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Statement for the Record

Committee on Education and the Workforce

Subcommittee on Employer-Employee Relations

United States House of Representatives

Hearing
on
H.R. 10, The Comprehensive Retirement Security & Pension Reform Act

Testimony of

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Washington, DC

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[1] EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals.

Mr. Chairmen and Members of the Committee:

The Employee Benefit Research Institute (EBRI) is pleased that the House Education and Workforce Committee has convened a hearing on H.R. 10, the Comprehensive Retirement Savings and Pension Reform legislation introduced by Reps. Rob Portman (R-OH) and Ben Cardin (D-MD). While EBRI does not lobby or advocate for or against legislative proposals, our work is intended to assist in evaluating potential results of proposals made by others.

Among companies with fewer than 100 workers, less than half (46 percent) are participating in an employment-based retirement plan. EBRI has studied the issue of retirement plan sponsorship—and nonsponsorship—among small (100 or fewer) employees extensively. Since 1998, we have conducted an annual Small Employer Retirement Survey (SERS) to explore small employer retirement plan sponsorship decisions. The survey is sponsored by EBRI, the American Savings Education Council, and Matthew Greenwald & Associates. The focus of our statement, therefore, will be on the results of the 2000 Small Employer Retirement Survey, the most recent we have analyzed. Results of the 2001 SERS will be released this June.

2000 Small Employer Retirement Survey Findings

Obstacles to Plan Sponsorship

- There are a number of reasons that come up in the Small Employer Retirement Survey on why more small employers do not offer retirement plans—it is not simply a matter of administrative cost and burden. The survey asked small employers to identify the most important reason for not sponsoring a plan, and to state whether a given reason was a "major" factor in evaluation. Twenty-one percent said that the most important reason was that employees prefer wages and/or other benefits. In fact, our value of benefits surveys have found that 76 percent of workers who can have only one employee benefit state a desire for health insurance. Eighteen percent of small employers say that the most important reason for not having a plan is the makeup of their work force, a large portion of workers are seasonal, part time, or high turnover. Twenty-four percent say that revenue is too uncertain to commit to a plan or the business is too new. Cost and administration-related issues do matter, with 20 percent saying that it costs too much to set up and administer a plan; that required company contributions are too expensive; or that there are too many government regulations. For most, therefore, the financial reality of running a small business is the primary impediment to having a plan.

Reasons for Not Offering a Retirement Plan	*Most Important*	*Major*
Employees prefer wages and/or other benefits.	21%	38%
A large portion of workers are seasonal, part time, or high turnover.	18	40
Revenue is too uncertain to commit to a plan.	13	45
The business is too new.	11	22
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
Vesting requirements cause too much money to		

go to short-term employees.	3	35
Don't know where to go for information on starting a plan.	2	5
Tax benefits for the owner are too small.	3	23
Other reasons.	9	6

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.

H.R. 10 would address several of these issues in the following ways:

- *Employees prefer wages/and or other benefits*—H.R. 10 would encourage education on the value of having a retirement benefit by specifying that retirement advice provided to employees on an individual basis would be a nontaxable fringe benefit to the extent such services are made available on substantially equivalent terms.
- *A large portion of workers are seasonal, part time, or high turnover*—H.R. 10 would permit rollovers from the various types of defined contribution arrangements (i.e., 401(k), 403(b), and governmental 457) to each other without restriction, which would make retirement plans more attractive for these type of workers.
- *Revenue is too uncertain to commit to a plan, the business is too new and it costs too much to set up and administer*—While the current version of H.R. 10 does not contain tax credits for small employer plans, an earlier Senate version of similar legislation that passed the Senate Finance Committee on Sept. 7, 2000, allowed for small businesses with 100 employees or less to be eligible for an annual tax credit of 50 percent on up to $1,000 of administrative costs for the first three years of a new plan. These credits, along with other additional credits for businesses that previously did not sponsor retirement plans, would be a motivator for those not offering a plan to consider sponsoring one.
- *Required company contributions are too expensive*—H.R. 10 would provide for increases in deferral limits in defined contribution plans, making a salary reduction plan more attractive to a small employer.
- *Too many government regulations*—H.R. 10 would streamline and simplify certain reporting and testing regulations to encourage more employers to offer pension coverage.
- *Tax benefits for the owner are too small*—H.R. 10 would provides for increased contribution limits on an employer's deduction for contributions to certain types of defined contribution plans. In addition, H.R. 10 would allow workers over age 50 to contribute up to $5,000 in "catch-up" contributions in 401(k) plans.

<u>Potential Motivators for Retirement Plan Sponsorship</u>

- SERS found that the potential exists for increased plan sponsorship. Those likely to start a plan are somewhat more likely to report that the most important reason they don't currently have a plan is revenue uncertainty and less likely to say it is because a large portion of their workers are seasonal, part time, or high turnover. This therefore suggests that continued improvement in their business conditions will allow them to consider starting a plan in the future.

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

- What would lead to increased plan sponsorship? Nonsponsors were read a list of items and asked if any would make them seriously consider sponsoring a retirement plan. The highest percentage, 69 percent, said an increase in business profits. Next, 65 percent said tax credits for starting a plan, and 52 percent said reduced administrative requirements.

Factors That Would Make Non-sponsors Seriously Consider Sponsoring a Plan	
An increase in business profits.	69%
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 save more in a retirement plan.	5
Lengthening of vesting requirements.	27
Other.	10

Comparative Profiles: Companies With Retirement Plans and Those Without Plans

- Small employers that sponsor retirement plans tend to be distinctly different from small employers without plans, in terms of revenue levels and the composition of their work force.

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

Approximate Gross Revenue in Previous Year	*Plan Sponsor*	*No Plan*
Less than $2 million	37%	70%
$2 million or more	41	16
Not reported	22	7

- Small employers offering retirement plans tend to employ different types of workers than those that do not sponsor a plan—their employees tend to be older, have higher earnings, have more formal education, and tend to remain with the company longer.

Age of Most Full-Time Employees	*Plan Sponsor*	*No Plan*
Under age 30	15%	27%
30–39 years	53	38
Ages 40 and older	27	33

Annual Salary of Most Full-Time Employees	*Plan Sponsor*	*No Plan*
Less than $20,000	9%	34%
$20,000–$40,000	71	56
Over $40,000	17	7

Educational Level of Most Full-Time Employees	*Plan Sponsor*	*No Plan*
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	*Plan Sponsor*	*No Plan*
Less than 3 years	13%	34%
Between 3 and 9 years	56	38
10 years or more	30	24

Implications for the Small Employer Issue

- Major drivers of low retirement plan sponsorship among small employers relate to who they employ and the uncertainty of revenue flows. While issues of administrative cost and burden matter, they are only part of the puzzle. Therefore, the solution is not simply "build it and they will come," by creating new types of retirement plans. Rather, it is build it and make it attractive enough for service providers to decide to work at selling it so that small employers will make the sponsorship decision once the business reaches a certain level of profitability and stability, and once retirement planning and saving is more of a priority for the small employer's workers

- As the SERS finds, 39 percent of small employers without plans say they are very or somewhat likely to start a plan in the next two years. The SERS provides data on what points these employers will primarily focus upon in making that decision. And, SERS provides guidance to policymakers as to what factors can be affected by public pension policy.

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Witness Disclosure Statement,
pursuant to Clause 2(g)(4) of Rule XI of the Rules of the House:

- **The Witness:**

Dallas Salisbury is president and CEO of the Employee Benefit Research Institute (EBRI), Washington, DC. Salisbury has headed the Institute since its founding in 1978.

- **The Organization:**

EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals.

The Education and Research Fund (ERF), established in 1979, performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization (under IRC Sec. 501(c)(3)) supported by contributions and grants. EBRI-ERF is not a private foundation (as defined by IRC Sec. 509(a)(3)).

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EBRI Issue Briefs, EBRI Notes, EBRI Databook on Employee Benefits, EBRI Health Benefits Databook, Fundamentals of Employee Benefit Programs, Policy Studies

- **Contracts:**

EBRI does not have any contracts with the federal government in 2001, and did not in 1999 or 2000.