k) plans. Also, in the post-pandemic economy, good employees are hard to find — and keep. Employers are feeling the need to offer retirement plans to stay competitive. With more businesses adopting plans, financial advisors can tap into a completely new market.

Debunking the myth of the large-asset plan

Financial advisors have typically steered away from small retirement plans as their business model; the larger the plan assets, the larger the return. Many advisors look for private wealth and C-suite clients, or for M&A activity. But, with small businesses making up 44% of the US economy[4] and such high demand for small-asset plans in the market, now might be an excellent time to challenge this conventional wisdom.

How can advisors make the small-plan market lucrative? One way is to rethink compensation. The commonly used AUM fee is based on a percentage of total client assets, or basis points, and works well with larger private wealth accounts. But since the rate of return is low, it's not a feasible model for small-asset plans. A flat fee per plan may make more sense.

With more small plans in the market, advisors may be able to attract more clients. The flat-fee-per-plan model works well with a higher volume of plans. And of course, as these plans accumulate wealth, advisors can revisit their fee structure. Automating tasks, outsourcing services, and providing online self-service can also help make small-asset plans relatively easy to manage.

Plan sponsors have more choice than they had just a few years ago. With choice comes opportunity. Advisors can play an instrumental role in helping plan sponsors understand their retirement plan options. The typical type of plan sponsor is changing as well. No longer just a private wealth client or corporate trustee, advisors now have an opportunity to serve all kinds of clients.

Forward-looking advisors should consider taking a look at this emerging market before their competion does, and leverage this unique opportunity to take their practice to the next level.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture.

Mesirow Fiduciary Solutions helps the retirement plan community achieve their intended investment objectives through our institutional 3(21) and 3(38) fiduciary partnership services, fiduciary technology and reporting, and customized default solutions.

To learn more about how Mesirow can help you, please contact us at fiduciaryinquiries@mesirow.com or visit mesirow.com/fiduciarysolutions.

About Paychex

Paychex, Inc. (Nasdaq:PAYX) is a leading provider of integrated human capital management solutions for human resources, payroll, benefits, and insurance services. By combining innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers business owners to focus on the growth and management of their business. Backed by over 50 years of industry expertise, Paychex serves more than 730,000 payroll clients as of May 31, 2022 in the US and Europe, and pays one out of every 12 American private sector employees. Learn more about Paychex by visiting paychex.com and stay connected on Twitter® and LinkedIn®.

To learn more about how partnering with the Nation's #1 401(k) provider[5] can help you, contact us at paychex.com/retirement-services or 844.846.7822.

1 Investment Company Institute. 2023. "The US Retirement Market, First Quarter 2023" (June). www.ici.org/statistical-report/ret_23_q1_data.xls.

2 Bureau of Labor Statistics, National Compensation Survey – Benefits, 2022

3 Setting Every Community Up for Retirement Enhancement Act of 2019, and SECURE 2.0

4 https://advocacy.sba.gov/2018/12/19/advocacy-releases-small-business-gdp-1998-2014/

5 Largest 401(k) Recordkeeper by number of plans, PLANSPONSOR Magazine 2022.

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