Small Employers and the Challenge of Sponsoring a Retirement Plan: Results of the 1998 Small Employer Retirement Survey

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Issue Brief

- Forty-two million individuals work for small employers; 9 million are participating in an employment-based retirement plan, while 33 million are not participating in a plan. This *Issue Brief* examines the barriers that prevent small employers from sponsoring a retirement plan, their level of knowledge about plans, and changes that might lead to plan sponsorship. It also examines the motivations of small employers that sponsor retirement plans.

- Small employers identify three main reasons for not offering a plan: employees' preferences for wages and/or other benefits, administrative costs, and uncertain revenue that makes it difficult to commit to a plan.

- Small employers without plans report being familiar with 401(k) and profit-sharing plans, but little else. Forty-seven percent report never having heard of the savings incentive match plan for employees (SIMPLE), and 55 percent report never having heard of simplified employee pensions (SEPs).

- There is apparent misunderstanding about retirement plans among small employers that do not sponsor one, especially with regard to costs. For example, 35 percent do not know that a plan can be set up for less than $2,000.

- What changes would lead to serious consideration of retirement plan sponsorship? In order of reported importance: increased company profits (66 percent), a business tax credit (64 percent), reduced administrative requirements (50 percent), demand from employees (49 percent), allowing key executives to save more in the plan (49 percent), and easing, i.e., lengthening, of vesting requirements (40 percent).

- Many small employers that sponsor a retirement plan cite business reasons among their motivations. Sixty-eight percent cite a "positive effect on employee attitude and performance" as a major reason for offering a plan. Fifty-six percent cite a "competitive advantage in employee recruitment and retention" as a major reason. Small employers with a retirement plan report direct benefits from sponsorship, but many of those without plans appear unaware of these potential benefits.

- The 1998 SERS indicates that effective public policy must educate workers regarding the need to make retirement planning and saving a priority, in addition to addressing employer concerns about offering plans. Furthermore, there is a need to educate small employers about the options available to them and what these options entail. Finally, it appears that many employers need to be informed of the potential benefits from plan sponsorship.

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Introduction

Small businesses are a big employer of American workers. There were almost 5 million small employers (firms with fewer than 100 employees) in the United States in 1992, according to the latest available federal government data.[1] Employee Benefit Research Institute (EBRI) tabulations of the March 1997 Current Population Survey (CPS) indicate that 41.7 million private-sector wage and salary workers were employed by small employers in 1996. This represents 41 percent of all private-sector wage and salary workers (101.4 million workers) in the United States.

While they are a big source of employment, small employers are not a big source of retirement plan coverage. The voluntary retirement system has been successful for workers at large employers. It is struggling at small enterprises, particularly small businesses that are "family owned," relatively young, and that tend to employ younger, lower-earning workers who do not stay with an employer for more than a few years. Eighty-five percent of workers at employers with 100 or more employees were covered by an employment-based retirement plan and two-thirds actually participated in a retirement plan in 1993 (table 1). At very small employers (those with under 25 employees), 20 percent of workers were covered by a plan, and just 15 percent actually participated in a plan. At employers with 25–99 employees, 50 percent of workers were covered by a plan, and 36 percent were plan participants (table 1). Furthermore, 46 percent of full-time employees and 13 percent of part-time employees in small private establishments (with fewer than 100 workers) participated in some type of employment-based retirement plan in 1996, according to recently released data from the U.S. Bureau of Labor Statistics (BLS).[2]

What are the causes of this gap in small employer retirement plan coverage? What should be done to promote small-employer sponsorship of retirement plans? These are questions that have been tackled by researchers and addressed by policymakers over the years, and yet the gap persists.

Table 1
Civilian Nonagricultural Wage and Salary Workers, Ages 16 and Over, with Any Retirement Plan Coverage, 1993

	Workers (1,000s)	Sponsorship Rate[a]	Participation Rate[b]
Total	105,815	64.4%	49.3%
Firm Size			
Fewer than 25 workers	22,499	20.2	15.4
25–99 workers	12,901	49.6	36.0
100 or more workers	62,484	84.9	66.2

Source: Employee Benefit Research Institute tabulations of the 1993 Current Population Survey employee benefits supplement.
[a]The fraction of workers whose employer or union sponsors a plan for any of the employees at the workers' place of employment.
[b]The fraction of all workers participating in an employment-based plan.

EBRI first examined this issue 10 years ago in a book entitled *Pension Policy and Small Employers: At What Price Coverage?*[3] Chief among the reasons then highlighted why small employers do not sponsor a retirement plan were financial cost/lack of affordability, and the burden of administering a plan, with the latter often contributing to the former. Other factors cited were the lack of need for a plan and employees' preference for cash compensation. Many employers noted that they had a high-turnover work force, and therefore their employees would not be interested in a plan with vesting requirements. They also felt that retirement income was at best a remote goal for young workers, who often make up all or most of their work force. Finally, small employers expressed a preference to reward performance selectively by paying bonuses. What factors would lead small employers to start a retirement plan? The same research indicated that improved business profitability, increased tax advantages, and increased employee demand might lead small employers without a plan to start one.

The U.S. Congress sought to remove some of the burdens associated with administering a plan and

[1] *See* Fact Finding Report, Commission on the Future of Worker-Management Relations, *U.S. Department of Labor and U.S. Department of Commerce, May 1994.*

[2] *See* Employee Benefits in Small Private Industry Establishments, 1996, *News Release USDL: 98-240, U.S. Department of Labor, Bureau of Labor Statistics, June 15, 1998.*

[3] *See Emily Andrews,* Pension Policy and Small Employers: At What Price Coverage? *(Washington DC: Employee Benefit Research Institute, 1989).*

The Small Business Job Protection Act of 1996 created the savings incentive match plan for employees (SIMPLE), a simplified retirement plan with fewer administrative requirements, for small business.

complying with federal regulations in the Revenue Act of 1978, which established a new tax-favored retirement plan aimed primarily at small employers—the simplified employee pension (SEP). SEPs are arrangements under which an individual retirement account (IRA) is established for each eligible employee. The employee is immediately vested in employer contributions and generally directs the investment of the money. These arrangements are sometimes called SEP-IRAs. SEPs were designed to offer employers an uncomplicated alternative to more complex and costly qualified pension plans. They keep paperwork, record keeping, and reporting requirements to a minimum.[4]

More recently, the Small Business Job Protection Act of 1996 created the savings incentive match plan for employees (SIMPLE), a simplified retirement plan with fewer administrative requirements, for small business. Employers who employ 100 or fewer employees on any day during the year and who do not maintain another employment-based retirement plan can adopt SIMPLE plans. A SIMPLE plan can be either an IRA for each employee or a 401(k) plan. SIMPLE 401(k) plans do not have to satisfy the special nondiscrimination tests applicable to regular 401(k) plans and are not subject to the top-heavy rules. All other qualified plan rules continue to apply.[5] Within limits, contributions to a SIMPLE plan are not taxable until they are withdrawn.

At this writing, proposals are currently on the table to create a simplified form of defined benefit plan for small employers. The Advisory Council on Employee Welfare and Pension Benefits (U.S. Department of Labor) recently recommended the creation of such a plan for small employers.[6] The Secure Assets for Employees Plan (SAFE), introduced in 1997 as H.R. 1656, is one such proposal.[7] Another is the Clinton administration's Secure Money Annuity or Retirement Trust (SMART) proposal, which is included in the Employee Pension Portability and Accountability bill, H.R. 3672.[8]

This *Issue Brief* takes a new look at the subject of small employers and retirement plan sponsorship. Using the results from the first Small Employer Retirement Survey (SERS) (conducted for the first time earlier this year by EBRI, the American Savings Education Council, and Mathew Greenwald & Associates), it examines the barriers to small-employer plan sponsorship, small employers' level of knowledge about plans available to them, and changes that might lead to plan sponsorship. In addition, it examines the motivations of small employers that offer a retirement plan and the extent to which their expectations for their plans are being met. The findings

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[4] *For a more complete discussion of SEPs, see* Fundamentals of Employee Benefit Programs, *Fifth Edition (Washington, DC: Employee Benefit Research Institute, 1997).*

[5] *For a more complete discussion of SIMPLE plans, see Appendix A in* Fundamentals of Employee Benefit Programs, *Fifth Edition (Washington, DC: Employee Benefit Research Institute, 1997).*

[6] *See* Report of the Working Group on the Merits of Defined Contribution vs. Defined Benefit Plans with an Emphasis on Small Business Concerns, *Advisory Council on Employee Welfare and Pension Benefits, U.S. Department of Labor, November 13, 1997.*

[7] *SAFE would allow an employer with 100 or fewer employees, and without any qualified retirement plan, to establish a SAFE plan. In general, these plans would have to be fully funded at all times, and as a result, would not have to pay Pension Benefit Guaranty Corporation (PBGC) premiums. The SAFE plan provides a fully funded "floor" benefit, with a higher benefit if the plan's experience is more favorable than conservative assumptions. The minimum benefit is a benefit equal to 1 percent, 2 percent, or 3 percent of compensation for each year of service. Benefits would be fully vested at all times, and they would be funded either through an individual retirement annuity or through registered securities invested in a trust. The SAFE plan would have simplified reporting, including a simplified actuarial evaluation. It would not be subject to nondiscrimination or top-heavy rules or plan limitations, other than the $160,000 limit on deductible compensation.*

[8] *SMART would allow small employer contributions ranging from 1 percent to 3 percent of each employee's compensation; provide for full and immediate vesting of benefits; guarantee a fully funded minimum defined benefit with the possibility of a greater benefit if investment returns exceed 5 percent; and facilitate portability and retirement asset preservation through the purchase of annuities or direct transfers to an IRA or another employer's plan. SAFE and SMART share the same goals and are similar in many respects, but there are some differences. SMART would limit the maximum compensation that may be taken into account in determining an individual's benefit for a year to $100,000 (indexed for inflation). SMART would provide a lifetime annuity for the participant and spouse. SMART plans would also be insured by PBGC, but subject to a substantially reduced premium.*

demonstrate that, while administrative issues matter, they are not the only factors involved in low plan sponsorship among small employers: lack of employee demand for retirement plans and uncertain revenue streams are equally important. This implies that policies addressing administrative issues will not achieve their full potential unless they also address other factors.

Small Business Benefits

Contrary to common perceptions, small employers do sponsor employee benefit programs for their workers. The most commonly offered benefits tend to cover near-term worker needs, namely paid time off and health insurance. Benefits whose use is further in the future and/or subject to a greater degree of uncertainty are less commonly offered. For example, in 1996, among full-time workers in small private establishments, 86 percent received paid vacations, 50 percent received paid sick leave, 64 percent were covered by medical insurance, 62 percent were covered by life insurance, and 46 percent participated in some form of retirement plan, according to recently released BLS data (table 2). Coverage rates were lower for part-time employees: 30 percent received paid vacations, 10 percent received paid sick leave, 6 percent were covered by medical insurance, 7 percent were covered by life insurance, and 13 percent participated in some form of retirement plan (table 2).

Findings from the 1998 SERS were similar (chart 1). Among small employers that offer retirement plans, 99 percent also offer paid vacation, 97 percent offer health insurance, 79 percent offer life insurance, 72 percent offer paid sick leave, and 62 percent offer disability insurance. Among small employers without a retirement plan, 88 percent offer paid vacations, 70 percent offer health insurance, 47 percent offer paid sick leave, and 38 percent offer disability insurance.

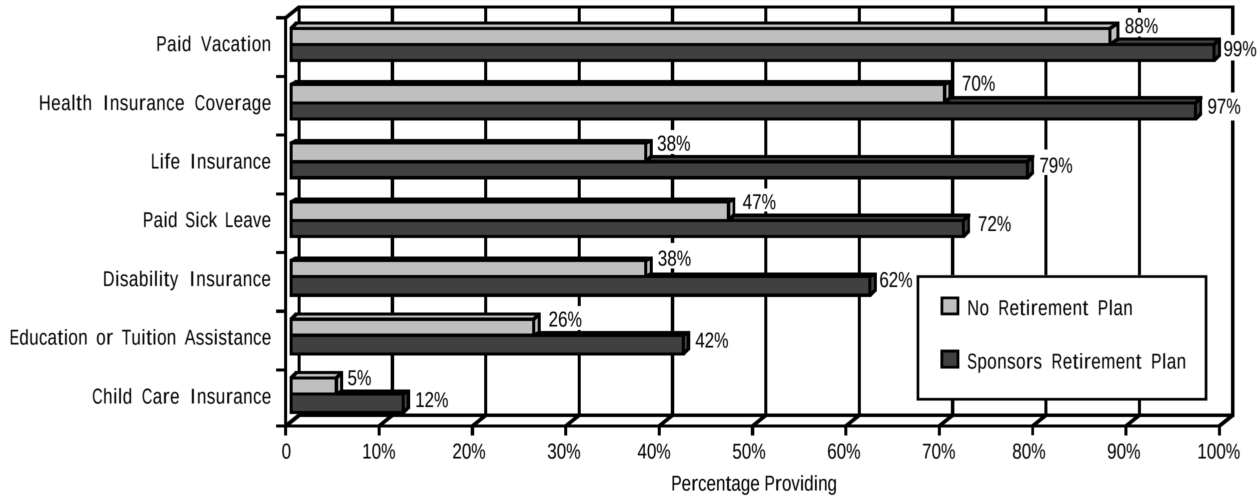
Table 2
Percentage of Employees Receiving Selected Employee Benefit Programs, Small Private Establishments, 1996

	Full-Time Employees	Part-Time Employees
Paid Time Off		
Holidays	80%	24%
Vacations	86	30
Personal leave	14	5
Funeral leave	51	16
Jury duty leave	59	23
Military leave	18	5
Sick leave	50	10
Family leave	2	1
Insurance		
Short-term disability coverage	29	13
Long-term disability coverage	22	2
Medical care	64	6
Dental care	31	4
Life	62	7
Retirement		
All retirement	46	13
defined benefit plans	15	4
defined contribution plans	38	10
tax-deferred earnings arrangements[a]	28	7
savings and thrift[b] plans	23	4
deferred profit-sharing plans	12	5
employee stock ownership plans	1	c
money purchase pension plans	4	2

Source: U.S. Department of Labor, Bureau of Labor Statistics, Press Release USDL 98-240 (June 15, 1998).
[a] Tax-deferred retirement plan contributions are authorized under sec. 401(k) of the Internal Revenue Code.
[b] In savings and thrift plans, participants are required to contribute, and contributions are matched by employers, at least in part.
[c] Less than 0.5 percent.

In addition, the 1998 SERS found some interesting differences between small employers that sponsor a retirement plan and those that do not—differences that shed light on later results. First, small employers without a plan are more likely to report a younger work force: 30 percent say most of their employees are under age 30, compared with 16 percent of small employers with a plan. Second, small employers that do not sponsor a retirement plan are more likely to have a high-turnover work force: 26 percent report that most of their employees leave within three years, compared with 10 percent of those sponsoring a plan. Small employers without a plan are more likely to have a relatively low-wage work force: 34 percent say most of their employees earn less than $20,000, compared with 16 percent of small employers with a plan. Finally, small employers not sponsoring a plan are more likely to report a lower level of education among their workers: 62 percent report that most of their workers have a high school degree or

Chart 1
Benefits Provided by Small Employers



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

less, compared with 43 percent of small employers with a retirement plan.

Those Without Plans

Why don't more small employers sponsor retirement plans? The immediate response typically hypothesized is "administrative costs." While this is an important reason, the true picture is more complex. In the 1998 SERS, small employers identified three main reasons for not offering a plan (table 3):

- The first reason, which is largely ignored but important, is what small employers see as their employees' preference for wages and/or other benefits: 22 percent of small employers cited this as the most important reason they did not offer a plan (50 percent cited it as a major reason). This finding is reinforced by previous EBRI research over the years that consistently demonstrates that employees rate retirement benefits a distant second as a desired benefit, far behind health care.[9]
- The second main reason is administrative and regulatory costs. Fourteen percent of small employers cited the cost of plan set-up and administration as the most important reason for not offering a plan; also, 4 percent cited too many government regulations as the *most important* reason; and 2 percent cited too much paperwork as most important. (Respectively, these were cited as *major* reasons by 35 percent, 35 percent, and 27 percent of those without a plan.)
- The third main reason is uncertain revenue, making it difficult to commit to a plan. Sixteen percent cited this as the most important reason for not offering a plan (51 percent cited this as a major reason for not sponsoring a plan).
- Other often-cited reasons include required contributions being too expensive (a major reason for 45 percent) and vesting requirements causing too much money to go to short-term employees (a major reason for 42 percent).

So, while administrative issues matter, it should be emphasized that other factors are also at work that need to be taken into account when discussing policy options: namely, employee preferences and the financial realities of running a small business. Lack of employee demand should not be surprising. As was discussed in the introduction, small employers without plans are more likely to employ workers who are relatively young, have relatively low earnings, have lower levels of education, and turn over more quickly—characteristics not associated with high demand for retirement savings.

[9] *See* Public Attitudes on Value of Benefits, *EBRI and the Gallup Organization, Inc., EBRI Report #G-63 (February 1996), EBRI Report #G-59 (August 1994), EBRI Report #G-40 (November 1992), EBRI Report #G-23 (July 1991), EBRI Report #G-12 (September 1990).*

Table 3
Reasons for Not Sponsoring a Retirement Plan

	Most Important	Major
Employees Prefer Wages and/or Other Benefits	22%	50%
Revenue Is Too Uncertain to Commit to a Plan	16	51
It Costs Too Much to Set Up and Administer	14	35
Required Company Contributions Are Too Expensive	12	45
Vesting Requirements Cause Too Much to Go to Short-Term Workers	9	42
Too Many Government Regulations	4	35
Benefits for the Owner Are Too Small	3	19
Too Much Paperwork	2	27
Do Not Know Where to Start	2	13
Does Not Reward Performance	0	17

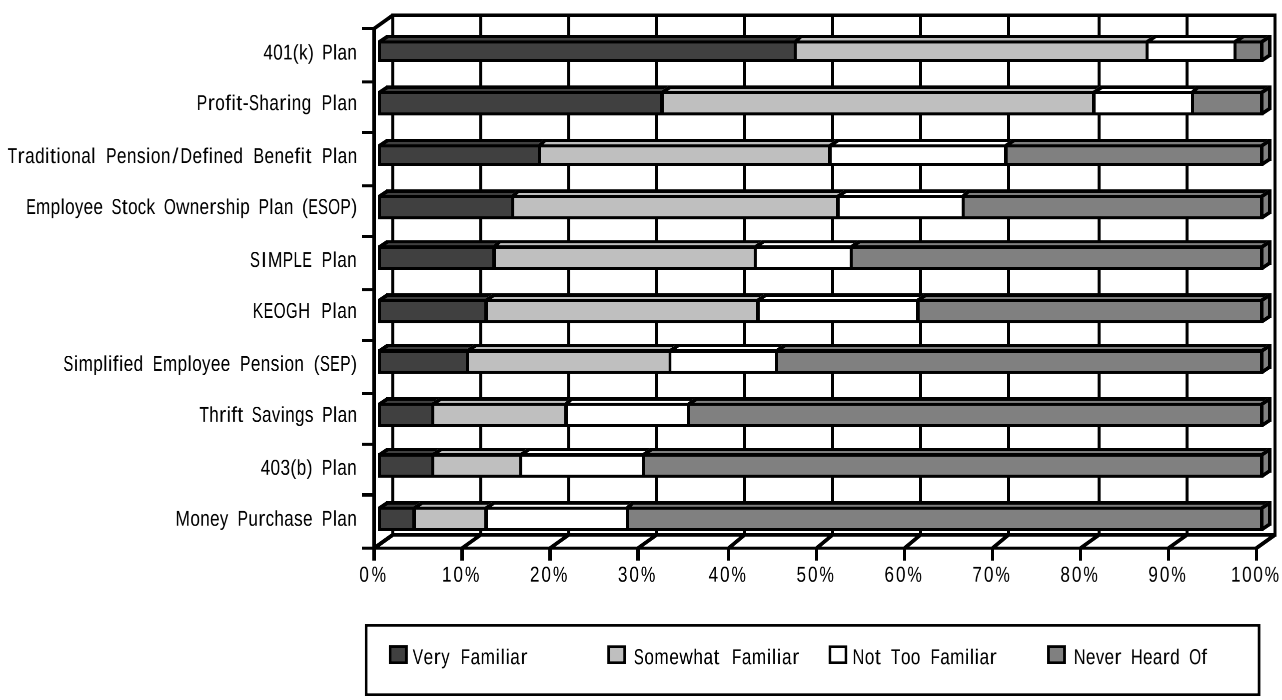
Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald and Associates, 1998 Small Employer Retirement Survey.

More Information Needed

Small employers without plans report being familiar with 401(k) and profit-sharing plans, but report relatively little familiarity with other plan types (chart 2). This unfamiliarity is especially noteworthy because SIMPLE plans and SEPs were created specifically for them. Forty-seven percent report being very familiar with 401(k) plans, and 40 percent report being somewhat familiar with them. Thirty-two percent report being very familiar with profit-sharing plans, and 49 percent report being somewhat familiar with them. Beyond these plans, familiarity levels quickly drop below 50 percent.

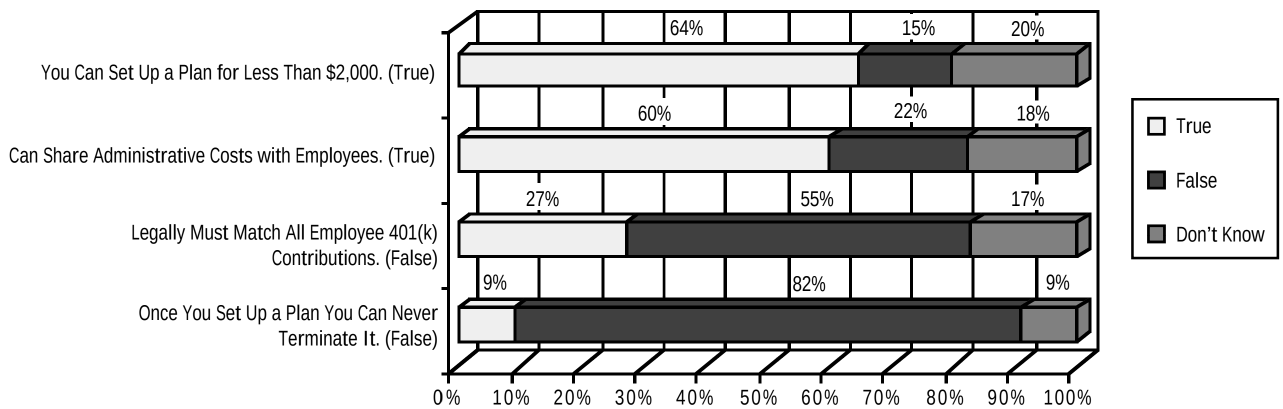
Only 13 percent of small employers without plans are very familiar with SIMPLE plans, an additional 30 percent are somewhat familiar with them, while 47 percent report never having heard of them. Among those reporting that they are likely to start offering a plan within the next two years, 17 percent are very familiar with SIMPLE plans, compared with 9 percent of those that are not likely to start a plan. In addition, among those reporting they are not likely to

Chart 2
Small Employers Without Retirement Plans: How Familiar Are They With Their Options?



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

Chart 3
Beliefs About Retirement Plans Among Small Employers Without a Plan



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

start a plan within the next two years, 53 percent have never heard of SIMPLE plans, compared with 39 percent of those likely to start a plan. Causality cannot be inferred from these numbers, but it appears that if more small employers were familiar with the SIMPLE option, more would be likely to seriously consider sponsoring a retirement plan.

Findings are similar with regard to SEP plans. Only 10 percent of small employers without plans are very familiar with SEPs, an additional 23 percent are somewhat familiar with them, while 55 percent report never having heard of these plans. Among those not likely to start a plan within the next two years, 72 percent were not too familiar with or had never heard of SEPs (28 percent were very or somewhat familiar with them). Among those likely to start a plan, 58 percent were not too familiar or had never heard of SEPs, and 41 percent were very or somewhat familiar with them. Again, familiarity with a retirement plan created specifically for the small employer is positively correlated with the likelihood of a non-plan sponsor reporting that it is likely to begin sponsoring a plan.

In addition to lack of familiarity with retirement plans, a fair amount of misunderstanding is found among small employers who do not sponsor one, especially with respect to costs (chart 3). For example, the SERS found that one-third (35 percent) of small employers without a plan do not know that a plan can be set up for less than $2,000, and 45 percent do not know that a sponsor is not legally required to match all employee 401(k) contributions. Sponsoring a plan does not have to be as expensive and administratively burdensome as many small employers apparently assume.

The data indicate a need to better educate small employers about the options available to them and what these options actually entail. It appears that many small employers' decision not to offer a plan may be based on incomplete information or, worse, incorrect information. There are also indications that the more familiar a small employer without a plan is about the available plan options, the more likely that employer will be to start a plan in the near future.

Increasing Coverage

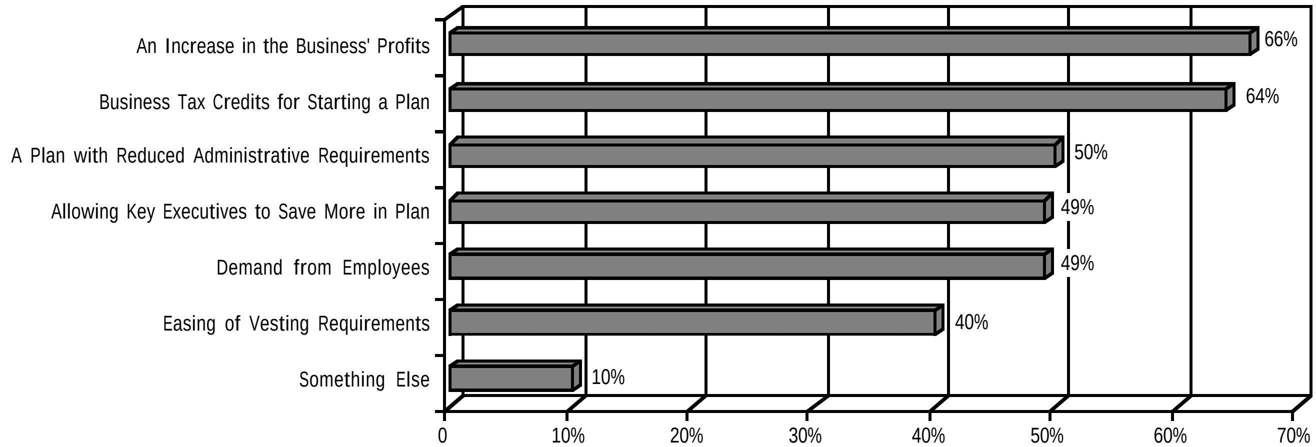
The overwhelming majority (84 percent) of small employers without a retirement plan have never sponsored one. However, there are reasons to be optimistic about the prospects for increased plan sponsorship among small employers:

- Sixty-eight percent of those without a plan do not think their employees are well prepared for retirement, signaling an awareness of a need.
- One-half (49 percent) of those without a plan have seriously considered it in the past.
- Seventeen percent say they are very likely, and 27 percent report being somewhat likely, to start a plan in the next two years. (Not surprisingly, those likely to start a plan are more likely (78 percent) to have considered a plan in the past than those who are not likely to start one (27 percent).

The 1998 SERS asked small employers without plans what changes would lead them to seriously consider offering a retirement plan (chart 4). In order of reported importance, they responded:

- Increased company profits (66 percent).
- A business tax credit for starting a plan (64 percent).
- Reduced administrative requirements (50 percent).

Chart 4
What Might Lead to Plan Sponsorship Among Small Employers Without a Plan



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

- Demand from employees (49 percent).
- Allowing key executives to save more in the plan (49 percent).
- Easing, i.e., lengthening, of vesting requirements (40 percent).

Even though companies with a young work force are less likely to offer retirement benefits, the SERS data indicate they would be more responsive to employee demand than those firms with an older work force. Sixty-two percent of companies whose full-time workers are mostly under age 30 say that increased employee demand would lead them to seriously consider offering a plan, compared with 44 percent of those whose full-time workers are mostly age 30 or older.

Implications

The findings of the first SERS indicate that effective public policy must aim at educating American workers about the need to make retirement planning and saving a priority, in addition to addressing employer concerns about offering plans. Unless small employers feel that a retirement plan is a benefit that their workers want and value, they are unlikely to take advantage of any available vehicles.

Among those small employers reporting that they are likely to start a retirement plan within the next two years, 15 percent say the most important reason for not currently sponsoring a plan is employees' preferences for wages and other benefits. Among those not likely to start a plan, 26 percent say employees' preferences are the most important reason for not offering a plan.

In addition, there appears to be a need to educate many small employers about the options that are available to them and what these options entail, especially in terms of cost. Too many small employers appear to be making decisions based on incomplete or incorrect information. And many may simply be unaware of all the available options.

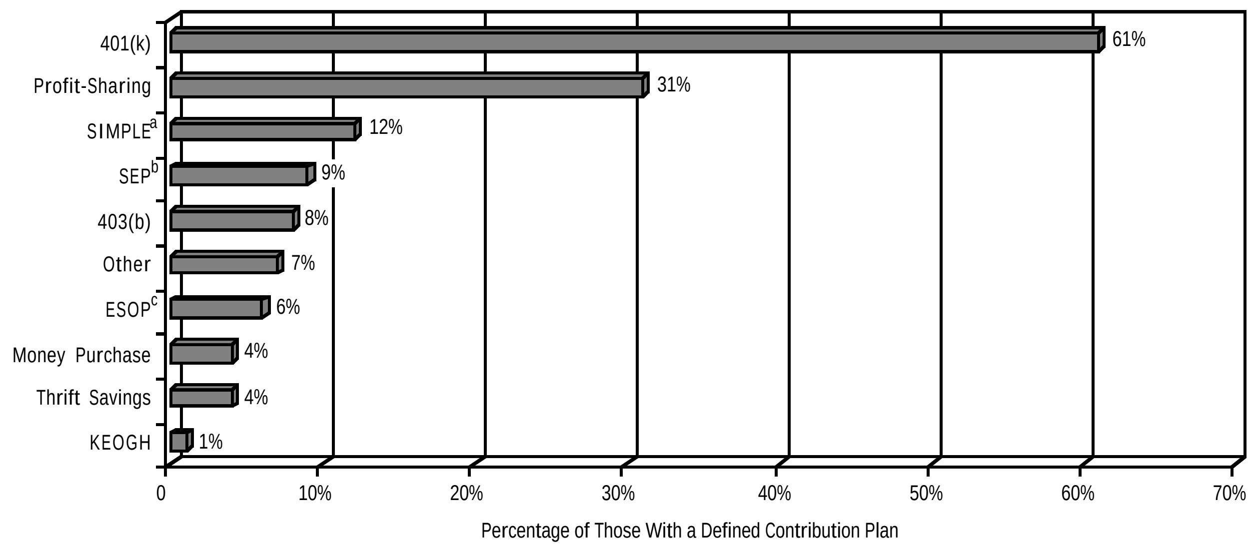
Those With Plans

Not surprisingly, it is a "defined contribution" world for small employers sponsoring retirement plans. According to the 1998 SERS, 84 percent of small employers with a retirement plan sponsor a defined contribution plan, 7 percent sponsor a defined benefit plan, and 8 percent sponsor both. Among those sponsoring a defined contribution plan, 61 percent have a 401(k) plan and 31 percent have a profit-sharing plan (chart 5). Twelve percent of small employers with a defined contribution plan report having a SIMPLE plan, which has been available to them since January 1, 1997. Nine percent of small employers with a defined contribution plan sponsor a SEP.

Very small sponsors (with 5 to 20 workers) of defined contribution plans are less likely (38 percent) than their peers with 21 to 100 workers (73 percent) to have a 401(k) plan, but they are more likely (20 percent versus 8 percent) to sponsor a SIMPLE plan and more likely to sponsor a SEP (19 percent versus 4 percent). Defined contribution sponsors with gross annual revenues of $2.5 million or more are more likely than lower

Chart 5

Types of Defined Contribution Plans Offered by Small Employers



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.
[a]Savings incentive match plan for employees.
[b]Simplified employee pension.
[c]Employee stock ownership plan.

revenue employers to sponsor 401(k) plans (74 percent versus 42 percent) and profit-sharing plans (44 percent versus 28 percent). Lower revenue employers are more likely than their higher revenue peers to sponsor SIMPLE plans (21 percent versus 8 percent) and SEPs (16 percent versus 1 percent).

As of March 31, 1998, approximately 63,000 SIMPLE IRA plans had been established (up 47 percent from the 43,000 plans reported year-end 1997), according to recent data collected by the Investment Company Institute (ICI).[10] Over this same period, the number of individuals covered by a SIMPLE IRA increased 61 percent, from 213,000 to 343,000, and total assets in such plans increased from $435 million to $711 million.[11] Confirming the findings above that SIMPLE plans appeal mainly to very small employers, 90 percent of employers establishing SIMPLE IRAs had 10 or fewer employees, and nearly all had 25 or fewer employees.

Among workers participating in retirement plans at small private establishments, 67 percent participate in a defined contribution plan only, 17 percent participate in a defined benefit plan only, and 15 percent are covered by both, according to BLS data (calculated from table 2). Among participants in a defined contribution plan, 74 percent participate in a 401(k) arrangement, and 61 percent participate in some type of savings and thrift plan.[12]

Benefits of Plan Sponsorship

Among small plan sponsors, the number-one reason cited for offering a retirement plan is that "employees need

Table 4

Reasons for Sponsoring a Retirement Plan

	Most Important	Major
Employees Need Retirement Income	41%	78%
Competitive Advantage in Employee Recruitment and Retention	24	56
Positive Effect on Employee Attitude and Performance	16	68
Tax Advantages for Key Executives	8	29
Tax Advantages for Employees	5	39
Employees Demand or Expect It	4	25

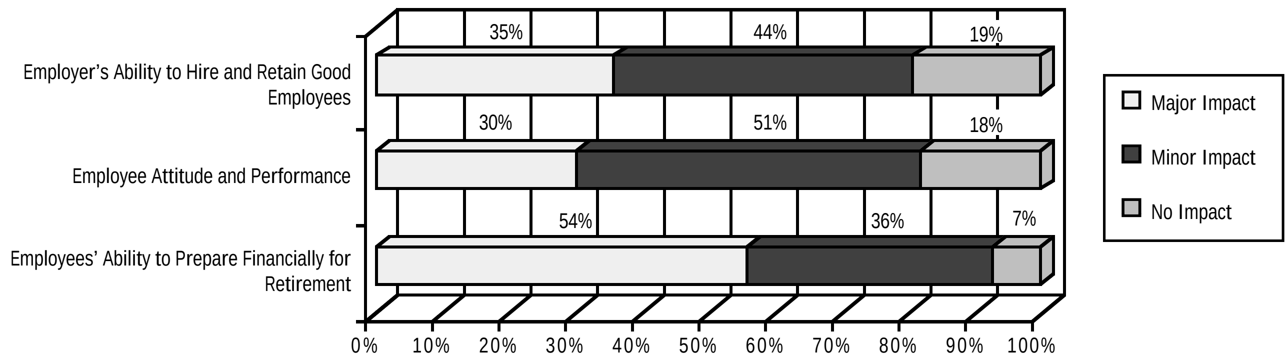
Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald and Associates, 1998 Small Employer Retirement Survey.

[10] ICI surveyed its members regarding the number of accounts established and total assets and participants in those plans. The survey sample was not randomly selected, but survey results are based on responses from 58 firms, representing 81 percent of the assets of the largest 25 mutual fund firms and 57 percent of the assets of all mutual fund firms.

[11] SIMPLE IRAs have been popular, whereas SIMPLE 401(k) plans have languished due to the market-driven design of small-business 401(k) plans prior to SIMPLE 401(k) plans being offered.

[12] As defined by the U.S. Bureau of Labor Statistics, in savings and thrift plans, participants are required to contribute, and contributions are matched by employers, at least in part.

Chart 6
Impact of Offering a Retirement Plan to Employees (Plan Sponsors)



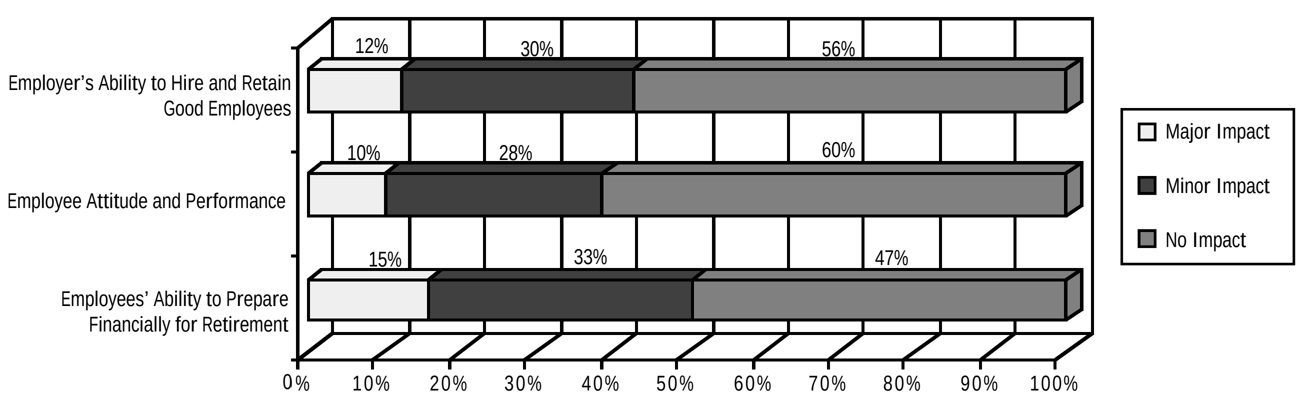
Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

retirement income," but many small employers also cite business reasons for offering a plan (table 4). Sixty-eight percent report that a "positive effect on employee attitude and performance" was a major reason for offering a plan. Fifty-six percent report that a "competitive advantage in employee recruitment and retention" was a major reason, and 25 percent cited as a major reason that "employees demand or expect it." The latter two responses demonstrate that employee preferences do play a role in an employer's decision to offer a retirement plan.

Small employers that offer a retirement plan see real benefits in doing so (chart 6), but many small employers without plans appear unaware of these potential benefits or do not believe they would hold in their case (chart 7).

- Thirty-five percent of plan sponsors report that having a plan has had a major impact on their ability to hire and retain good employees (an additional 44 percent report a minor impact). In comparison, only 12 percent of nonsponsors believe that not offering a plan has had a major impact on their ability to hire and retain good employees (and 30 percent report a minor impact).
- Thirty percent of plan sponsors report that offering a plan has had a major impact on employee attitude and performance (an additional 51 percent report a minor impact). Only 10 percent of nonsponsors report that not offering a plan has had a major impact on employee attitude and performance (with an additional 28 percent reporting a minor impact).
- Fifty-four percent of plan sponsors report that offering a plan has had a major impact on their employees' knowledge about preparing financially for retirement (36 percent report a minor impact). In comparison, 15 percent of nonsponsors report that not offering a

Chart 7
Impact of Not Offering a Retirement Plan to Employees (Non Plan Sponsors)



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1998 Small Employer Retirement Survey.

plan has had a major impact on their employees' knowledge about preparing financially for retirement (and 33 percent report a minor impact).

Most (53 percent) small employers with a retirement plan do not provide retirement saving education (either directly or through a plan service provider) on an ongoing basis to their employees.

Additional Findings

Most (53 percent) small employers with a retirement plan do not provide retirement saving education (either directly or through a plan service provider) on an ongoing basis to their employees, signaling an area of potential need. The 1998 Retirement Confidence Survey shows that even among workers already saving for retirement, only 57 percent have tried to determine how much they need to save, and 47 percent are only somewhat confident that they are investing their retirement savings wisely.[13] Most workers are saving for retirement, but very few are saving and investing based on a plan designed to reach a calculated goal.

Plan sponsors anticipate little change in retirement benefits over the next several years. Only 4 percent anticipate dropping a plan within the next two years, and only 16 percent anticipate adding a new plan. Small employers already sponsoring a plan were asked whether they would be interested in learning more about a simplified version of the traditional defined benefit plan (a version with minimal administrative costs) if it became available, and 38 percent responded in the affirmative. The fact that two-fifths of small employers that already sponsor a retirement plan—and therefore are somewhat knowledgeable on the issues—would be interested in a "simple" defined benefit plan indicates a fair amount of interest and potential for proposals such as SAFE and SMART plans.

Implications

These findings point to another area in which small employers without a retirement plan may need additional education and information—the direct benefits of sponsoring a plan as reported by their peers. The survey results demonstrate that small businesses with plans often experience direct benefits, such as improved employee performance or increased employee retention, and that small employers without plans may not appreciate or even be aware of such potential benefits.

Conclusion

There are no quick fixes or "silver bullets" that will ensure American workers' retirement income security, especially for the 33 million small-business workers who are not participating in a retirement plan. It can be argued that the voluntary retirement system has been a success at large employers, where 85 percent of workers have an employer that sponsors a plan, and 66 percent of workers actually participate in a plan. The same cannot be said at the small-employer level, where only 29 percent of workers have an employer that sponsors a plan, and 21 percent of workers actually participate in a plan.

Findings from the 1998 SERS indicate that long-term policies aimed at improving workers' retirement income security must not only address employer concerns about offering plans but also must educate workers about the need to make retirement saving and planning a priority. In addition, it appears that there is a need to better inform small employers about the options available to them and the true costs and potential benefits of these options.

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[13] *For a complete discussion of the findings from the 1998 Retirement Confidence Survey, see "What Is Your Savings Personality? The 1998 Retirement Confidence Survey,"* EBRI Issue Brief *no. 200 (Employee Benefit Research Institute, August 1998).*

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