RETIREMENT PLANNING: How Shared Service Alliances and Intermediaries Can Help

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Retirement benefits are an important part of any compensation strategy, yet this benefit is rarely available in child care settings, and rarely included in systemic strategies to boost teacher compensation. As a result, most child care business owners and educators do not have retirement plans or are behind on their savings. Supporting retirement plans not only has the ability to expand the educator pipeline, increase educator retention and build individual wealth, but also provides an opportunity to leverage an investment of funds through a variety of business credits. In short, the need to focus on retirement planning in child care is important, and will continue to grow.

The first step is education. Child care business owners and operators need to know that saving for retirement is not only possible but affordable. The next step is support. Child care business owners and operators need to know where to get their questions answered, and who can help them select and establish retirement plans. With increased access to information, resources, and support, child care businesses are much more likely to take advantage of retirement-based incentives for recruitment and retention and adequately plan for retirement themselves. Shared Services Alliance Hubs and other intermediaries can become key players in helping providers plan, start and fund retirement plans for their staff as well as for themselves.

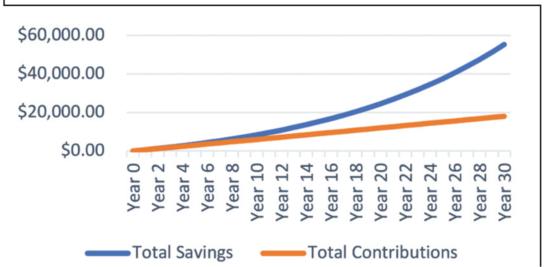
WHY FOCUS ON RETIREMENT?

Saving for retirement takes planning and focus and years to achieve. Financial experts estimate that most individuals will need

up to 80% of their pre-retirement income to maintain their standard of living once they stop working. That means a worker making $35,000 today, will need to have $28,000 a year, every year, from the date of retirement onward. However, the average benefit paid by the Social Security Administration is only $14,400 a year, leaving a large gap for many people to retire comfortably.

The fastest way to get the savings needed relies on compound interest where the money earned on savings is reinvested.

Compound Interest Assuming $50 Monthly Contribution



Here's how compound interest works. Let's say you decided to have one less meal dining out per month and you put that $50 into your retirement savings instead. Let's also assume your savings earn at a 6.5% interest rate (this is the average in 2022 for retirement accounts). In the first year, you will have saved $600 and made $18.20 in interest. Now in the next year, you have $618.20 in savings (your original $600 plus the interest of $18.20) and with interest and the monthly contributions, you'll end the year with $1,277.81. As this continues over 30 years, you'll have saved $18,000 and accumulated $37,308.90 in interest for a total of $55,308.90!

Accordingly, for child care business owners and staff to reach the levels of retirement savings that they need, the sooner they start and the more regularly they make contributions, the better for their future retirement.

ARE THERE INCENTIVES FOR INVESTING IN RETIREMENT?

While saving for retirement can be daunting, there are a number of financial incentives for child care business owners that can make it more affordable than they may realize.

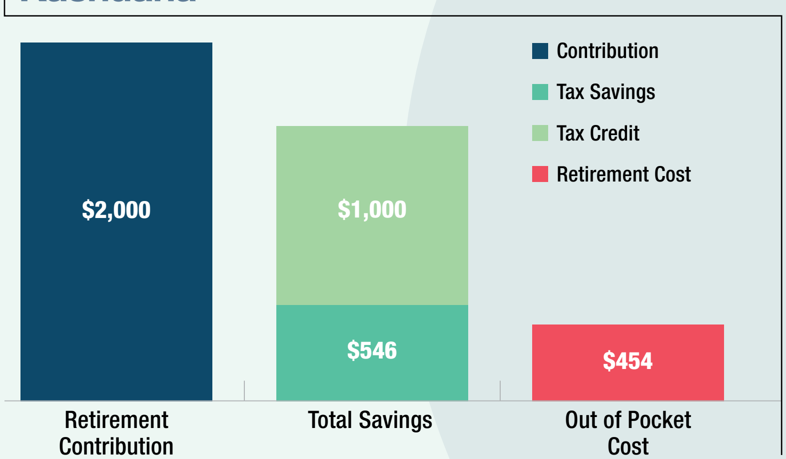
There is an opportunity to save in two ways, since:

1. Contributions made and the costs of maintaining a retirement account are tax deductible now or later in life, thereby mitigating current-year taxes.
2. Contributing can also mean eligibility for tax credits—specifically:
   - The **Saver's Credit** is a non-refundable credit available to adults over the age of 18 who are not dependents of someone else or students. The program provides a credit worth up to 50% of retirement contributions, up to $1,000 in credits.
   - The **Retirement Plan Startup Costs Tax Credit** is open to employers who have retirement plans that include w-2 employees who are not owners. If a business has 100 or fewer employees, this credit covers up to $5,000 in administrative costs for the first three years of a new 401k, 403b, profit sharing, SEP IRA, or Simple IRA plan. Additionally, businesses with less than 50 employees can get a credit of up to $1,000 per employee in the first year of the plan for contributions they make for employees who earn less than $100,000. This credit continues for three more years with the credit decreasing by 25% in each subsequent year.

The savings can add up quickly, making retirement an attractive investment for child care business owners. Let's look at two examples.

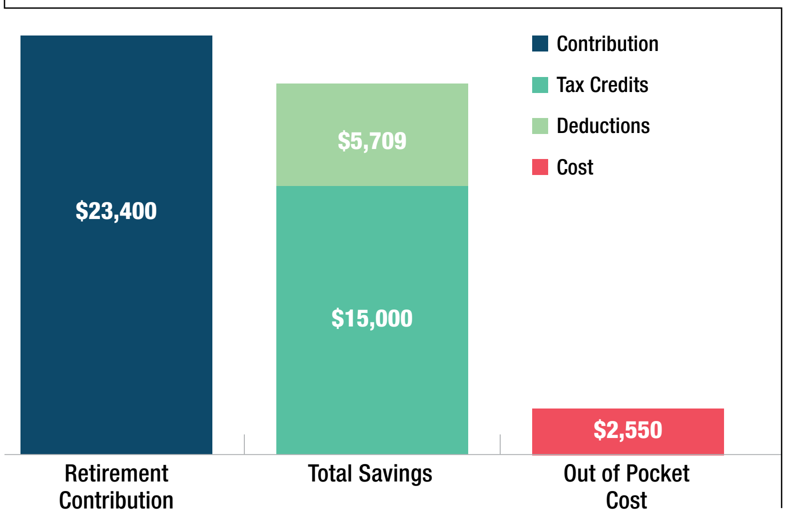
First, we'll look at the impact of the Savers Credit. Kashuana is a family care business owner and sole proprietor who has made $38,000 over the course of the year. She put $2,000 into a SIMPLE retirement account (we cover the types of plans in a separate tool created to help educate the field). The $2,000 will save her three times over. First, she'll save 15.3% in self-employment tax and 12% in income tax (a total of $546). Second, she qualifies for the Saver's Credit, so she gets a tax credit for 50% of the contribution ($1,000). In this case, Kashuana has $2,000 for her retirement and after the money saved and credits, the cost to her was only $454!

Kashuana



Now, let's see how the Retirement Plan Startup Credit can impact an investment. Estelle has a center with 15 employees, and she decided to use some of her stimulus money to start a 401K. Her business is an LLC that declared to be treated as an S corporation, so the profit goes onto her personal tax return which is taxed in the 22% bracket. Estelle contributed 5% of the salary of each employee ($1,560 per employee) for a total of $23,400. Between the fees and the costs of her time to set up and have her bookkeeper help with the 401K she paid $2,550. However, Estelle was able to save money in three ways. First, since the 401K is new, she gets 100% of her administrative costs back (that's $2,550). Second, since her employees make less than $100,000, she can get up to $1,000 for her contributions per employee for a total of $15,000. Third, she gets the deduction for the contributions and administrative costs which saves her another $5,709. All in all, Estelle's new benefit cost her $25,950 but she saved or received credits for a total of $23,259, so she really only spent $2,691! Plus, Estelle can share information on the Saver's Credit with her employees so they will receive an additional tax credit on their own taxes—an even greater benefit.

Estelle



HOW CAN SHARED SERVICES ALLIANCES AND INTERMEDIARIES HELP?

In our work with thousands of providers, we've found that there are two key steps needed to start retirement plans:

- **Accessing actionable information.** Most providers are overwhelmed by the array of choices and do not clearly understand what could be of greatest benefit to them. Further, they often don't know about the cost savings available through credits and deductions that make investing in retirement more affordable.
- **Finding a vendor.** Many providers don't know that the most beneficial plans for themselves or their staff can be set up within minutes online. For those who want hands-on support in the process, they don't know where to start.

With little or no investment, Shared Services Alliance Hubs and other intermediaries can help providers with these two key steps using existing staff, business coaches, and training resources. Specifically, Alliance staff can:

- Better understand the fundamentals of retirement saving strategies. We have **three short tools** that help to quickly build a foundation on how retirement savings work and how to identify the best plans for providers.
- Share this information with providers online, via email, in trainings, and other meetings. The Civitas tools can be shared directly or used to create branded informational pieces or webinars.
- Integrate conversations on retirement into existing business coaching programs. In just one session, coaches can help business owners understand the benefits of a retirement plan for their business and begin to pursue setting up plans for themselves and/or their team.

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For too long, retirement benefits have been absent in the child care sector. If we expect early childhood educators to make a career out of teaching young children, we must find solutions that address their financial health in retirement. In the midst of the current staffing crisis, there is not only a pathway forward, but one that is accessible and affordable. Shared Service Alliances can play a key role as change agents. Building on the trust they have with child care businesses and the access available to existing resources, Alliance staff can provide the guidance providers need to navigate and realize the opportunity of retirement investment.

Gary Romano is President and CEO of Civitas Strategies, a management consultancy created to ensure nonprofits and for-profits have top-notch talent, organizational performance and sustainable business models.