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Statement for the
ERISA Advisory Council
Working Group Studying Increasing Pension Coverage

of

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Washington, DC

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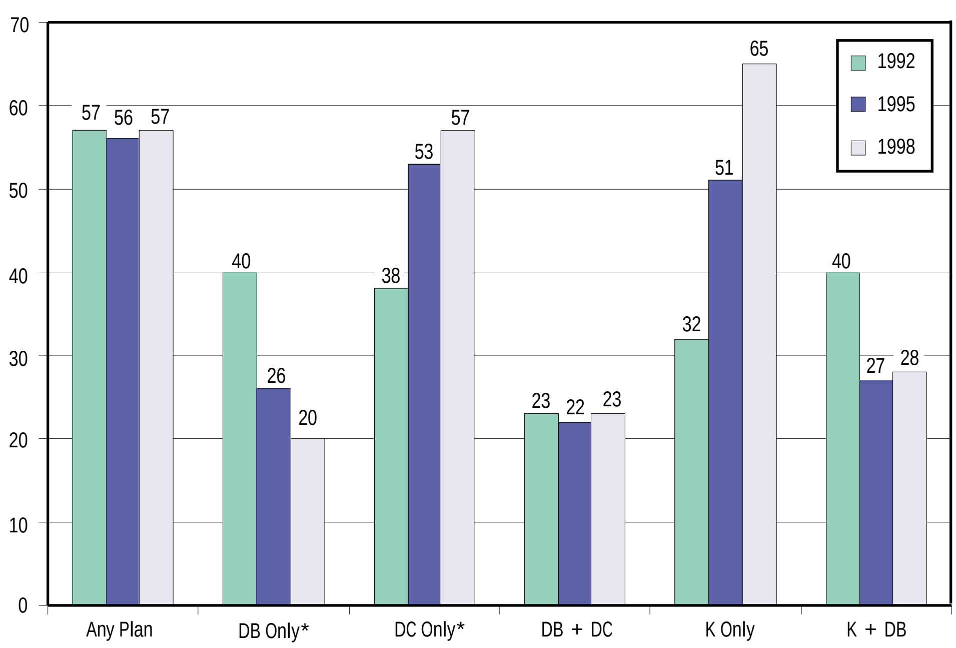
Chairmen Ray and Members of the Working Group:

The Employee Benefit Research Institute (EBRI) is pleased that the ERISA Advisory Council has convened a working group to study increasing pension coverage. EBRI has conducted work on this issue since 1979, and stands ready to assist the working group in any way possible.

As the chart that follows indicates, the last decade has seen very little change in the number of family units with pension coverage of some kind, while the type of coverage – defined benefit, defined contribution, or both — has changed a great deal.



Against a second metric, employer size, coverage has also changed. Participation in plans, for example, has increased among employers with under 10 employees from 16.2 percent in 1994 to 21.6 percent in 1999; from 27.1 percent for those employers with 10 to 24 employees in 1994 to 34.3 percent in 1999; and from 41.8 percent among workers for employers with between 25 and 99 employees in 1994 to 46.1 percent in 1999. While far short of the 86 percent participating in employers with more than 1000 employees, it represents progress. Among private employers with fewer than 100 workers, 46 percent are participating in an employment-based retirement plan.

Because most of the uncovered and non-participating work for small employers, EBRI has studied the issue of retirement plan sponsorship—and nonsponsorship—among small (100 or fewer) employees extensively. Our 1989 book, "Pension Policy and Small Employers: At What Price Coverage?" was a benchmark study for our ongoing efforts. It's quantitative work underlined the importance of such design features as vesting to small employer decision making (the faster the vesting schedule the less interested a small employer is in sponsoring a plan) and the prospects of such legal changes as tax credits for expansion of coverage through the creation of new plans (a 14% tax credit was projected to add between 3 and 6 million worker to the covered rolls).

Since 1998, we have conducted an annual qualitative Small Employer Retirement Survey (SERS) to explore small employer retirement plan sponsorship decisions. The survey is sponsored by EBRI, the American Savings Education Council, and Matthew Greenwald & Associates. Results of the 2001 SERS will be released this June.

The SERS questions both employers with plans and without plans and seeks to provide greater understanding of decisions made by both groups of employers. I will summarize some of the primary findings.

Obstacles to Plan Sponsorship

- There are a number of reasons that come up in the Small Employer Retirement Survey on why more small employers do not offer retirement plans—it is not simply a matter of administrative cost and burden. The survey asked small employers to identify the most important reason for not sponsoring a plan, and to state whether a given reason was a "major" factor in evaluation. Twenty-one percent said that the most important reason was that employees prefer wages and/or other benefits. In fact, our value of benefits surveys have found that 76 percent of workers who can have only one employee benefit state a desire for health insurance. Eighteen percent of small employers say that the most important reason for not having a plan is the makeup of their work force, a large portion of workers are seasonal, part time, or high turnover. Twenty-four percent say that revenue is too uncertain to commit to a plan or the business is too new. Cost and administration-related issues do matter, with 20 percent saying that it costs too much to set up and administer a plan; that required company contributions are too expensive; or that there are too many government regulations. For most, therefore, the financial reality of running a small business is the primary impediment to having a plan.

Reasons for Not Offering a Retirement Plan	Most Important	Major
Employees prefer wages and/or other benefits.	21%	38%
A large portion of workers are seasonal, part time, or high turnover.	18	40
Revenue is too uncertain to commit to a plan.	13	45
The business is too new.	11	22
It costs too much to set up and administer.	9	33
Required company contributions are too expensive.	8	43
Too many government regulations.	3	24
Vesting requirements cause too much money to go to short-term employees.	3	35
Don't know where to go for information on starting a plan.	2	5
Tax benefits for the owner are too small.	3	23
Other reasons.	9	6

Employee-related reasons are most often cited as the most important factor for not offering a plan, and business-related reasons, such as profitability, are also a main decision-driver. This may explain why plan sponsorship rates remain low despite repeated legislative efforts to boost them.

H.R. 10 would address several of these issues in the following ways:

- *Employees prefer wages/and or other benefits*—H.R. 10 would encourage education on the value of having a retirement benefit by specifying that retirement advice provided to employees on an individual basis would be a nontaxable fringe benefit to the extent such services are made available on substantially equivalent terms.
- *A large portion of workers are seasonal, part time, or high turnover*—H.R. 10 would permit rollovers from the various types of defined contribution arrangements (i.e., 401(k), 403(b), and governmental 457) to each other without restriction, which would make retirement plans more attractive for these type of workers.

- *Revenue is too uncertain to commit to a plan, the business is too new and it costs too much to set up and administer*—While the current version of H.R. 10 does not contain tax credits for small employer plans, an earlier Senate version of similar legislation that passed the Senate Finance Committee on Sept. 7, 2000, allowed for small businesses with 100 employees or less to be eligible for an annual tax credit of 50 percent on up to $1,000 of administrative costs for the first three years of a new plan. These credits, along with other additional credits for businesses that previously did not sponsor retirement plans, would be a motivator for those not offering a plan to consider sponsoring one.
- *Required company contributions are too expensive*—H.R. 10 would provide for increases in deferral limits in defined contribution plans, making a salary reduction plan more attractive to a small employer.
- *Too many government regulations*—H.R. 10 would streamline and simplify certain reporting and testing regulations to encourage more employers to offer pension coverage.
- *Tax benefits for the owner are too small*—H.R. 10 would provides for increased contribution limits on an employer's deduction for contributions to certain types of defined contribution plans. In addition, H.R. 10 would allow workers over age 50 to contribute up to $5,000 in "catch-up" contributions in 401(k) plans.

Potential Motivators for Retirement Plan Sponsorship

- SERS found that the potential exists for increased plan sponsorship. Those likely to start a plan are somewhat more likely to report that the most important reason they don't currently have a plan is revenue uncertainty and less likely to say it is because a large portion of their workers are seasonal, part time, or high turnover. This therefore suggests that continued improvement in their business conditions will allow them to consider starting a plan in the future.

Likelihood of Starting a Plan in the Next Two Years	
Very likely	16%
Somewhat likely	23
Not too likely	29
Not at all likely	31

- What would lead to increased plan sponsorship? Nonsponsors were read a list of items and asked if any would make them seriously consider sponsoring a retirement plan. The highest percentage, 69 percent, said an increase in business profits. Next, 65 percent said tax credits for starting a plan, and 52 percent said reduced administrative requirements.

Factors That Would Make Non-Sponsors Seriously Consider Sponsoring a Plan	
An increase in business profits.	69%
Tax credits for starting a plan.	65
A plan with reduced administrative requirements.	52
Availability of easy-to-understand information.	50
Demand from employees.	49
Allowing key executives to save more in a retirement plan.	5
Lengthening of vesting requirements.	27
Other.	10

Comparative Profiles: Companies With Retirement Plans and Those Without Plans

- Small employers that sponsor retirement plans tend to be distinctly different from small employers without plans, in terms of revenue levels and the composition of their work force.

- Small employers that offer retirement plans tend to have higher revenues than small employers that do not have retirement plans.

Approximate Gross Revenue in Previous Year	Plan Sponsor	No Plan
Less than $2 million	37%	70%
$2 Million or More	41	16
Not Reported	22	7

- Small employers offering retirement plans tend to employ different types of workers than those that do not sponsor a plan—their employees tend to be older, have higher earnings, have more formal education, and tend to remain with the company longer.

Age of Most Full-Time Employees	Plan Sponsor	No Plan
Under age 30	15%	27%
30–39 Years	53	38
Ages 40 and older	27	33

Annual Salary of Most Full-Time Employees	Plan Sponsor	No Plan
Less than $20,000	9%	34%
$20,000–$40,000	71	56
Over $40,000	17	7

Educational Level of Most Full-Time Employees	Plan Sponsor	No Plan
High school or less	38%	55%
Some college	34	32
College degree or more	27	11

Length of Time Most Full-Time Employees Stay With Company	Plan Sponsor	No Plan
Less than 3 years	13%	34%
Between 3 and 9 years	56	38
10 years or more	30	24

Implications for the Small Employer Pension Coverage

- Major drivers of low retirement plan sponsorship among small employers relate to who they employ and the uncertainty of revenue flows. While issues of administrative cost and burden matter, they are only part of the puzzle. Therefore, the solution is not simply "build it and they will come," by creating new types of retirement plans. Rather, it is build it and make it attractive enough for service providers to decide to work at selling it so that small employers will make the sponsorship decision once the business reaches a certain level of profitability and stability, and once retirement planning and saving is more of a priority for the small employer's workers

- As the SERS finds, 39 percent of small employers without plans say they are very or somewhat likely to start a plan in the next two years. The SERS provides data on what points these employers will primarily focus upon in making that decision. And, SERS provides guidance to policymakers as to what factors can be affected by public pension policy.

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Bibliography of EBRI Research on Retirement Issues

Public Opinion Surveys:

The 2000 Retirement Confidence Survey (RCS)
The exercise of trying to figure out how much you need to save for retirement can put you ahead in the savings game, according to results of the 2000 Retirement Confidence Survey (RCS) released today. Workers who have attempted such a calculation appear to be doing a better job of preparing for retirement than those who have not.
—May 16, 2000 EBRI press release

*The 2000 Minority RC*S, which oversamples respondents in three minority groups (African-Americans, Hispanic-Americans, and Asian-Americans) as part of the Retirement Confidence Survey, shows many similarities as well as differences about retirement confidence, preparations and planning for retirement among individuals in these minority groups. Overall, the Minority RCS found that Hispanic-Americans tend to be less confident that they will have enough money to live comfortably throughout their retirement years than are other groups.
—May 16, 2000 EBRI press release

The 1999 Women's Retirement Confidence Survey (WRCS), also an oversample of the Retirement Confidence Survey. A majority of American women are saving for their retirement and are confident of their retirement prospects, but more is still needed to ensure they will be able to afford life after work, according to a new survey by the nonpartisan Employee Benefit Research Institute (EBRI).
—Feb. 2, 1999 EBRI press release

The 2000 Small Employer Retirement Survey (SERS)
Are small businesses saying "no" to a retirement plan for their employees before knowing all the facts? According to the results of the 2000 Small Employer Retirement Survey (SERS) released today, nonsponsors may not be aware of all the options available to them, or of the potential business advantages of offering a plan. Currently, less than half (46 percent) of full-time employees at small private establishments (100 or fewer workers) are participating in an employment-based retirement plan.
—April 4, 2000 EBRI press release

The 2000 Value of Benefits Survey
EBRI conducted "value of employee benefits" surveys in 1991 and 1996 to determine the relative importance of different benefits to workers and to assess the role played by benefits in job choice and job change. Collaborating with WorldatWork, the survey was repeated in 1999. As earlier surveys have shown, employee benefits today remain "very important" in job selection, and workers continue to rank their health benefits as the most important of several benefits.
—June 2000 *EBRI Notes*

1999 Youth and Money Survey

Most American students feel confident in their money management skills, but many feel they need to know more about financial issues, according to results of a recent survey published in the August edition of EBRI Notes by the nonpartisan Employee Benefit Research Institute (EBRI). Significantly, the vast majority of students have financial courses offered at school, but barely a third have chosen to take the course. Overwhelmingly, students say they depend on their parents for financial information.

—Aug. 16, 1999 EBRI press release

EBRI Books/Special Reports:

Andrews, Emily S. *The Changing Profile of Pensions in America*. Washington, DC: Employee Benefit Research Institute, 1985.

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Schieber, Sylvester J., and Patricia M. George. *Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement.* Washington, DC: Employee Benefit Research Institute, 1981.