SERS
SMALL EMPLOYER RETIREMENT SURVEY®

The 2000 Small Employer Retirement Survey (SERS) Summary of Findings

Contents

Overview

The issue of low plan sponsorship rates among smaller employers remains a public policy challenge. It can be argued that the U.S. employment-based retirement income system is a success, at least among larger employers: In a completely voluntary (on the part of employers) system that involves a number of rules and regulations, 79 percent of full-time employees at employers with more than 100 workers participated in one or more employment-based retirement plans in 1997, according to data from the Bureau of Labor Statistics' Employee Benefits Survey.[1] Retirement plan participation is notably lower among small employers, however. According to data from the Bureau of Labor Statistics' Employee Benefits Survey,[2] 46 percent of full-time workers in small private establishments were covered by a retirement plan in 1996. This is despite repeated efforts by policymakers over the years to boost small plan sponsorship.

The third annual Small Employer Retirement Survey (SERS) is an in-depth retirement planning survey of small employers (companies with five to 100 full-time workers). It provides insights into the challenge presented by the small employer market by demonstrating the underlying reasons for the lack of retirement plan sponsorship. It is not simply an issue of administrative cost and burden involved in establishing and running a plan; it also involves the financial reality of running a small business—revenue streams that are uncertain and/or a business that is too new to consider a plan. In addition, it involves work force issues—employees with preferences for cash and nonretirement benefits and/or employees who are largely seasonal, part time or high turnover. When viewed from this perspective, it is not surprising that small plan sponsorship rates continue to lag.

Small employers that do sponsor a retirement plan report that offering a plan has a positive impact on both their ability to attract and retain quality employees and the attitude and performance of their employees. The survey results raise the possibility that small company nonsponsors may not be aware of such potential business benefits from plan sponsorship. In addition, many nonsponsors are unaware of the plan options available to them, in particular the ones created specifically for small employers, such as SIMPLE retirement plans. Therefore, some small employers may be making premature decisions not to sponsor a plan based on incomplete information.

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[1] *See U.S. Department of Labor, Bureau of Labor Statistics,* Employee Benefits in Medium and Large Private Establishments, 1997, Bulletin 2517 *(Washington, DC: U.S. Government Printing Office, 1999).*

[2] *See U.S. Department of Labor, Bureau of Labor Statistics,* Employee Benefits in Small Private Establishments, 1996, Bulletin 2507 *(Washington, DC: U.S. Government Printing Office, 1999).*

Obstacles to Plan Sponsorship

There are a number of reasons why more small employers do not offer retirement plans—it is not simply a matter of administrative cost and burden. Cost and administration-related issues do matter, but for many small employers they take a back seat to other issues. For some, the most important reasons for not sponsoring a plan are employee-related—e.g., it is not a priority for an employer's workers, or the employer's work force has such high turnover that it does not make sense to sponsor a plan. For others, the main driver is the reality of running a small business—i.e., their revenue is too uncertain to commit to a plan and/or the business is too new.

Reasons for Not Offering a Retirement Plan

	Most Important	Major
Employee-Related Reasons		
Employees prefer wages and/or other benefits	21%	38%
A large portion of workers are seasonal, part time, or high turnover	18	40
Business-Related Reasons		
Revenue is too uncertain to commit to a plan	13	45
The business is too new	11	22
Cost and Administration-Related Reasons		
It costs too much to set up and administer	9	33
Required company contributions are too expensive	8	43
Too many government regulations	3	24
Other Reasons		
Vesting requirements cause too much money to go to short-term employees	3	35
The benefits for the owner are too small	3	23
Don't know where to go for information on starting a plan	2	5
Owner has a deferred compensation arrangement	1	3
Other reasons	6	6

Twenty-one percent say employee preferences for wages and/or other benefits is the most important reason for not sponsoring a plan. Having a large portion of workers who are seasonal, part time, or high turnover is cited by 18 percent. Therefore, 38 percent of those without plans cite some sort of employee-related reason as the most important reason for not offering a plan.

Thirteen percent of nonsponsors say that the most important reason for not offering a plan is that revenue is too uncertain for the company to commit to a plan. Having a business that is too new is cited by 11 percent. Therefore, 24 percent of those without plans cite some sort of business-related reason as the most important reason for not offering a plan.

Nine percent say the most important reason is that it costs too much to set up and administer a plan. Eight percent say the most important reason is that required company contributions are too expensive;[3] for 3 percent, the most important reason is "too many government regulations." Therefore, 20 percent of nonsponsors cite a cost and/or administration-related reason as the most important reason for not offering a plan.

So, while cost and administrative issues do matter, they are not the primary reasons for low plan sponsorship rates among small employers. In fact, based on small employer responses, they are not the *most important* reasons for the majority of nonsponsors: employee-related reasons are most often cited as the most important factor for not offering a plan, and business-related reasons, such as profitability, are also a main decision-driver. This may explain why plan sponsorship rates remain low despite repeated legislative efforts to boost them.[4]

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[3] Plans exist in which employers as plan sponsors are not legally required to make contributions. For example, employer contributions are not required with a 401(k) plan—the sponsor could choose not to match participant contributions and to pass the administrative costs on to the plan. However, if the 401(k) is established as a SIMPLE plan, then company contributions are required.

[4] The Small Business Job Protection Act of 1996 created a simplified retirement plan for small business (100 or fewer employees) called the savings incentive match plan for employees (SIMPLE). A SIMPLE plan can be either an individual retirement account (IRA) for each employee or a 401(k) plan. It is too soon to fairly evaluate the impact of SIMPLE plans on the small employer market.

Is Knowledge (or Lack Thereof) an Issue?

Nonsponsor responses indicate that revenue stability, work force issues, and cost and administration concerns are all major factors in their decision not to currently sponsor a retirement plan. In addition, however, there is the possibility that a lack of familiarity with available plan options, along with a lack of awareness regarding the potential business advantages resulting from plan sponsorship, may lead some small employers to a premature decision not to offer a plan.

Many nonsponsors are unfamiliar with the different retirement plan types available to them as potential plan sponsors, especially the options created specifically for small employers and designed to be less costly to establish and administer. One-third (33 percent) of nonsponsors say they have never heard of the savings incentive match plan for employees (SIMPLE), and an additional 19 percent report that they are not too familiar with SIMPLE plans. The same holds for simplified employee pensions (SEPs); 54 percent of nonsponsors report that that they have never heard of SEPs, and an additional 16 percent say they are not too familiar with SEPs. (By comparison, very few nonsponsors say they have never heard of or are not too familiar with 401(k) plans.)

Nonsponsor Familiarity With Plan Types

Plan Type	Never Heard Of	Not Too Familiar With	Somewhat Familiar	Very Familiar
SIMPLE plans	33%	19%	37%	11%
Simplified employee pensions (SEPs)	54	16	26	4
401(k) plans	2	8	47	43

Furthermore, there are potential business benefits from plan sponsorship that nonsponsors simply may not be aware of and therefore may not have factored into their decision not to offer a plan. Among small employers that *do* sponsor a retirement plan, 47 percent report that plan sponsorship has had a major impact on their ability to hire and retain good employees (an additional 40 percent report a minor impact). One-third (34 percent) of small plan sponsors report that plan sponsorship has had a major impact on employee attitude and performance (an additional 49 percent report a minor impact).

By comparison, among nonsponsors, only 11 percent report that not offering a retirement plan has had a major impact on their ability to hire and retain good employees (58 percent report no impact at all), and 6 percent report that not offering a plan has had a major impact on employee attitude and performance (67 percent report no impact at all). It is likely that such positive impacts from plan sponsorship would not exist for some of these employers, but it is also possible that some of these employers may simply be unaware of the potential business benefits of plan sponsorship.

Reinforcing evidence is provided when small plan sponsors were asked why they offer a plan. The top two reasons reported as most important are 1) competitive advantage for the business in employee recruitment and retention (35 percent), and 2) positive effect on employee attitude and performance (21 percent).

Most Important Reasons Why Small Plan Sponsors Offer a Plan

Competitive advantage in employee recruitment and retention	35%
Positive effect on employee attitude and performance	21
Employers have an obligation to provide a plan for workers	13
Tax advantages for employees	8
Employees demand or expect it	5
Tax advantages for key executives	5
Availability of an employer tax deduction	2

Comparative Profiles: Companies With and Without Retirement Plans

Small employers that sponsor retirement plans tend to be distinctly different from those without plans, in terms of revenue levels and the composition of their work force. These findings bolster the finding above that low coverage rates are driven by more than just issues of administrative cost and burden.

Small employers that offer retirement plans tend to have higher revenues than those that do not have retirement plans.

Approximate Gross Revenue in Previous Year

	Plan Sponsor	No Plan
Less than $500,000	8%	28%
$500,000–less than $2 million	29	42
$2 million–less than $5 million	19	14
$5 million or more	22	2
Not reported	22	7

Small employers offering retirement plans also tend to employ different types of workers than those that do not sponsor a plan. The employees at companies without plans tend to be younger, have lower earnings, have less formal education, and remain with the company for less time.

Company Demographics

	Plan Sponsor	No Plan
Age of Most Full-Time Employees		
Under age 30	15%	27%
Age 30–39	53	38
Age 40 or older	27	33
Annual Salary of Most Full-Time Employees		
Less than $20,000	9	34
$20,000–$40,000	71	56
$40,000 or more	17	7
Educational Level of Most Full-Time Employees		
High school or less	38	55
Some college	34	32
College degree or more	27	11
Length of Time Most Full-Time Employees Stay With Company		
Less than 3 years	13	34
3–9 years	56	38
10 years or more	30	24

Potential Motivators for Retirement Plan Sponsorship

The potential exists for increased plan sponsorship among small employers. Thirty-nine percent of companies without a retirement plan say they are likely to start offering a plan in the next two years.

Likelihood of Starting a Plan in the Next Two Years

Very likely	16%
Somewhat likely	23
Not too likely	29
Not at all likely	31

Those likely to start a plan are more likely than those that are not to report that the most important reason they do not currently have a plan is because their business is too new. They are less likely to say it is because a large portion of their workers are seasonal, part time, or high turnover. It therefore appears that they feel continued improvement in their business conditions will allow them to start a plan within the next couple of years.

What would lead to increased plan coverage? Nonsponsors were read a list of items and asked if any would make them seriously consider sponsoring a retirement plan.

Motivators for Plan Sponsorship

An increase in business profits	69%
Business tax credits for starting a plan	65
A plan with reduced administrative requirements	52
Availability of easy-to-understand information	50
Demand from employees	49
Allowing key executives to accumulate more in a retirement plan	35
Lengthening of vesting requirements	27
Other	6

Implications

Major drivers of low retirement plan sponsorship among small employers are work-force related (who they employ and what the employees want) and business related (the uncertainty of revenue flows and/or having a business that is just too new), along with issues of administrative cost and burden—all three are part of the puzzle. Therefore, the solution is not simply “build it and they will come,” by creating simpler and simpler retirement plans. Rather, it is build it and they will come once the business reaches a certain level of profitability and stability and once retirement planning and saving are more of a priority for the small employer’s workers. It is at that point that the new vehicles created by policymakers specifically for small employers will begin to realize their full potential.

In addition, many nonsponsors are unfamiliar with the different retirement plan types available to them as potential plan sponsors, especially the options created specifically for small employers and designed to be less costly to establish and administer. Furthermore, there are potential business benefits from plan sponsorship that nonsponsors simply may not be aware of and therefore not factor into their decision regarding plan sponsorship. As the survey shows, 39 percent of small employers without plans say they are very or somewhat likely to start a plan in the next two years. With a better understanding of their available options and better appreciation of the potential benefits of plan sponsorship, this number could be expected to rise.

The survey findings indicate that long-term efforts to increase coverage among small employers have the greatest potential for success if they include: education of workers, so that they view retirement planning and saving as a personal priority and communicate their desire for a retirement plan to their employer; ongoing good economic conditions, so that business profits and the affordability of plan sponsorship improve; and policy approaches such as simplification and tax credits that help make plans more affordable.

SERS Methodology

The annual Small Employer Retirement Survey (SERS), now in its third year, was designed to gauge the views and attitudes of America's small employers (with five to 100 full-time workers) regarding retirement plans and related issues. The survey was conducted within the United States between Jan. 3 and Feb. 4, 2000, through 15-minute telephone interviews with 300 companies with a retirement plan and 300 companies without a retirement plan. Within each sample, quotas were established to ensure adequate representation by size of business.

In theory, each sample of 300 yields a statistical precision of plus or minus 6 percentage points (with 95 percent certainty) of what the results would be if all businesses with five to 100 full-time workers were surveyed with complete accuracy. There are other possible sources of error in all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is difficult or impossible to quantify the errors that may result from them.

The SERS was co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization; the American Savings Education Council (ASEC), a coalition of private- and public-sector institutions that undertakes initiatives to raise public awareness about what is needed to ensure long-term personal financial independence, and part of the EBRI Education and Research Fund; and Mathew Greenwald & Associates, Inc. (MGA), a Washington, DC-based market research firm.

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