

No Thank You: Small Employers Without Retirement Plans

Small employers, those with fewer than 100 employees, employ 35 million Americans, 36 percent of the country's workforce. Only 29 percent of those working for a small employer—10 million people—are covered by a retirement plan, leaving 25 million Americans who work for a small employer without direct access to a workplace plan. Only 21 percent of those working for a small employer actually participate in a plan at work. By comparison, at employers with 100 or more employees, 83 percent of workers are covered and 64 percent actually participate in a retirement plan.¹

The 1998 Small Employer Retirement Survey found that there is not a single overriding reason why small employers elect not to sponsor retirement plans. The three main reasons are a perceived lack of demand by employees, administrative costs and burdens, and uncertain revenue streams among small employers. [footnote 1]

Reasons Cited for Not Offering a Retirement Plan

	Major	Most Important
Employees prefer wages and/or other benefits	50%	22%
Revenue is too uncertain to commit to a plan	51	16
Cost too much to set up and administer	35	14
Required company contributions too expensive	45	12
Vesting gives too much to short-term employees	42	9
Too many government regulations	35	4
Benefits for the owner are too small	19	3
Too much paperwork	27	2
You don't know where to start	13	2
Does not reward performance	17	<1

What Would Motivate a Small Employer to Start a Retirement Plan?

- 84 percent of small employers without a plan have never offered a plan.
- 49 percent have at some point seriously considered offering a plan.
- 17 percent say it is very likely that they will start a retirement plan for their employees in the next two years and 25 percent say it is somewhat likely.

Money is the most important among factors that would lead a small employer to seriously consider offering a plan. When asked what would motivate them to seriously consider offering a plan, small employers indicated:

Increase in business profits	66%
Business tax credit for starting plan	64
Plan with reduced admin requirements	50
Demand from employees	49
Allowing key execs to save more in plan	49
Easing vesting requirements	40

Small Employers Without Plans Have Limited Knowledge of Retirement Plans.

Among small employers without retirement plans, over 80 percent say they are very familiar or somewhat familiar with 401k plans and profit-sharing plans, but familiarity with other types of retirement plans drops off quickly.

Very or Somewhat Familiar with the Following Plans

401k	87%
Profit-sharing plan	81
ESOP	52
Traditional defined benefit	51
Keogh	43
SIMPLE	42
SEP	33
Thrift Savings	21
403b	16
Money purchase	12

Retirement Plan Quiz

The 1998 Small Employer Retirement Survey asked employers without plans to answer a series of true-false questions about key elements of retirement plans. Only slightly more than one quarter (28 percent) could answer all four correctly.

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| 1. You must legally match all employee 401k contributions (false) | 55 percent answered correctly |
| 2. Once you set up a plan you can never terminate it (false) | 82 percent answered correctly |
| 3. You can set up a plan for less than \$2,000 (true) | 64 percent answered correctly |
| 4. You can share plan administrative expenses with employees (true) | 60 percent answered correctly |

How well did employers do?

- 4 correct responses—28 percent
- 3 correct responses—28 percent
- 2 correct responses—25 percent
- 1 correct response—14 percent
- 0 correct responses—5 percent

¹ Based on EBRI tabulations of the 1993 Current Population Survey Employee Benefits Supplement.