



The 2002 Small Employer Retirement Survey (SERS)

Summary of Findings

Overview

The issue of low plan sponsorship rates among smaller employers continues to be a public policy challenge. Sixty-four percent of all employees at employers with more than 100 workers were covered by one or more employment-based retirement plans in 1999, according to data from the U.S. Bureau of Labor Statistics' (BLS).¹ Retirement plan participation is notably lower among small employers, however. According to data from the BLS, 34 percent of all workers in small private establishments (99 or fewer workers) were covered by a retirement plan in 1999. For the smallest employers the number is much lower.

The fifth annual Small Employer Retirement Survey (SERS) is an in-depth survey of retirement plan sponsorship among small employers (companies with five to 100 full-time workers). It provides insights into the challenge presented by the small-employer market by demonstrating the underlying reasons for the lack of plan sponsorship. In addition to the issues of administrative cost and burden involved in establishing and maintaining a plan, difficulties involve the financial realities of operating a small business—revenue streams that are uncertain or a business that is too new to consider a plan. Difficulties also include a significant lack of awareness among both sponsors and nonsponsors of regulatory changes designed to provide relief for small businesses providing a retirement plan for their workers. SERS provides evidence that retirement plans must be “sold” to employers, in order to assure that they are aware of government incentives and work-force reasons for sponsorship.

Small employers that do sponsor a retirement plan report they offer a plan for business reasons—it has a positive impact on their ability to attract and retain quality employees and on the attitude and performance of their employees. Many also feel an obligation to provide a retirement plan for their workers or report that they offer a plan because of the tax advantages it offers employees, key executives, or the business owner. However, many nonsponsors do not feel a competitive disadvantage, and work-force differences make it likely that many do not feel the same obligation or experience the same demand for a retirement plan or tax-deferred income. Motivators that appear to be most effective among current nonsponsors are those that increase the affordability of retirement plans—an increase in business profits, plans with low administrative costs that require no employer contributions, and business tax credits for starting a plan.

Knowledge of Tax Laws

Both sponsors and nonsponsors show a surprising lack of familiarity with the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA) signed into law last year. When asked how familiar they were with this law, which has important provisions for employment-based retirement plans, just 3 in 10 small-business sponsors (30 percent) and 13 percent of nonsponsors say they are familiar with it. Moreover, just 13 percent of nonsponsors are aware of the provision that allows small employers that begin offering a retirement plan to take a tax credit for the start-up costs of establishing and administering the new plan.

¹ See U.S. Department of Labor, Bureau of Labor Statistics, “Employee Benefits in Private Industry,” *News*, USDL 01-473, 19 December 2001.

Familiarity With the Economic Growth and Tax Relief and Reconciliation Act

	Sponsor	Nonsponsor
Very familiar	5%	1%
Somewhat familiar	25	12
Not too familiar	32	25
Not at all familiar	36	61

This lack of knowledge may not be surprising, however, in light of sponsors' and nonsponsors' generally low level of knowledge about retirement plan regulations designed to ease the administrative burden and cost for small employers. About 6 in 10 of sponsors and nonsponsors do not know that employers sponsoring 401(k) plans are allowed to structure their contributions in a way that eliminates the need to perform annual nondiscrimination testing or that employers are allowed to automatically enroll all employees into their 401(k) plans initially. Roughly half incorrectly think that an employee is automatically and immediately vested in money contributed by the *employer* into a 401(k) account or do not know that employers do not need to make a contribution to the plan each year in some profit-sharing plans. Three in 10 sponsors and 4 in 10 nonsponsors do not know that the government allows small employers to set up defined contribution plans that have only modest administrative burdens.

Unawareness of Retirement Plan Provisions

	Sponsor	Nonsponsor
	(percentage unaware)	
Employers are allowed to automatically enroll all employees into their 401(k) plans initially.	58%	62%
Employers sponsoring 401(k) plans are allowed to structure their contributions in such a manner that eliminates the need to perform annual nondiscrimination testing.	58	61
In a 401(k) plan, an employee is not always automatically vested in, that is entitled to, any money contributed by the employer to his or her account.	56	70
In some profit-sharing plans, employers do not need to make a contribution to the plan each year.	48	48
The federal government allows employers with less than 100 employees to set up defined contribution plans that have significantly less administrative burden.	31	39

Retirement Plan Sponsorship

Most often, the retirement plan offered by small employers is a defined contribution plan rather than a "traditional" defined benefit plan. Among those survey respondents from businesses with a plan who are able to identify their plan as either a defined contribution or defined benefit plan when provided with a simplified definition, almost 9 in 10 report their company offers a defined contribution plan (88 percent). The remainder say their company offers a defined benefit plan (4 percent) or both types of plans (7 percent).

Small employers that offer a defined contribution plan are most likely to provide a 401(k) for their workers (64 percent). They are less likely to offer a savings incentive match plan for employers (SIMPLE plan) (22 percent), deferred profit-sharing plan (12 percent), simplified employee pension (SEP) (9 percent), or 403(b) plan (9 percent). Only a few offer a money purchase plan (4 percent), thrift savings plan (3 percent), or employee stock ownership plan (ESOP) (1 percent).

Type of Defined Contribution Plan Offered, by Size of Business
(among employers offering a defined contribution plan)

	Size of Business		
	Total	5–20 Employees	21–100 Employees
401(k)	64%	57%	75%
SIMPLE plan	22	28	12
Deferred profit-sharing plan	12	10	15
Simplified employee pension (SEP)	9	12	3
403(b)	9	10	7
Money purchase plan	4	2	8
Thrift savings plan	3	3	4
Employee stock ownership plan (ESOP)	1	1	1
Keogh plan	<0.5	0	1

Businesses with 21–100 employees are more likely than those with five–20 employees to provide 401(k)s (75 percent vs. 57 percent), but they are less likely to provide SIMPLE plans (12 percent vs. 28 percent) or SEPs (3 percent vs. 12 percent), both of which were created for small employers.

Six in 10 small employers that offer a retirement plan have provided this type of benefit to their workers for less than 10 years (58 percent)—more than one-third have offered a plan for less than five years (35 percent). The smaller the employer, the more likely they are to report offering a plan for less than five years (42 percent of employers with five–20 workers; 21 percent with 21–100 workers). While small employers are most likely to start a retirement plan within their first few years of operation, they may decide to begin offering a plan at any time. Small employers that have been in business for less than 10 years are most likely to report offering a plan for less than five years (70 percent), but 4 in 10 of employers in business for 10–19 years and 2 in 10 in business for 20 or more years also say they began offering a retirement plan less than five years ago (42 percent and 20 percent, respectively).

Length of Time Offering Some Type of Retirement Plan, by Age of Business

	Total With Plan	Age of Business		
		Less Than 10 Years	10–19 Years	20 Years or More
Less than 1 year	5%	12%	4%	3%
1–2 years	14	27	24	5
3–4 years	16	31	13	12
5–9 years	23	27	27	20
10–19 years	17	0	30	19
20–29 years	9	0	0	15
30 years or more	8	0	0	14
Don't know	8	3	1	12

Small employers of all sizes report similar reasons for having a retirement plan. When small employers are given a list of reasons why companies might offer a retirement plan to their workers and asked to choose which of these is the most important reason why their business offers a plan, 3 in 10 of all respondents report the most important reason they offer a plan is for the competitive advantage for the business in employee recruitment and retention (30 percent). Nearly one-fourth cite the positive effect on employee attitude and performance (23 percent). Twelve percent say employer obligation to provide a retirement plan for employees is most important. In addition, a total of about 2 in 10 mention some type of tax advantage, either for their employees (13 percent), the business owner (6 percent), or key executives (4 percent), as the most important reason.

Reasons for Offering a Retirement Plan, by Size of Business

	Most Important Reason			Major Reason		
	Total	5–20 Empl.	21–100 Empl.	Total	5–20 Empl.	21–100 Empl.
Competitive advantage for the business in employee recruitment and retention.	30%	24%	44%	49%	42%	64%
Positive effect on employee attitude and performance.	23	26	17	55	50	65
Tax advantage for employees.	13	13	12	33	26	46
Employers have an obligation to provide a retirement plan for employees.	12	11	13	26	24	32
So the owner can save for retirement on a tax-deferred basis.	6	7	4	26	28	22
Employees demand or expect it.	5	6	3	21	22	19
Tax advantage for key executives.	4	5	1	23	24	20
Availability of an employer tax deduction.	3	4	1	22	23	21

Obstacles to Plan Sponsorship

There are a number of reasons why more small employers do not offer retirement plans. Cost and administration-related issues play a role, but so do employee demand and business profitability. In fact, responses suggest that administrative cost and burden may not be the main reason why the majority of these small employers choose not to offer a retirement plan.

More than 2 in 10 say employee preferences for wages and/or other benefits are the most important reason their company does not sponsor a plan (22 percent). Fifteen percent cite another employee-related reason for not sponsoring a plan—a large portion of their workers are seasonal, part time, or high turnover.

Reasons for Not Offering a Retirement Plan, by Size of Business

	Most Important Reason			Major Reason		
	Total	5–20 Empl.	21–100 Empl.	Total	5–20 Empl.	21–100 Empl.
Employees prefer wages and/or other benefits.	22%	21%	27%	44%	44%	46%
Revenue is too uncertain to commit to a plan.	18	19	17	52	53	45
A large portion of workers are seasonal, part time, or high turnover.	15	14	17	35	34	42
Required company contributions are too expensive.	11	12	8	49	50	42
It costs too much to set up and administer.	10	10	16	32	32	33
Business is too new.	8	8	4	16	16	15
The administration is too burdensome.	3	3	4	25	25	28
The possibility of being out of compliance with government regulations.	2	1	4	18	17	20
Too many government regulations.	1	2	0	25	26	22
Vesting requirements cause too much money to go to short-term employees.	1	1	0	34	34	35
The possibility of being held liable for investment decisions made by employees.	1	<0.5	2	12	12	12

Revenue uncertainty and the perceived cost of a retirement plan are also important issues. Nearly 2 in 10 say their most important reason for not offering a plan is that revenue is too uncertain to commit to a plan (18 percent), while 8 percent say their business is too new (23 percent of employers in business for less than 10 years cite this reason). Eleven percent say the expense of required company contributions are the most important reason,² and 10 percent cite set-up and administration costs.

² Plans exist in which employers as plan sponsors are not legally required to make contributions. For example, employer contributions are not required with a 401(k) plans—the sponsor could choose not to match participant contributions and to pass the administrative costs to the plan. However, if the 401(k) is established as a SIMPLE plan, then company contributions are required.

While few employers say that one of the other reasons listed is the *most important* reason their company does not offer a retirement plan, these are important secondary reasons for some respondents. One-third (34 percent) say that vesting requirements (causing too much money to go to short-term employees) is a *major reason* why they do not offer a plan. One-fourth each feel there are too many government regulations or the administration is too burdensome (25 percent each), and almost 2 in 10 say a major reason is the possibility of being out of compliance with government regulations (18 percent). About 1 in 10 say the possibility of being held liable for investment decisions made by employees is a major reason for not offering a plan (12 percent).

Another obstacle to plan sponsorship may be nonsponsors' lack of familiarity with the different retirement plan types available to them as potential plan sponsors, including the options created specifically for small employers and designed to be less costly to establish and administer. Half of nonsponsors have never heard of SEPs (51 percent) and an additional 21 percent have heard of them but are not too familiar with them. One-third have never heard of SIMPLE plans (31 percent) and more than 1 in 10 are not too familiar with them (15 percent) (SIMPLE plans were created by Congress specifically for small employers). Many nonsponsors are also not familiar with more traditional pension or deferred profit-sharing plans. By comparison, very few nonsponsors say they have never heard of or are not too familiar with 401(k) plans.

Nonsponsor Familiarity With Plan Types

	Never Heard Of	Not Too Familiar	Somewhat Familiar	Very Familiar
SEPs	51%	21%	20%	7%
Traditional pension or defined benefit plans	36	22	31	11
SIMPLE plans	31	15	40	14
Deferred profit-sharing plans	21	27	39	13
401(k) plans	3	9	41	47

Nevertheless, nonsponsors do appear to be becoming more familiar with SIMPLE plans. In 1998, 47 percent of nonsponsors said they had never heard of SIMPLE plans, and 11 percent said they were not too familiar with them (compared with 31 percent and 15 percent, respectively, in 2002). This is not the case with SEPs, for which there has been little change (55 percent and 12 percent in 1998, compared with 51 percent and 21 percent in 2002). Respondents who say their business has considered offering a retirement plan are more likely than others to report they are very or somewhat familiar with SIMPLE plans (66 percent vs. 46 percent).

Comparative Profiles

Small employers that sponsor retirement plans tend to differ from those without plans in terms of business characteristics and the composition of their work force. These findings bolster the conclusion that low coverage rates are driven by more than just issues of administrative cost and burden.

Small employers that offer retirement plans tend to have higher revenues than those that do not have retirement plans. They are less likely to be a family-owned business. These differences persist even when sponsors and nonsponsors of similar sizes are compared.

Business Characteristics of Sponsors and Nonsponsors, by Size of Business

	Total		5–20 Employees		21–100 Employees	
	Sponsor	Nonsponsor	Sponsor	Nonsponsor	Sponsor	Nonsponsor
Approximate Gross Annual Revenue						
Less than \$500,000	8%	23%	10%	26%	4%	4%
\$500,000–\$999,999	22	34	30	37	6	10
\$1 million, less than \$2 million	22	16	25	14	17	24
\$2 million, less than \$5 million	20	9	18	8	26	21
\$5 million or more	11	3	2	2	28	15
Not reported	17	15	16	13	19	26
Family-Owned Business						
Yes	50	63	51	64	47	57
No	49	36	49	35	51	43
Age of Business						
Less than 5 years	9	15	11	15	5	14
5–9 years	14	15	17	14	6	24
10–19 years	22	29	23	28	20	31
20–29 years	22	20	22	20	22	16
30 years or more	32	18	27	19	43	13

In addition, sponsors are more likely than nonsponsors to say they use the Internet for business purposes (81 percent of sponsors vs. 65 percent of nonsponsors), to outsource the administration of benefits (54 percent vs. 17 percent), to use an external payroll service (41 percent vs. 29 percent), and to use an automated payroll system that includes direct deposit to employee banking accounts (43 percent vs. 21 percent).

Sponsors and nonsponsors also tend to employ different types of workers. Employees in companies without plans tend to be younger, have lower earnings, have less formal education, and remain with the company for less time. The differences are especially large between sponsors and nonsponsors with 21–100 employees.

Employee Characteristics of Sponsors and Nonsponsors, by Size of Business

Characteristics of Most Full-time Employees	Total		5–20 Employees		21–100 Employees	
	Sponsor	Nonsponsor	Sponsor	Nonsponsor	Sponsor	Nonsponsor
Age						
Under age 30	12%	28%	13%	27%	11%	31%
Ages 30–39	42	37	38	37	50	39
Age 40 or older	42	31	45	31	35	26
Annual Salary						
Less than \$20,000	8	28	7	26	9	38
\$20,000–\$40,000	70	62	70	63	70	54
Over \$40,000	19	8	21	8	17	8
Educational Level						
High school or less	42	60	42	60	42	59
Some college	34	28	35	28	31	29
College degree or more	23	9	22	9	25	10
Length of Time With Company						
Less than 3 years	14	22	13	21	15	28
3–9 years	48	54	48	53	49	60
10 years or more	36	20	36	22	35	8

Sponsors are more likely to report that *having* a retirement plan has an impact on their business than nonsponsors are to report that *not having* a plan has an impact. In particular, 81 percent of sponsors report having a plan has an impact on their ability to retain good employees (compared with 39 percent of nonsponsors who report not having a plan has an impact), 75 percent of sponsors report having a plan has an impact on their ability to hire good employees (compared with 40 percent of nonsponsors), and 82 percent of sponsors report having a plan has an impact on employee attitude and performance (compared with 35 percent of nonsponsors). While some nonsponsors may not be aware of the potential business benefits of offering a retirement plan, the company and work force differences noted above make it likely that others might not experience these same benefits.

Potential Motivators

The potential exists for increased plan sponsorship among small employers. Thirty-two percent of respondents from companies without a retirement plan say they are likely to start offering a plan in the next two years. More than 4 in 10 say they are not at all likely to start offering a plan during this time (43 percent, up from 34 percent in 2001).

Likelihood of Starting a Plan in the Next Two Years

Very likely	10%
Somewhat likely	22
Not too likely	25
Not at all likely	43

What would lead to increased plan coverage? Nonsponsors were read a list of items and asked if any would make them seriously consider sponsoring a retirement plan. More than one-third say an increase in the company's profits would make them much more likely to consider a plan (35 percent) and another third say a plan with low administrative costs that required no employer contributions would make them much more likely to consider it (33 percent). Approximately 2 in 10 each say they would be much more likely to consider a plan if there were business tax credits for starting a plan (22 percent), a plan that could really be tailored to the unique needs of their business (22 percent), easy-to-understand information was available (19 percent), and a plan with reduced administrative requirements was available (17 percent).

Motivators for Plan Sponsorship

	Much More Likely	Somewhat More Likely	No More Likely
An increase in the business' profits.	35%	36%	29%
A plan with low administrative costs that required no employer contributions.	33	36	30
Business tax credits for starting a plan.	22	41	36
A plan that could really be customized to the needs of your business.	22	37	40
Availability of easy-to-understand information.	19	37	43
A plan with reduced administrative requirements.	17	36	47
Demand from employees.	15	41	43
Allowing key executives to accumulate more in a retirement plan.	11	27	61

In addition, 2 in 10 nonsponsors indicate that the recent tax credit for the start-up costs of new retirement plans makes offering a retirement plan much more attractive for their business (19 percent). An additional 49 percent say that this tax credit makes offering retirement plans somewhat more attractive. However, 3 in 10 nonsponsors say that the EGTRRA tax credit does not make offering a retirement plan any more attractive for their business (31 percent).

Methodology

The annual Small Employer Retirement Survey (SERS), now in its fifth 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 2002 through 15-minute telephone interviews with 300 companies with a retirement plan and 300 companies without a retirement plan. Oversamples of companies with 21–50 and 51–100 employees were obtained to allow separate analysis of these groups. Within each sample, 2002 data are weighted by size of business to reflect the universe of small employers with and without retirement plans, but previous years are not weighted.

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.

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