



The Advantages (& Disadvantages) of Emerging Industry Retirement Plans

The Head of Human Resources from an up and coming company within an Emerging Industry sector asked me a great question and I could tell she had been contemplating her new company's quandary for a while. *

I knew this because she had a couple of great questions.

"How effective would a retirement plan such as a 401(k) be in a nascent industry be when we have so many young employees that are here because they simply want to be part of this growing industry?"

But she almost answered her question with another question....

"Our problem is in order for this company to grow we need to attract talent from mature companies within established markets, and these people expect certain benefits that our industry hasn't consistently provided."

Then she expanded on her previous question....

"Many of our employees have never been part of a retirement plan nor are they really asking for it."

While she was experienced in human resources she had never managed a company's HR department. The management team was expecting for her to make recommendations on a benefits package to continue their growth, which meant building out a talented executive bench. This was quite a task given the industry being so young but she was smart and motivated to figure out a solution.

I believe that most of the time questions like hers are more plan design questions. When it comes to design one of the first questions I like to ask is "Who do you want to benefit from the plan? Will the plan favor the highly compensated or your rank and file employees?"

And the answer doesn't necessarily need to be a one or the other....it can be both.

While in her case the company needed experienced talent to fuel the company's current trajectory she really wanted to make sure it could benefit the rest of the employees.

A couple of answers we discussed were the “Auto Enroll” and “Safe Harbor” options. Both allow for the highly compensated to defer up to their maximum amount no matter how little the rank and file defer.

But I didn’t finish answering her questions regarding neophyte 401(k) savers, do they want it and will they participate.

Using Auto Enroll enrolls everyone in the company into the plan with the employee having the ability to “opt out” which she was somewhat in favor for but she thought the plan design alone wasn’t enough. Her next question was “will there be any education around the plan if it’s Auto Enroll?”

Again, she had the answer within her question in that plan design alone doesn’t fully solve the problem.

While Auto Enroll generally favors all employees she needed to help educate the newbie employees.

I believe offering a retirement plan without an education plan or the proper educational 401(k) resources doesn’t fulfil the fundamental purpose of the 401(k) which is a retirement savings vehicle that few fully understand.

We talked about making sure we find a 401(k) record keeper with a robust, participant driven dashboard that offers an abundance of articles, videos, and other online tools.

I think she was relieved to know that the financial advisor can also help educate employees as well, sometimes even on a “one on one” basis.

Her last statement really drove the point home regarding her decision to offer a plan, “I think it could benefit us to be one of the first to offer a plan to help us attract that needed talent but if we can put together a strong educational plan in place for the 401(k) we should be able to keep most everyone happy at our company.”

Take care!

In the Emerging Industries? Let’s chat!

The best way to determine a good fit is to have a conversation with us. No statements or lengthy presentations just start with a conversation and we’ll see where it goes.

We accept appointments between 1-3pm EST Monday-Fridays * or suggest a more suitable time. Email Info@alphapointecap.com to reserve your 30 minute time slot today, indicate date, time, number, and the topic you’d like to discuss and we’ll confirm your appointment.

*NYSE Holidays and Advisor availability are subject to change.