



Payroll and a 401(k) Plan Go Better Together

This white paper is an overview of using one information-technology platform to process payroll and to administer 401(k) retirement accounts.

Executive Summary

Integrated payroll and retirement plan systems use one information-technology platform to process payroll and to administer 401(k) retirement accounts and other employee benefits. Among the advantages of these systems are that they save time and money and help ensure greater accuracy. In addition, they help avoid major concerns when the consequences for missed deadlines and inaccuracies could include IRS penalties.

Business owners should seek a payroll partner that is locally available, provides a choice of employee-access tools—including a Web portal and automated telephone system—and offers a wide range of mutual fund choices. When comparing vendor price quotes, business owners should ask for an estimate of the total cost of payroll with 401(k) administration, to uncover any add-on fees that could be an unwelcome, later surprise.

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Making Time for Small-Business Success

There's a certain passion in small-business owners that drives them to take an idea, then invest the necessary time and money to make it work. Even as their businesses grow, small-business owners may want to continue doing everything themselves—but their greatest effectiveness lies in concentrating on generating revenue, not on administrative tasks such as payroll and employee benefits. For those functions, it pays for small businesses to find a reliable outsourcing partner, and to integrate as closely as possible the payroll and other HR functions like retirement plans.

Better Talent Through Employee Benefits

If small businesses hope to compete with larger organizations for the right talent, they need to offer the right benefits. That means meeting and possibly exceeding what other small businesses are offering, including a retirement planning option.

In addition to providing a recruiting and retention boost, 401(k) plans allow tax advantages to businesses, as employers may take tax deductions for contributions to employee accounts.

Retirement Investment for Employees—the 401(k) Plan

Business owners usually choose between two types of 401(k) plans:

Traditional 401(k) plan. Owners often choose the traditional plan for greatest flexibility. It offers the freedom to make contributions for all employees, and/or to match employee deferrals. It's also possible to set up a schedule that gradually vests employer contributions to employee accounts (20% each year over five years, for example). Business owner contributions to traditional plans are subject to annual testing to ensure they are proportional to contributions for employees.

Safe harbor 401(k) plan. With many of the characteristics of the traditional plan, the safe harbor plan does not allow a graduated vesting schedule, so contributions for employees are fully owned when allocated. Safe harbor plans are not, however, subject to annual nondiscrimination testing.

Setting Up and Operating a 401(k) Plan

Setting up a 401(k) plan for a small business requires careful coordination with a number of organizations, including a financial institution such as a bank, mutual fund provider, or insurance company.

Every 401(k) plan must state its rules for all employees to see, so a written plan must be prepared. In addition, the business is required to establish a trust fund for the plan's assets, to develop a recordkeeping system, and to provide regular updates on plan options and contributions to participants.

Once the plan is established, someone needs to manage the initial employee enrollment process, offer the plan to new employees, and ensure that employees are enrolled if they choose to be.

Reporting is a key element of managing 401(k) plans. It requires filing regular reports that deliver information on plan operations to the U.S. Department of Labor and the Internal Revenue Service.

The federal government regards 401(k) responsibilities very seriously for employers of all sizes. To avoid penalties, employers must make certain that accurate records of contributions are kept and that contributions are made in a timely manner. A 2010 ruling by the U.S. Department of Labor shortened the

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time frame for deposit of uninvested employee 401(k) contributions into the trust within seven days following their receipt or withholding by employers.

The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for retirement and health-benefit plans in private industry. The law established rules for officials—known as fiduciaries—who preside over the operation of the plan. Anyone who uses discretion in administering or managing a plan, or controlling a plan's assets, is a fiduciary.

Acting as a fiduciary requires expertise in a number of areas, including investments. If a business owner doesn't have that expertise—and very few do—the best course is to hire professionals who can assist in carrying out those functions. While this doesn't relieve the business owner of fiduciary responsibilities, it helps fulfill the tasks at a reasonable cost.

Bringing It All Together—The Magic of Payroll Integration

The complexity and exacting requirements of administering 401(k) plans have caused business owners to seek easier answers. One option is to turn 401(k) administration over to a third-party vendor. Another option is to integrate 401(k) record keeping with payroll processing. The elements and information required for payroll processing make it a perfect platform for integration with administration of 401(k) plans, health insurance, workers' compensation, and disability insurance. It requires a payroll-processing partner that has fully integrated the information technology platforms for payroll and retirement plans so that they work seamlessly.

The effectiveness of integrated payroll systems is widely recognized. One retirement-plan expert wrote: "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."¹

There are a number of reasons that payroll integration makes sense for small businesses.

- ***Ease of use.*** Just like the payroll-processing service itself, employers only need to communicate data to their customer service representative once each pay period. With the amounts or percentages set up in the system, they can be automatically deducted from appropriate accounts and properly deposited.
- ***Accuracy.*** Countless hours can be spent searching for keying errors made by hurried business owners or managers who calculate and deposit 401(k) allocations. With payroll integration, trained customer service representatives handle the process, and records are thus always available for review online or on paper.
- ***Security.*** As fiduciaries of their plans, business owners take on as much responsibility as they do with payroll. Integrating payroll and retirement-plan administration to a trusted payroll-processing firm can ease some of the tensions of business ownership.
- ***Time savings.*** The time it takes business owners or managers to calculate contributions each pay period, prepare and deliver payments, and generate periodic government reports could be better spent on revenue-generating activities for the business.

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Questions of Time

In addition, business owners should consider these questions:

- How much vendor contact is required to complete specific tasks? Integrated payroll systems take only a few minutes each pay period with one vendor.
- How much time is needed with employees to update beneficiaries, change salary deferrals, and other tasks? A good payroll-processing agency can provide online tools and telephone access for employees to do it themselves.
- How much time do employees spend making 401(k) adjustments using methods such as paper forms that must be routed back to HR? What does that cost the company?
- How much time is spent gathering payroll data related to 401(k) contributions?
- How much time is spent inputting data on a 401(k) vendor's Web site?
- What is the potential cost of a keying error, and what does it cost to find and correct errors?

Small businesses cite time savings of four or more hours per payroll period based on integration of payroll and 401(k) data.² This is equivalent to over 100 hours, roughly two and a half weeks, in time savings a year through automation.

DIY or Outsource?

Business owners can evaluate the potential effectiveness of payroll integration by considering the time and expense needed to accomplish 401(k) administrative tasks.

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This chart shows major tasks required each pay period. Insert your time expenditures to estimate potential time recovered through outsourcing for your firm.

401(k) plan administrative task	Estimated time required per pay period
Tracking employee eligibility.	
Enrolling and communicating with employees.	
Keeping records of employee and employer contributions.	
Calculating employee contributions.	
Depositing employee contributions.	
Filing appropriate reporting forms with government agencies.	
TOTAL HOURS	

By outsourcing 401(k) administration, the only tasks remaining for businesses is reporting payroll data each pay period, reviewing reports, and compliance testing. What's more, the extra available hours can be applied to revenue-generating activities that help the business grow.

Selecting a Partner to Leverage Payroll Integration

Choosing a provider to trust with payroll integration requires a many-faceted decision.

Start by examining reputation and quality of service. Will the choice be a local expert, with dedicated customer service and support, who designs and sets up the plan and then helps to enroll employees? Or will you be dealing over the phone with someone in another state?

Second, the technology and efficiency of systems a potential partner uses tell a story. Always ask prospective vendors for samples of reports and a guided tour of Web capabilities and online tools.

Plan options are vitally important to a growing and changing workforce. Features to look for are the potential flexibility of plan design and plan features. One major plan element to consider is access to the investment “platform,” which includes the type, number, and size of the funds available for employees to invest in.

Through the course of working with an integrated-payroll vendor, their third-party expertise should bring continuous improvement to the process. Such practices could include improved communication methods, better report formats, and other advances.

One convenience for employees without computer access is a telephone-based system called IVR, or interactive voice response. This is a level of service that can distinguish one provider from another.

Self-Service Tools

Payroll integration also provides distinct advantages for employee 401(k) self service. For example, when an employee updates demographics or withholding data online, the information is automatically adjusted in the payroll system and vice-versa. This seamless flow of bidirectional data improves both accuracy and time savings for the plan sponsor.

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About Paychex

Founded in 1971, Paychex, Inc. is a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. The company has more than 100 offices and serves over a half million payroll clients nationwide.

The company offers comprehensive payroll services, including payroll processing, payroll tax administration, and employee pay services like direct deposit and check signing. Human resource services include 401(k) plan recordkeeping, employee handbooks, job descriptions, workers' compensation administration, section 125 plans, time and attendance applications, administrative services organization solutions, and other administrative services for business.

Professional employer organization options are available from Paychex Business Solutions, Inc. (PBS).

Paychex Insurance Agency, Inc. makes a full range of business insurance options available, including group health insurance from more than 150 highly rated carriers.

Contact Information

To find out more about how Paychex can help businesses with human resource administration, visit www.paychex.com or call 800-322-7292.

Sources

¹PLANSPONSOR, "2010 Recordkeeping Survey."

²Based on survey findings from Paychex 401(k) recordkeeping clients, March 2010.

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