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Interview with
MICHAEL MAJORS

ONE OVERLOOKED AREA OF INCREDIBLE OPPORTUNITY— ESPECIALLY NOW

Recent innovation and legislation have demolished traditional barriers in the small business retirement plan market. Why should advisors refocus on the space and what business-building opportunities result? Expert Michael Majors weighs in.

One would be hard-pressed to find a timelier topic than the small business retirement plan market. Several factors have the often overlooked (and outright ignored) market sector enjoying its due. Yet how do advisors get started, how do they effectively scale, why is it suddenly worthwhile, and how can it lead to other business-building opportunities?

High-profile retirement plan expert Michael Majors, Vice President of HR Solutions at Paychex, sat with NAPA Net the Magazine (NNTM) for a wide-ranging interview to answer these questions and more. He has deep experience with small plans and is excited to see the industry (finally!) catch up.

NNTM: Why is it so important right now to focus on the small business retirement plan space?

MAJORS: A few things got us to this point. Secure 2.0 was a major recent catalyst, but it started with the first SECURE Act in 2019. That was the beginning of the momentum-building phase to get more employers to offer a plan. We saw a significant spike in small businesses that started plans just after

SECURE 1.0. That's also when some of the state mandates began to kick in. When you combine that with the labor market situation and the fact that small businesses have never experienced the hiring pressure seen in recent decades, it forced them to step up and offer more benefits.

So, we're seeing companies as small as five, eight, or 12 employees offer benefits because people can walk down the street and, with the high minimum wages in many states, get a 401(k) with another employer. It's a changed dynamic. So, it's a cocktail of those three circumstances that really amped it up. With the tax credits increase in SECURE 2.0, there's now really no reason for the average business owner not to start a plan.

NNTM: Traditionally, it wasn't cost-effective for some small business owners, and small plans were tough to scale for advisors. What, specifically, changed?

MAJORS: We found the top three reasons a small business owner didn't offer a plan was, No. 1, cost. That was always first. No one is philosophically against providing a plan to their employees. Rather, they felt they

couldn't afford to spend a couple hundred dollars a month plus a potential match. At Paychex, we dealt with and overcame that objection for years.

No. 2 was the perception of risk from, primarily, fiduciary responsibility. They weren't sure they could reasonably take that on. No. 3 was resources; as a small business, they didn't have time to do the administration, enrollment, and loans. They didn't have the bandwidth for what sounded like extra jobs.

That's the backdrop, but then you had this amazing thing with the first SECURE Act and pooled employer plans (PEP). PEPs partly deal with the fiduciary responsibilities, providers like Paychex deal with the administrative responsibilities, and now a tax credit deals with cost. It took the top three objections off the table.

NNTM: Is there an added urgency to serve this space now, and if so, why?

MAJORS: Paychex focuses heavily on the small-to-medium-sized business space in the United States and has for a long time. We've been advocates of helping people offer their employees a way to have a secure

I THINK TODAY'S GENERATION OF WORKERS HAS GROWN UP HEARING THAT SOCIAL SECURITY MIGHT NOT BE THERE FOR THEM, SO WE'RE DEFINITELY SEEING MORE PARTICIPATION WITH YOUNGER WORKERS THAN WE DID A DECADE AGO.

retirement. The industry is coming around to where we've been. I remember listening to [American Retirement Association CEO] Brian Graff's keynote at the NAPA 401(k) Summit in San Diego, and his slides and messaging could have come from an internal Paychex presentation deck from the past five years. Expanding coverage is how we think and operate. The industry is starting to wake up and realize that if there isn't more coverage for small employers—which make up a majority of businesses in America—we could face a situation where the government steps in, and that's not going to be positive for the industry long term.

NNTM: What about technology? How much innovation is driving the focus on small business retirement plans?

MAJORS: We've built an incredible set of technologies at Paychex around having full payroll integration, and that really solves the business owner objections I mentioned. It also means things like having one app for employees. They don't have to go to a website to log in to look at their retirement contributions and make changes. We have one mobile app, and they can, for example, go in and see their pay stub. They can click another button and enroll in a 401(k), change investment selections, modify their contribution, go through a loan process, etc. They can also enroll in their health insurance plan. That simplification is a competitive advantage for us. When combined with the PEP, it's a no-brainer. It's easy for the employees and the business. They don't have to deal with it. It's all through technology.

NNTM: You mentioned that employers, philosophically, don't want to deny retirement benefits to their employees, but what about the participants themselves? Do they still have trouble understanding a retirement plan and why it's so important?

MAJORS: I think today's generation of workers has grown up hearing that Social Security might not be there for them, so we're definitely seeing more participation with younger workers than we did a decade ago. It's a slowly evolving trend that accelerated with COVID, and more and more employers are choosing auto-enrollment in part because there's a tax credit. That's helping the small business owner fund their plan, and the average worker doesn't take the time to opt out. You're seeing increased participation because more people in this new workforce generation are concerned about their financial futures.

NNTM: How much of a focus is the small business retirement plan market at Paychex? What kind of resources are you dedicating to it, and what kind of growth are you seeing?

MAJORS: We've had double-digit growth in the startup and small market retirement plan business for years, especially since the SECURE Act. In some states with mandates, our sales increased 100% from combining the mandate with tax credits. There are definitely pockets of extreme growth, and there are a lot of other states that, over the next couple of years, are moving forward with their mandates or suggested coverage.

But no matter what, whether they have mandates, deadlines, or penalties, it increases

awareness among employers that they need to do something, and it makes it easier to have a conversation with them. We have a tax credit calculation tool that helps them understand the tax credits they get for starting the plan, so again, it's a no-brainer. We show them the cost and the tax credit, and people do the math themselves.

NNTM: How closely do you work with advisors in the small business retirement plan market?

MAJORS: Seventy percent of all the assets in our plans are attached to a financial advisor. When you look at our book of business as a whole, we are very advisor-friendly and have dedicated support. We have an internal wholesaling team to help put pricing proposals and side-by-sides together. We work with many startups directly, but we also work with advisors, and most of our assets are actually with an advisor.

Another part of our message is scalability. We have an advisor portal where they can see all of their different plans to make adjustments and changes. We have great tools and technologies that our advisors really enjoy. Margins are tight in the startup and low-asset space, especially in the early years. We've figured out a way to make it so that people can afford to take time, build assets, let them accumulate, and then institute wealth management products with business owners and other high-earning employees. More people are realizing they might not make a ton of money on the 401(k), but the business owner products they can offer make it worth it.