WASHINGTON, DC—President George W. Bush and Congress endorsed a new tax law last year that provides increased incentives to encourage small businesses to sponsor a retirement plan for their workers. Yet, most small businesses are not familiar with the law’s new provisions, according to the 2002 Small Employer Retirement Survey (SERS) released today.

The majority of large firms in the United States offer retirement plans, but most small firms (with 100 or fewer employees) do not. According to the most recent data available from the U.S. Department of Labor, 64 percent of all employees in medium- and large-sized firms are covered by an employment-based retirement plan, compared with 34 percent at small firms. This “pension gap” in coverage among small businesses has been an area of marketing and policy focus for years.

The 2002 SERS, sponsored by the nonpartisan Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC), and Mathew Greenwald & Associates, provides insight into why small businesses do not offer retirement plans and what can be done to increase plan sponsorship among small employers. The most surprising finding from this year’s survey is the large number of small-business sponsors and nonsponsors that are unfamiliar with the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA) that was signed into law last year, which contains numerous incentives for retirement plan sponsors. Sixty-eight percent of sponsors and 86 percent of nonsponsors (companies not sponsoring a plan) say they are not familiar with this law, which has important provisions for employment-based retirement plans.
“The 2002 SERS finds that 87 percent of small-employer nonsponsors were unaware that the new tax law allows them to take a tax credit of up to 50 percent for the start-up costs of establishing and administering a new retirement plan,” said Dallas Salisbury, president and CEO of EBRI. “When told of the new tax credit, 68 percent of nonsponsors said it would make it more attractive for them to offer a retirement plan.”

**Other retirement plan issues and the percentage of small employers unfamiliar with them:**
- Employers are allowed to automatically enroll all employees in their 401(k) plans initially (58 percent of sponsors, 62 percent of nonsponsors were unaware of this).
- Employers sponsoring 401(k) plans are allowed to structure their contributions to eliminate the need to perform annual nondiscrimination testing (58 percent of sponsors, 61 percent of nonsponsors unaware).
- In a 401(k) plan, an employee is not always automatically immediately vested in—that is, entitled to—any money contributed by the employer to his or her account (56 percent of sponsors, 70 percent of nonsponsors unaware).
- In some profit-sharing plans, employers do not need to make a contribution to the plan each year (48 percent of sponsors, 48 percent of nonsponsors unaware).
- The federal government allows employers with fewer than 100 employees to set up defined contribution plans that have significantly less administrative burden (31 percent of sponsors, 39 percent of nonsponsors unaware).

**Other key findings from the SERS:**
- **Reasons (“most important”) cited by small employers for not offering a retirement plan:** Employees prefer wages and/or other benefits (22 percent); revenue is too uncertain to commit to sponsoring a retirement plan (18 percent); a large portion of workers are seasonal, part time, or high turnover (15 percent); required company contributions are too expensive (11 percent); and it costs too much to set up and administer (10 percent).
- **Nonsponsors are unfamiliar with different retirement plan options available to them as small businesses:** Many report that they have “never heard” of the following plan types: simplified employee pensions (SEPs) (51 percent); traditional pension or defined benefit plans (36 percent); savings incentive match plan for employees (SIMPLE) plans, which were created by Congress specifically for small employers (31 percent); deferred profit-sharing plans (23 percent); and 401(k) plans (3 percent).
- **Most important reasons small businesses offer a retirement plan:** The competitive advantage for the business in employee recruitment and retention (30 percent); positive effect on employee attitude and performance (23 percent); tax advantage for employees (13 percent); and employers have an obligation to provide a retirement plan for employees (12 percent).

“In addition, the 2002 SERS continues to show the potential for increased plan sponsorship among small employers,” said Mathew Greenwald, president of Mathew Greenwald & Associates. “Thirty-two percent of respondents from companies without a retirement plan say they are likely to start offering a plan in the next two years.”

- **What would motivate nonsponsors to increase plan sponsorship:** An increase in the business’ profits (71 percent); a plan with low administrative costs that required no employer contributions.
(69 percent); business tax credits for starting a plan (63 percent); a plan that could be tailored to the unique needs of their business (59 percent); availability of easy-to-understand information (56 percent); demand from employees (56 percent); a plan with reduced administrative requirements (53 percent); and allowing key executives to accumulate more in retirement plan (38 percent).

“The new tax law addresses some of the issues that small businesses say would motivate them to sponsor a plan, such as lower administrative costs, “ says Don Blandin, president of ASEC. “To increase coverage among small businesses, steps must be taken to educate them about the new tax incentives.”

A number of interactive savings tools, including the Small Biz Retirement Quiz, that employers can take to test their knowledge on the specifics of sponsoring a plan, are available on the EBRI and ASEC Web sites at: www.ebri.org, www.asec.org, and www.choosetosave.org. In addition, more than 100 financial planning calculators, as well as educational video and audio messages, are available at www.choosetosave.org, a Web site developed for the general public to aid in savings education and retirement planning.

The annual Small Employer Retirement Survey (SERS), now in its fifth 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 January and February, 2002, through 15-minute telephone interviews with 300 companies with a retirement plan and 300 companies without a retirement plan. Oversamples of companies with 21–50 and 51–100 employees were obtained to allow separate analysis of these groups. Within each sample, 2002 data are weighted by size of business to reflect the universe of small employers with and without retirement plans.

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.

Founded in 1978, EBRI's 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 is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. EBRI does not lobby and does not take positions on legislative proposals.

ASEC is 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. ASEC works through its partners to educate Americans on all aspects of personal finance and wealth development, including credit management, college savings, home purchase, and retirement planning. ASEC develops and distributes educational materials, all of which are available in hard copy and on the ASEC Web sites: www.asec.org and www.choosetosave.org. ASEC is a program of the EBRI Education and Research Fund.

Mathew Greenwald & Associates, Inc. is a full-service market research company with expertise in financial services research. Founded in 1985, Mathew Greenwald & Associates has conducted public opinion and customer-oriented research for more than 100 organizations, including many of the nation's largest companies and foremost associations.

The 2002 SERS data collection was funded by grants from eight organizations, with staff time donated by EBRI, ASEC, and Mathew Greenwald & Associates. SERS materials and a list of underwriters may be accessed at the EBRI Web site: www.ebri.org/sers

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