

The Retirement Readiness Imperative: Overcoming Challenges Faced by Small Companies

New study examines employer-sponsored benefits, workers' retirement outlook, and offers recommendations

LOS ANGELES – October 2, 2013 – Today, nonprofit Transamerica Center for Retirement Studies® (“TCRS”) released a report evaluating the state of the retirement benefits offered by small companies (10 to 499 employees) and the retirement outlook of their employees. Catherine Collinson, president of TCRS, has been invited to testify to the results of the report before the U.S. House of Representatives Committee on Small Business at today’s hearing, “[The Challenge of Retirement Savings for Small Employers](#).”

The study, part of the 14th Annual Transamerica Retirement Survey, found that 88 percent of small company workers value 401(k) or similar plans such as SIMPLE IRAs or SEPs as an important benefit, but only 58 percent are offered such a plan by their employers.

“Small businesses are the cornerstone and growth engine of the U.S. economy. They are represented in all industries and generate a wide range of revenue, earnings, and payroll,” said Collinson. “Small businesses’ offering of retirement benefits can positively affect the retirement outlook of the millions of American workers they employ.”

Plan Sponsorship Often Does Not Lead to Coverage for Part-Time Employees

As policymakers, retirement experts, and industry leaders are seeking solutions to help improve the retirement outlook of workers, specifically those at small companies, this study sets out to provide clarity about retirement benefits offered among small companies (10 to 499 employees), including micro companies (10 to 99 employees) and small non-micro companies (100 to 499 employees).

“Much of the public policy discussion around retirement security has focused on encouraging more small employers to offer a plan,” said Collinson. “However, it is critical to note that plan *sponsorship* is not synonymous with plan *coverage*.”

According to the survey, 72 percent of small companies offer a 401(k) plan or a similar employee-funded plan (e.g., SEP, SIMPLE, other), including 71 percent of micro companies (10 to 99 employees) and 89 percent of small non-micro companies (100 to 499 employees), compared to 95 percent of large companies (500 or more employees).

Despite the high percentage of small businesses that report offering plans, the findings reveal a pervasive gap in plan coverage: part-time workers. At small companies, only 36 percent of part-time workers are offered a 401(k) or similar plan, compared to 68 percent of full-time workers. This coverage gap also persists among large companies in which 90 percent of full-time workers are offered a plan compared to only 51 percent of part-time workers.

Among the 28 percent of small companies that do not offer a plan, only 22 percent said that they are likely to offer a plan in the next two years. However, nearly one-third (32 percent) indicated that they would be likely

to consider joining a multiple employer plan offered through a vendor who handles many of the fiduciary and administrative duties at a reasonable cost.

“Plan sponsorship rates are already relatively high with room to grow,” said Collinson. “A critical component of the plan coverage equation is encouraging employers to extend eligibility to part-time workers in retirement plans.”

Small Businesses Reluctant to Automatically Enroll

“Automatic enrollment, which automatically enrolls eligible employees into the plan with the ability for them to opt out, has been widely recognized as one of the most effective ways to increase plan participation rates; however, few small companies take advantage of it,” said Collinson. “Working with their retirement plan provider, and advisors, employers may find automatic enrollment to be more affordable than they might think.”

The survey found that only 19 percent of small companies have adopted automatic enrollment, including 18 percent of micro companies and 29 percent of non-micro companies. By comparison, 43 percent of large companies offer automatic enrollment. The median default contribution rate is three percent of annual salary among automatic enrollment plans offered by both small and large companies.

“Plan sponsors utilizing automatic enrollment should consider increasing the default contribution rate from three percent to six percent and adding an automatic escalation feature that increases participants’ deferral rates annually. Three percent sends a potentially misleading message to employees that it is adequate for retirement when, in most cases, it is not,” said Collinson.

The Retirement Outlook of Small-Company Workers: A Disconnect

Perhaps the ultimate measure of a worker’s retirement outlook is his/her level of household savings in all retirement accounts. The 2013 estimated median household retirement savings among Baby Boomers, the generation closest to retirement, is lower among small-company workers (\$92,000) compared to large-company workers (\$113,000). These 2013 savings levels represent a large increase from 2007 when the estimated median household retirement savings among Baby Boomers was just \$60,000 for small-company workers and \$91,000 for large-company workers.

As the economy continues its recovery from the recession, most small-company workers (59 percent) plan to work past age 65 or do not plan to retire, a slightly higher percentage than those of large companies (56 percent). Small-company workers (55 percent) also plan to continue working after they’ve retired, including 45 percent who plan to work part-time and 10 percent full-time. Among those who plan to continue working in retirement, two-thirds (66 percent) plan to do so because they want or need the income or health benefits. While this is a good way to continue building retirement income, surprisingly just 20 percent of small-company workers have a backup plan if retirement comes sooner than expected due to job loss or health issues.

The majority of small-company workers (56 percent) would like more information from their employers on how to reach their retirement goals, yet fewer small-company employers (42 percent) believe this to be the case. There is an opportunity to close this disconnect: only 11 percent of small-company workers had spoken to their employer about retirement benefits, and only 29 percent of small-company employers had surveyed their employees on the topic.

“Starting a dialogue between small company employers and their employees about retirement benefits can help to better align educational offerings with more of the information that workers need to achieve their retirement goals,” said Collinson.

TCRS offers the following recommendations to help small companies and their workers overcome retirement savings challenges:

Recommendations for Small-Company Employers

1. Offer a retirement plan along with other health & welfare benefits if not already in place. Take advantage of the tax credit available for starting a plan.
2. For employers that offer a plan, extend eligibility to part-time workers. Seek the expertise of retirement specialists familiar with plan design on how to best accomplish this.
3. Proactively encourage participation in existing retirement plans. Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates. Consider structuring match to promote higher salary deferrals (as a hypothetical example, instead of just matching 50 percent on the first six percent of deferrals, consider adding a small match – such as 10 percent or 15 percent – on the deferrals between six and 10 percent).

Recommendations for Policymakers

1. Increase the tax credit for employers to start a retirement plan, which will help expand qualified retirement plan sponsorship and coverage, provide incentives to encourage plan sponsors to cover part-time workers, and implement reforms to multiple employer plans.
2. Expand adoption of automatic enrollment and increase default contribution rates. Implement an automatic enrollment safe harbor that enrolls employees at six percent (increasing to eight percent, then 10 percent) and which also provides a tax credit for adopting it, in an effort to drive up plan sponsor adoption rates and participant savings rates.

Please visit www.transamericainstitute.org to view the full small business retirement report including detailed results, comparisons of small and large companies, recommendations for policymakers, employers, and workers; a five-year retrospective report; and, a survey tool for plan sponsors.

For more information about the U.S. House of Representatives Committee on Small Business' hearing, "The Challenge of Retirement Savings for Small Employers," please visit www.smallbusiness.house.gov.

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About Transamerica Center for Retirement Studies

Transamerica Center for Retirement Studies® (TCRS) is a division of Transamerica Institute, a nonprofit, private foundation. Transamerica Institute is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third parties. TCRS has been conducting annual surveys about small-company workers since 1998 and small-company employers since 2000.

For more information about TCRS, please refer to www.transamericainstitute.org.

About the 14th Annual Transamerica Retirement Survey

Employer Survey

A telephone survey was conducted within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between April 23 and August 15, 2013 among a nationally representative sample of 750 employers including 300 large (500+ employees) and 450 small (10 – 499 employees) companies. Small companies were further broken into 300 micro companies (10-99 employees) and 150 small, non-micro companies (100-499 employees). Respondents were targeted based on job title at for-profit

companies and met the following criteria: business executives who make decisions about employee benefits at his or her company; employ 10 employees or more across all locations. Quotas were set for large and small companies. The results were weighted as needed on employee size using weighting targets from the Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range.

Worker Survey

This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between January 21 and February 21, 2013 among 3,651 full-time and part-time workers, including 1,764 small-company workers (10-499 employees) and 1,887 large-company workers (500+ employees). Small-company workers were further broken into 1,060 micro (10-99 employees) and 704 small non-micro (100-499 employees) workers. Potential respondents were targeted based on job title and full-time or part-time status. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted as needed for the number of employees at companies in each employee size range.

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