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2003 Small Employer Retirement Survey:
Likelihood of Small Companies Offering New Retirement Plans in Next Two Years Continues to Fall

WASHINGTON, DC—Reflecting continued turmoil in the economy, the percentage of small businesses that say they are likely to offer a retirement plan in the next two years continues to drop after years of steady growth in small company plan participation, according to the sixth annual Small Employer Retirement Confidence Survey (SERS) released today by the Employee Benefit Research Institute (EBRI), American Savings Education Council (ASEC), and Mathew Greenwald & Associates (Greenwald).

The 2003 SERS finds that the percentage of companies not offering a retirement plan (nonsponsors) that say they are very likely to begin offering one has declined in recent years – from 17 percent in 1998 to 7 percent in 2003. While another 22 percent say they are somewhat likely to start a plan, 43 percent say they are not at all likely to start a plan in the next two years (up from 32 percent in 1998).

The 2003 SERS finds that small employers that are very likely to offer a plan in the next two years are much more likely than other nonsponsors to say a retirement plan offers their business a competitive advantage in employee recruitment and retention and in motivating employees. Additionally, nonsponsors continue to say that company profitability plays a key role in whether they offer a retirement plan. Specifically, 27 percent of nonsponsors say they do not offer a plan because of low or uncertain revenue, and 34 percent say that an increase in business profits would motivate them to offer a retirement plan.

The 2003 SERS is a comprehensive survey of 300 small employers without retirement plans that provides insight into why these companies do not offer retirement plans, how much they know about the retirement plan options available to small businesses, and what factors may influence their decision to begin offering retirement plans.
plan options and incentives offered to small businesses, and what could motivate them to offer their employees a plan. This year’s survey also includes 31 interviews with small companies that have had plans for less than a year (sponsors) to get their perspectives and opinions on the value of plan sponsorship.

Here are some key findings about small companies that do not offer plans from the 2003 SERS:

• **EGTRRA not an incentive:** Two-thirds (69 percent) of companies without a plan say they are not aware of the tax credit contained in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) that President Bush signed into law in 2001, which provides numerous tax incentives for retirement plan sponsors. These findings suggest that the tax credits in EGTRRA do not seem to have had an impact on increasing plan sponsorship for the majority of small employers.

• **Financial reasons prevent firms from offering a retirement plan:** Revenue is too uncertain to commit to sponsoring a retirement plan (27 percent); costs too much to set up and administer (16 percent); employees not interested (12 percent); too much goes to short-term employees (12 percent); business too new (7 percent); business too small (7 percent); and required company contributions too expensive (6 percent). Twelve percent gave other reasons such as: not interested; administration is too burdensome; employees prefer wages; and employees have benefits through a spouse’s work.

• **What would make them offer a retirement plan:** An increase in the business’ profits (34 percent); a plan that requires no employer contributions (30 percent); increased business tax credits for starting a plan (23 percent); a plan with reduced administrative requirements (20 percent); availability of easy-to-understand information (20 percent); greater tax advantages for key executives (18 percent); greater tax advantages for employees (17 percent); a plan that could be customized to the needs of their business (16 percent); increased demand from employees (15 percent); and allowing key executives to accumulate more in the retirement plan (11 percent).

• **Those that are very likely to start a plan think it would motivate and attract employees:** More than 6 in 10 nonsponsors that say they are very likely to start a plan in the next two years think that a retirement plan would have a great deal of effect on their employees’ attitude and performance (64 percent, compared to 10 percent of those who are less likely to start a plan). Almost as many think it would offer a great deal of advantage for their business in employee recruitment and retention (59 percent vs. 9 percent).

• **No sense of obligation to offer a retirement plan to their employees:** Five percent of nonsponsors say they feel a “great deal” of obligation, and 41 percent feel “somewhat” obligated. Fifty-one percent of small businesses without plans think they do “not at all” have an obligation.

Other findings from this year’s survey:

• **Increasing knowledge of SIMPLE and SEP plans:** Over the years, SERS trend data show that companies that do not offer a retirement plan tend to have little knowledge about the different retirement plan types available to them as potential plan sponsors. That includes the options created specifically for small employers and designed to be less costly to establish and administer. This year’s survey shows there has been an increase in nonsponsors’ familiarity with SIMPLE plans (Savings Incentive Match Plan for Employees).

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. A number of interactive savings tools, including the Small Biz Retirement Quiz that employers can take to test their knowledge of 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

The annual Small Employer Retirement Survey (SERS), now in its sixth year, was designed to gauge the views and attitudes of America’s small employers (with five–100 full-time workers) regarding retirement plans and related issues. This wave of the survey was conducted within the United States in January and February of 2003 through 12-minute telephone interviews with 300 companies without a retirement plan and 31 companies with a retirement plan. Oversamples of nonsponsors with 21–100 employees were obtained to allow separate analysis of this group. Businesses without plans are weighted by size of business to reflect the universe of small employers 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 companies with five–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 an 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 2003 SERS data collection was funded by grants from nine 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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