

## 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.<sup>1</sup>

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

<sup>1</sup> Based on EBRI tabulations of the 1993 Current Population Survey Employee Benefits Supplement.