

SMALL EMPLOYERS WITHOUT PLANS

Why Not Have a Plan?

There are a number of reasons why most small employers do not offer retirement plans—it is not simply a matter of administrative cost and burden. For some, the most important reasons for not sponsoring a plan are employee-related—e.g., it is not a priority for the employer’s workers or the employees do not work full-time, full-year jobs with the employer. For others, the main drivers are business-related—i.e., their revenue is too uncertain to commit to a plan and/or the business is too new.

Reasons Cited for Not Offering a Retirement Plan

	Most Important Reason			Major Reason		
	1998	1999	2000	1998	1999	2000
Employee-Related Reasons						
Employees prefer wages and/or other benefits	22%	17%	21%	50%	53%	38%
Large portion of employees are seasonal, part time, or high turnover	n/a	19	18	n/a	42	40
Business-Related Reasons						
Revenue is too uncertain to commit to a plan	16	19	13	51	50	45
Business is too new	n/a	3	11	n/a	n/a	22
Cost and Administration-Related Reasons						
Costs too much to set up and administer	14	12	9	35	30	33
Required company contributions are too expensive	12	10	8	45	51	43
Too many government regulations	4	3	3	35	32	24
Other Reasons						
Vesting requirements cause too much to go to short-term workers	9	2	3	42	38	35
Benefits for the owner are too small	3	1	3	19	17	23
Don't know where to go for information on starting a plan	n/a	2	2	n/a	5	5
Owner has a deferred compensation arrangement	n/a	n/a	1	n/a	n/a	3

Factors Leading to Serious Consideration of Offering a Retirement Plan

The potential exists for increased plan sponsorship: 16 percent of small employers without a retirement plan report that it is very likely their business will start one for their employees in the next two years, and 23 percent report that it is somewhat likely.

Influencing Factors	1998	1999	2000
Increase in business profits	66%	69%	69%
Business tax credit for starting a plan	64	67	65
Plan with reduced administrative requirements	50	55	52
Availability of easy-to-understand information	n/a	44	50
Demand from employees	49	46	49
Allowing key executives to save more in a plan	49	52	35
Lengthening of vesting requirements	n/a	33	27

Company Demographics

Differences exist between plan sponsors and nonsponsors.

	Plan Sponsor	No Plan
Approximate Gross Revenue in Previous Year		
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
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
Annual Salary of Most Full-Time Employees		
Under \$20,000	9	34
\$20,000–\$40,000	71	56
Over \$40,000	17	7

Source: 2000 Small Employer Retirement Survey.