

**Written Statement  
for the**

**Subcommittee on Long-Term Growth  
and Debt Reduction**

**Senate Committee on Finance**

**Hearing on:**

**“Small Business Pension Plans: How Can We Increase Worker Coverage?”**

**Thursday, June 29, 2006**



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**By**

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**“Participation by Employees of Small Employers  
in Employment-Based Retirement Plans”**

Mr. Chairman and members of the committee, my name is Craig Copeland of the Employee Benefit Research Institute (EBRI), where I am a Senior Research Associate and Project Director of the Social Security Reform Evaluation Program.

My focus today is the participation in employment-based retirement plans in small employers, and the demographic characteristics of small employers that affect the participation in these plans. I'll also examine the breakdown of retirement plan participants in each type of plan: defined contribution or 401(k)-type plan and defined benefit pension plan.

The definition of a small employer used in this research is one with fewer than 100 employees. The data used to analyze this group's participation in employment-based retirement plans come from the Census Bureau's March 2005 Current Population Survey (CPS). According to these data, 44.7 percent of private-sector wage and salary workers age 21–64 worked for a small employer, 18.2 percent for an employer with fewer than 10 employees, 11.6 percent for an employer with 10–24 employees, and 14.8 percent for one with 25–99 employees (Figure 1).

A gap in retirement plan participation between small and large employers has existed for many years, and in 2004 small-firm workers had a participation level half that of large employers:

- Specifically, 26.7 percent of workers working for employers with fewer than 100 employees participated in an employment-based retirement plan (Figure 2). This breaks down into 16.0 percent at employers with fewer than 10 employees, 27.2 percent at employers with 10 to 24 employees, and 39.6 percent at employers with 25 to 99 employees.
- This compares with 56.2 percent who worked for an employer with 100 or more employees.

The reasons for these differences have been explored in EBRI's Small Employer Retirement Survey, where small employers primarily cited either uncertain profits or lack of employee demand as the key reasons for why they tend to not offer retirement benefits.

This lower level of participation among small-employer workers persists across earnings levels, industries, and work status of the employees:

- For workers at firms with fewer than 10 employees earning less than \$15,000 annually, 5 percent were participants, compared with 17 percent in firms with 1,000 or more employees (Figure 3).
- For workers earning \$75,000 or more annually, 36 percent participated in the smallest employers compared with 86 percent in the largest employers.
- For three industries (agriculture, mining, and construction; manufacturing; and wholesale and retail trade), the percentage of employees participating in a retirement plan increases from less than 25 percent for employers with fewer than 10 employees to just over 60 percent for employers with 1,000 or more employees (Figure 4). However, the percentage of workers participating in personal services ranges only from 11 percent to 33 percent.
- Among full-time, full-year workers, the percentage of workers participating increases from 20 percent for the smallest firms to 68 percent for the largest firms (Figure 5). In contrast, among part-time, part-year workers, the percentage participating ranged from 6 percent to 14 percent.

While the percentage of workers who participated in a plan was lower across various characteristics of workers or employers, important differences in the types of workers in small versus large employers remain.

- Small employers have a disproportionate percentage of workers with annual earnings below \$15,000: 31 percent at firms with fewer than 10 employees, compared with 20 percent at employers with 100 or more employees (Figure 6).
- Small employers are more likely to be in the personal service industry and less likely to be in the manufacturing industry, the industries with lowest and highest overall levels of participation, respectively (Figure 7).
- Small employers have lower shares of full-time workers and higher shares of part-time workers, when compared with larger employers (Figure 8). It is of note that when examining some important worker characteristics—such as age, gender, and race/ethnicity—no significant differences emerged between the small employer and large employer work forces (Figure 9).

The CPS does not include plan type, but the Federal Reserve Board's Survey of Consumer Finances (SCF) does provide this information.<sup>1</sup>

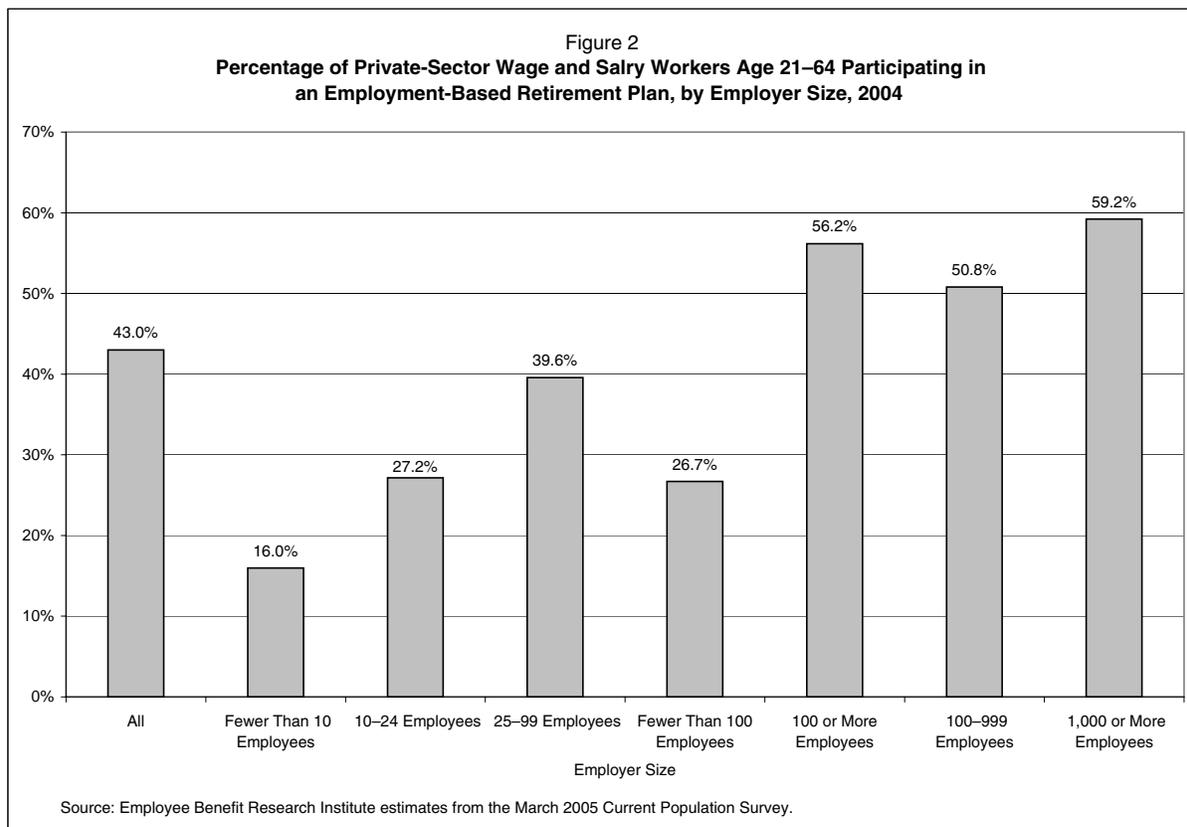
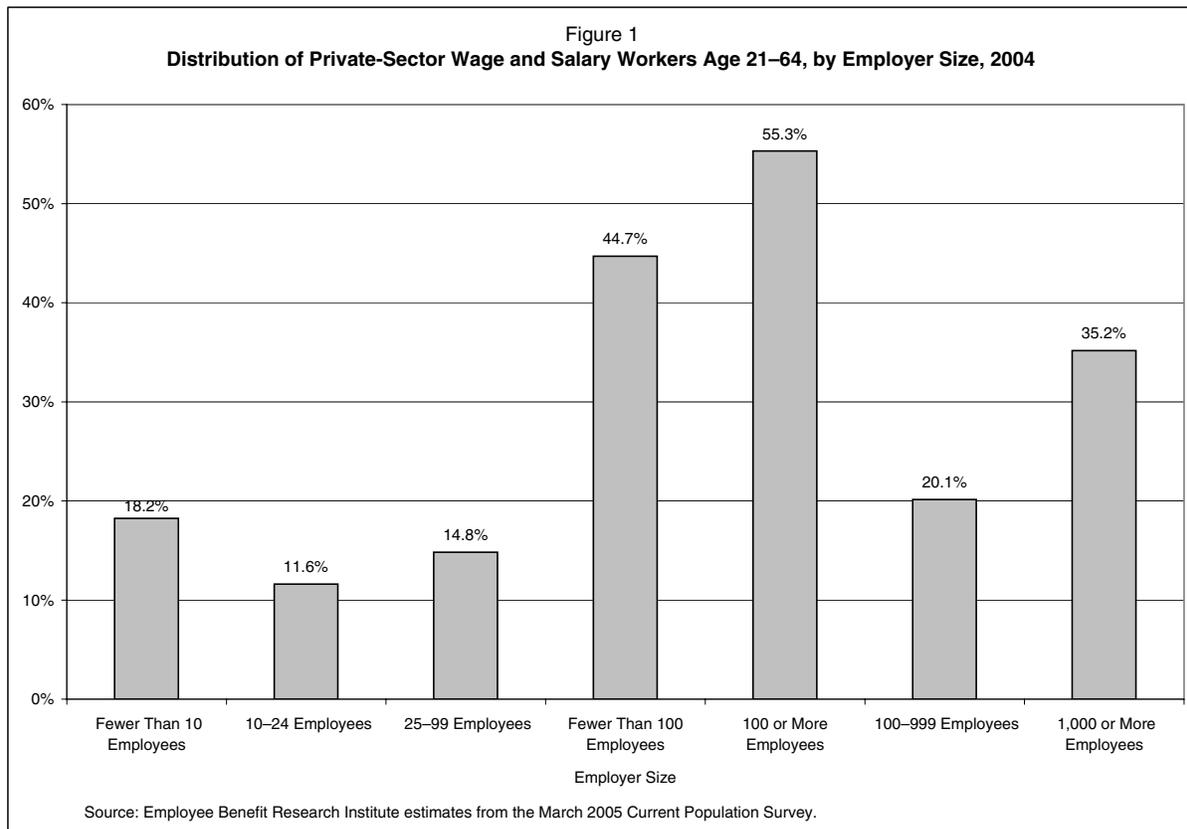
- Participants of employment-based retirement plans working for small employers are more likely to have a defined contribution (401(k)-type) plan as their only plan, relative to participants in larger employers. For example, 77 percent of the participants at firms with 10–19 employees were in a defined contribution plan only, compared with 57 percent at firms with 500 or more employees (Figure 10).
- While the rates of having only a defined benefit plan (traditional pension) are similar across employer sizes, participants from the largest employers are significantly more likely to have both types of plans (21 percent compared with 6 percent). Smaller employers' higher likelihood of having only a defined contribution plan for participants persists across each industry (Figure 11).

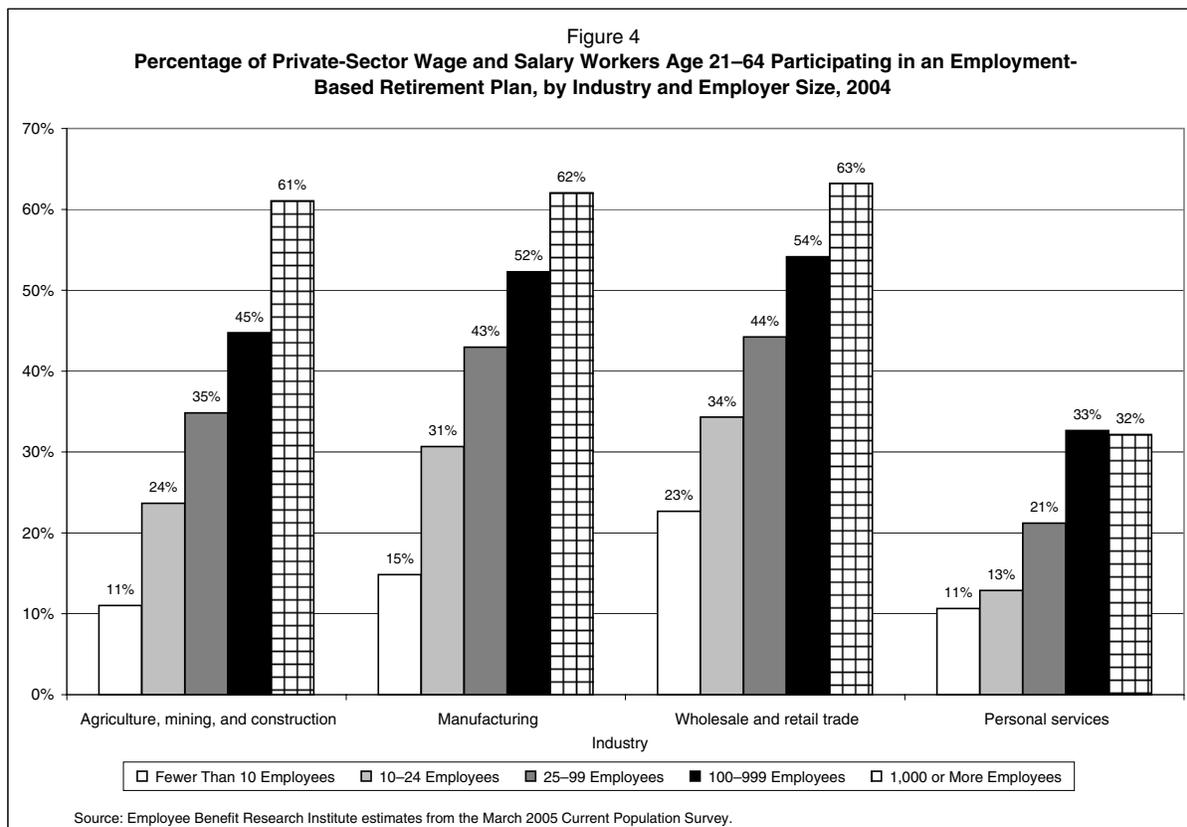
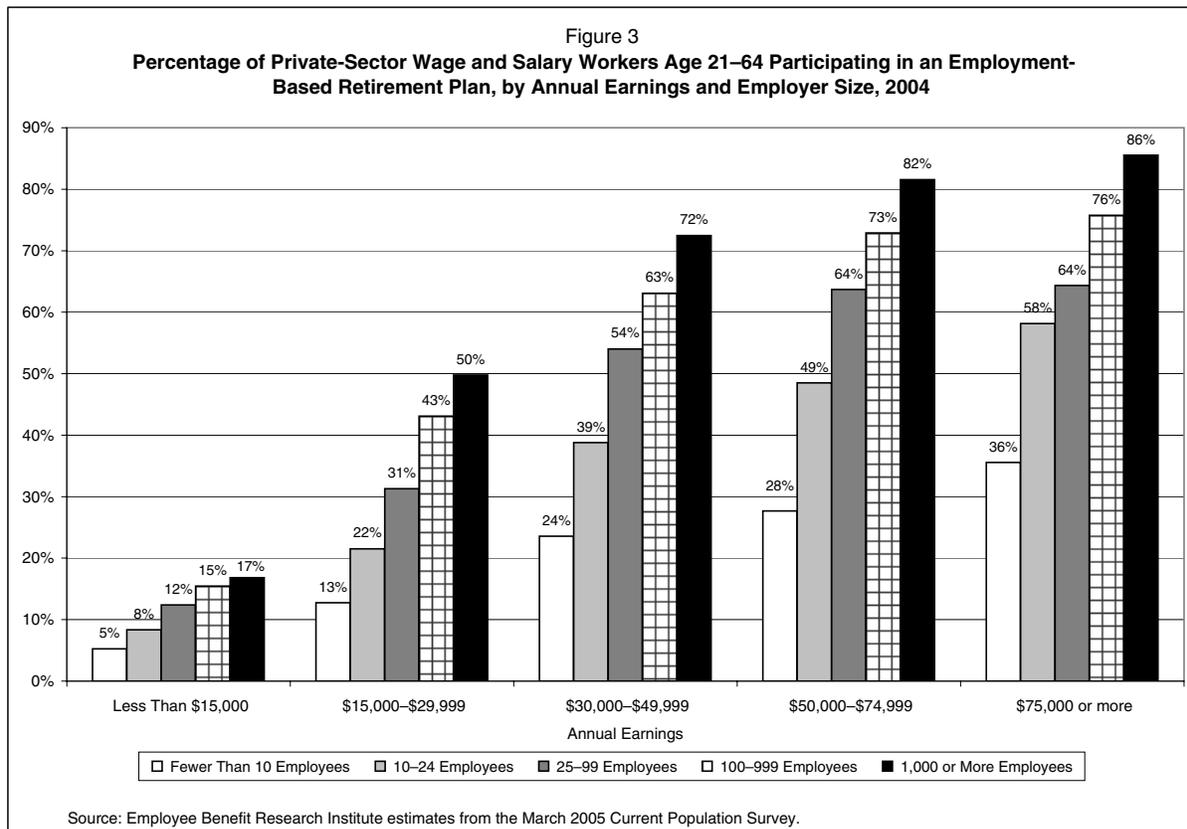
Despite the lower likelihood of workers at small employers being in an employment-based retirement plan, there is some good news: Their probability of being in a plan has increased since 1991. In 1991, 19.8 percent of workers at firms with 10–24 employees participated in an employment-based retirement plan before growing to 27.2 percent by 2004 (Figure 12). In contrast, for employers with 1,000 or more employees, participation declined from 61.9 percent in 1991 to 59.2 percent in 2004.

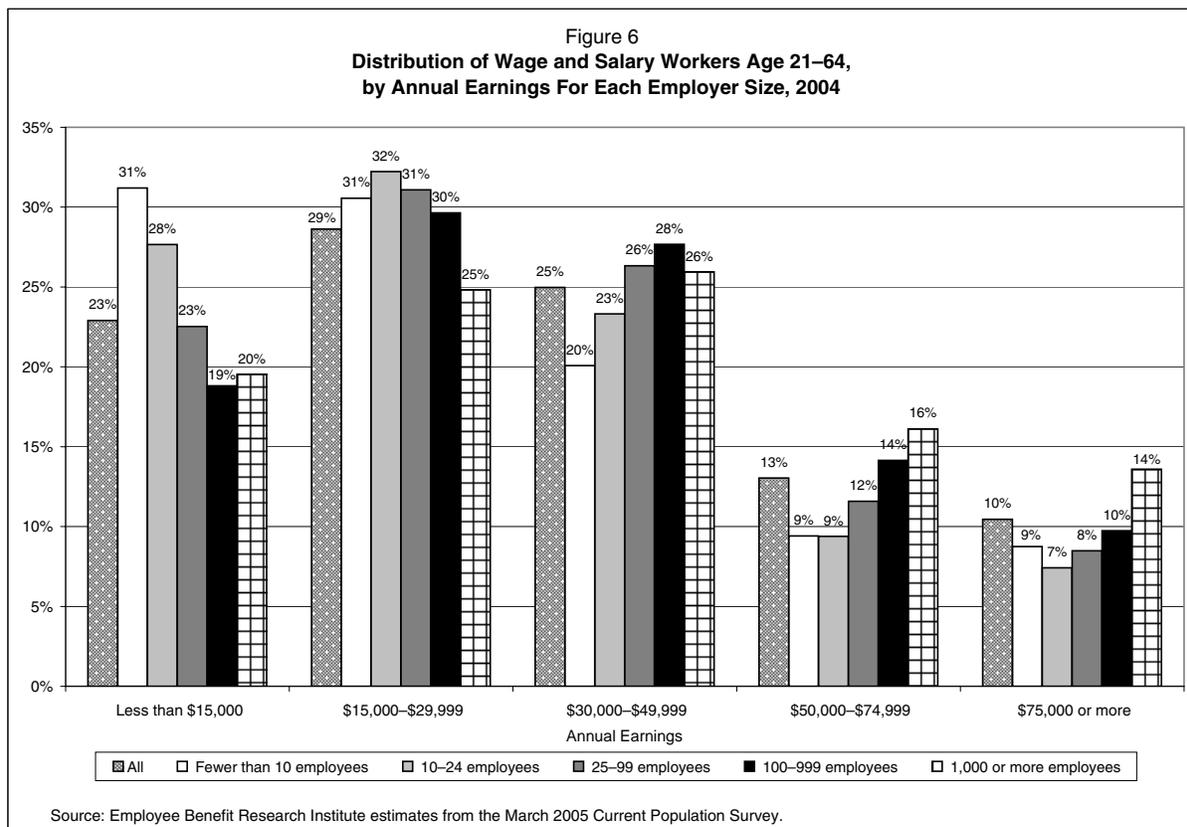
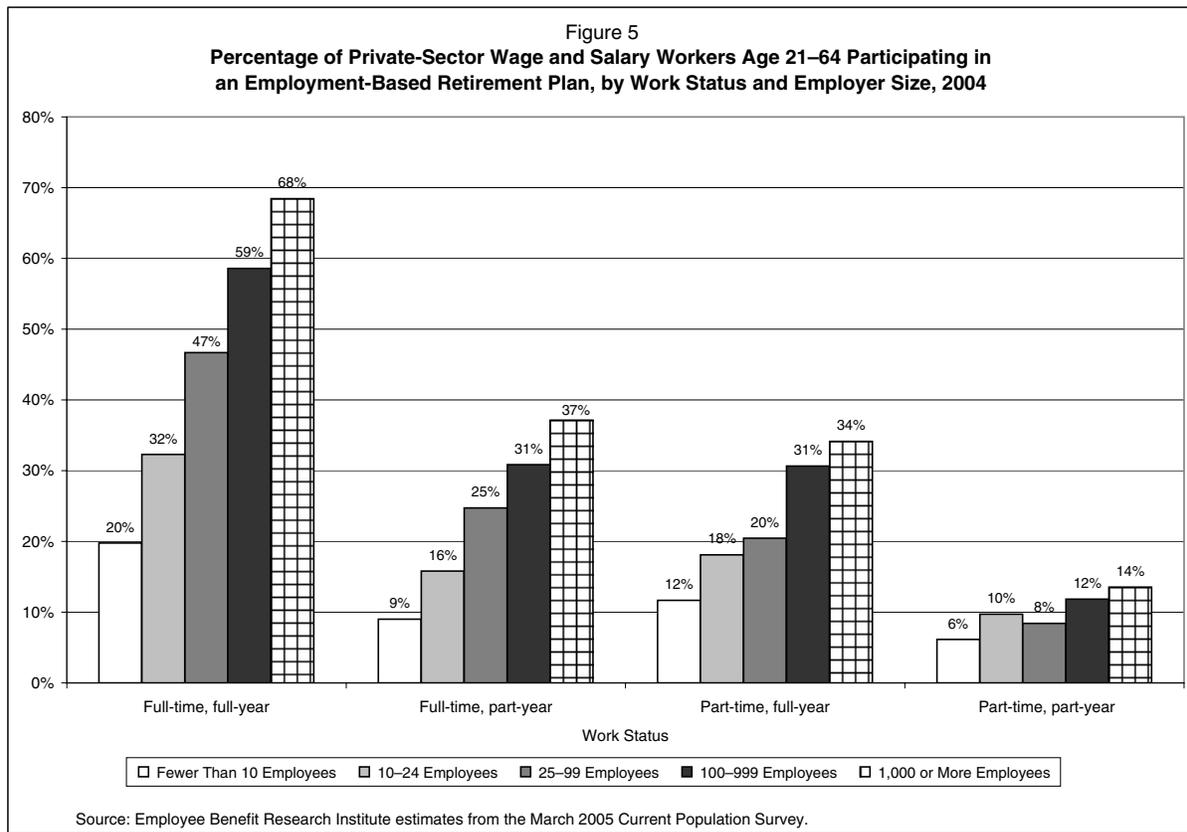
Thank you and I will be happy to answer any questions you may have.

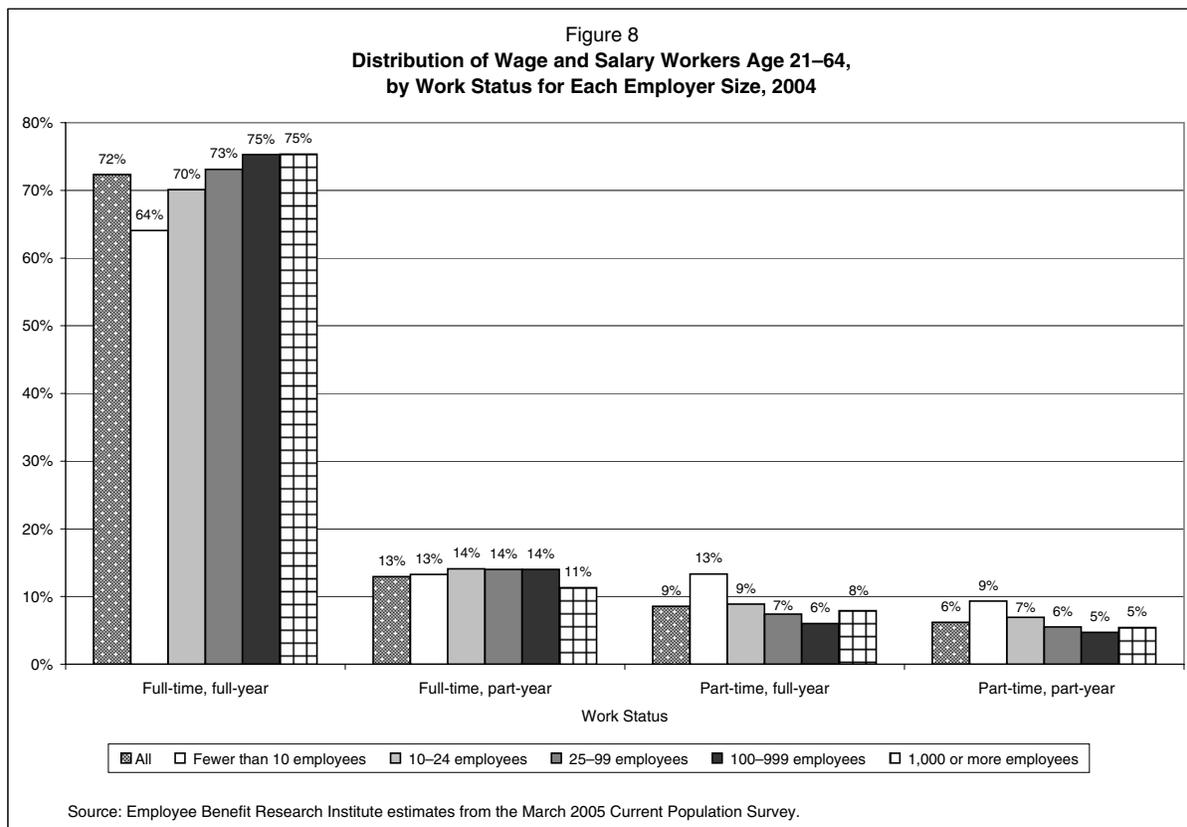
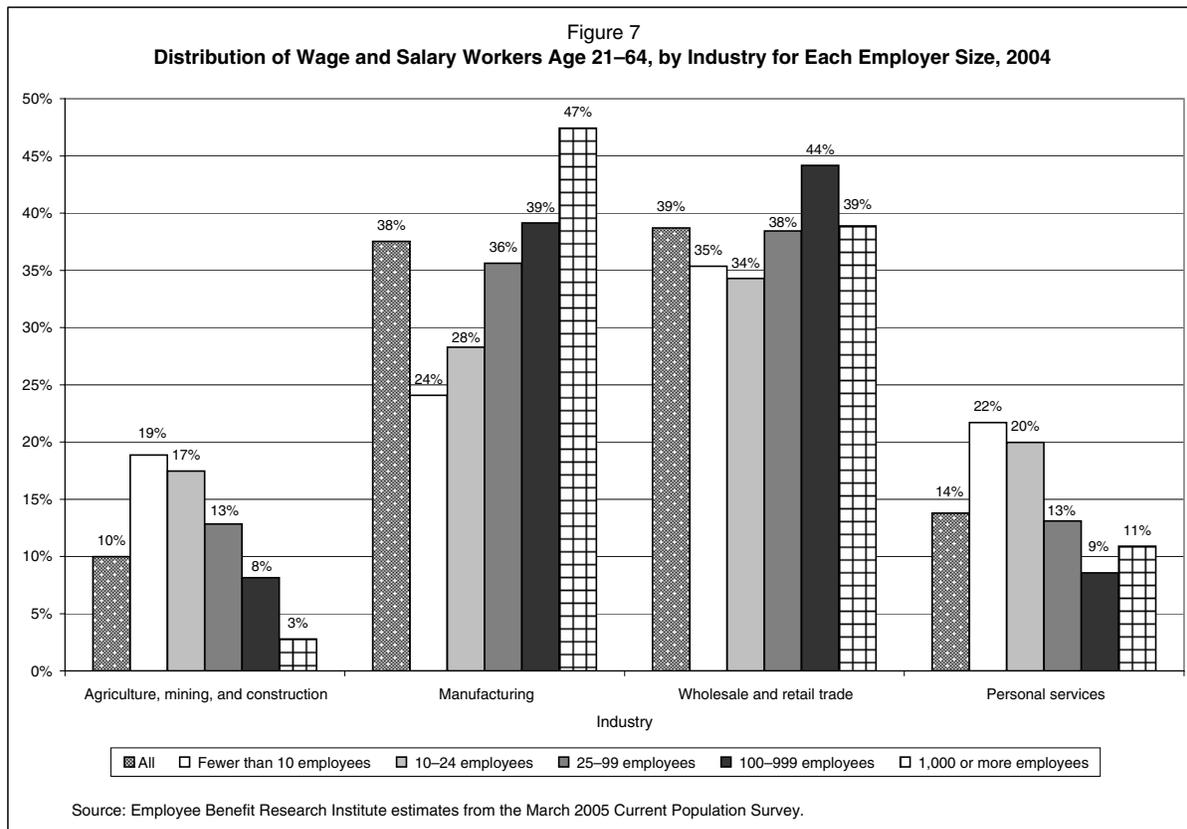
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<sup>1</sup> The Survey of Consumer Finances (SCF) has similar breakdowns for employer size and industry but not exactly corresponding to the March Current Population Survey (CPS). CPS has employer sizes of fewer than 10, 10–24, 25–99, 100–999, and 1,000 or more, while the SCF has fewer than 10, 10–19, 20–99, 100–499, and 500 or more. The industry categories in CPS are agriculture, mining, and construction (which are separated in SCF), manufacturing (same in SCF), wholesale and retail trade (which has some industries that are separated in SCF from the finance, insurance, real estate, and business and repair services and the transportation, communications, public utilities, and personal and professional service industries), and personal services (which is part of the transportation, communications, public utilities, and personal and professional service industry in SCF).









**Figure 9**  
**Distribution of Private Sector Wage and Salary Workers 21–64,**  
**by Various Characteristics and Employer Size, 2004**

	Number of Employees					
	All	Fewer Than 10	10–24	25–99	100–999	1,000 or More
All	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Age</b>						
21–24	10.6	9.6	12.2	10.0	9.3	11.5
25–34	25.5	23.0	27.5	26.6	25.9	25.4
35–44	26.8	27.6	26.8	26.9	26.4	26.6
45–54	24.1	25.5	22.0	24.1	24.8	23.7
55–64	13.0	14.3	11.5	12.4	13.5	12.8
<b>Gender</b>						
Male	54.2	56.0	56.7	57.0	53.7	51.5
Female	45.8	44.0	43.3	43.0	46.3	48.5
<b>Race/Ethnicity</b>						
White	68.6	70.5	67.6	68.9	67.5	68.5
Black	10.7	6.8	8.1	9.3	12.1	13.5
Hispanic	14.3	16.0	18.0	16.5	14.4	11.3
Other	6.3	6.8	6.3	5.4	6.0	6.7
<b>Annual Earnings</b>						
Less than \$15,000	22.9	31.2	27.7	22.5	18.8	19.5
\$15,000–\$29,999	28.6	30.6	32.2	31.1	29.6	24.8
\$30,000–\$49,999	25.0	20.1	23.3	26.3	27.7	25.9
\$50,000–\$74,999	13.0	9.4	9.4	11.6	14.1	16.1
\$75,000 or more	10.5	8.8	7.4	8.5	9.7	13.6
<b>Work Status</b>						
Full-time, full-year	72.3	64.1	70.1	73.1	75.3	75.4
Full-time, part-year	12.9	13.3	14.1	14.0	14.0	11.3
Part-time, full-year	8.5	13.3	8.9	7.4	6.0	7.9
Part-time, part-year	6.2	9.3	6.9	5.5	4.7	5.4
<b>Industry</b>						
Agriculture, mining, and construction	10.0	18.9	17.5	12.8	8.1	2.8
Manufacturing	37.5	24.1	28.3	35.6	39.1	47.4
Wholesale and retail trade	38.7	35.4	34.3	38.4	44.2	38.9
Personal services	13.8	21.7	20.0	13.1	8.6	10.9

Source: Employee Benefit Research Institute estimates from the March 2005 Current Population Survey.

