

Small Business Retirement Plan Availability and Worker Participation

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The number of companies offering the traditional defined benefit (DB) pension plan has been steadily declining, and close to half of the workforce, about 58 million workers, do not have access to any type of retirement plan through their place of work. In addition, almost 20 million workers do not participate in the retirement plans that their employer offers. Nor are people saving for retirement outside of these workplace offerings; each year only about 5 million people make contributions to individual retirement accounts (IRAs) and 1 million to Keogh self-employment retirement plans. This lack of consistent savings for use during retirement years may leave workers increasingly dependent on payments from the Social Security system for their post-retirement income.

This study looks at workers' access to and participation in retirement plans offered by their employers using data from the 2004 Survey of Income and Program Participation (SIPP) wave, which was conducted in 2006. In particular, it examines these issues by firm size. Note that this study defines a small business as one with fewer than 100 employees.

Overall Findings

Workers in firms with fewer than 100 employees are much less likely to have a retirement plan available to them than workers in large firms. Among those that do offer a plan, small businesses are more likely to offer a defined contribution (DC) plan. Workers in both small and large firms participate at about the same rate and make similar contributions to their DC plans (assuming they choose to contribute).

Highlights

- Almost 72 percent of workers in small companies have no retirement plan available through the company; an additional 9 percent have a company-sponsored plan available but do not participate. Only 19.5 percent of workers in small private sector companies report participating in a retirement plan.
 - Age, marriage, and educational attainment positively affect the likelihood of participating in a firm's retirement plan. This holds true for full-time and part-time workers.
 - Defined benefit plans are most likely to be sponsored by large businesses; almost 32 percent of workers in large firms report the availability of a DB plan compared to 25 percent of the workers in small businesses. Defined contribution plans are the type of plan most often reported by both groups. About 75 percent of small business workers and 70 percent of large business workers report that their firms sponsor such a plan.
 - One of the reasons why smaller firms may not offer retirement plans to their workers is the cost of setting up and running a retirement plan.* Workers who do not participate in employer-sponsored plans frequently cite eligibility requirements and an inability to afford contributions as reasons why.
 - In 2006, workers in large firms put an average of \$4,331 per year in their DC plans and workers in small firms put an average of \$4,474 in their DC plans, virtually identical amounts. Likewise, for

*Joel Popkin and Company. *Cost of Employee Benefits in Large and Small Business*. U.S. Small Business Administration, Office of Advocacy, 2005. www.sba.gov/advo/research/rs262tot.pdf.

those workers with plans, workers in large businesses reported an average balance of \$36,662 in their accounts in 2006 and workers in small businesses reported an average balance of \$32,058.

- A number of government programs have sought to simplify retirement plans in order to encourage more small businesses to sponsor them. These efforts have met with limited success and come with a cost.

Scope and Methodology

The author uses data from the U.S. Census Bureau's Survey of Income and Program Participation series. The surveys ask a group of households several rounds of questions over a multi-year period about the household members' job status, finances, and participation in various government and other types of programs. One set of questions that is asked in Topical Module wave 7 is about retirement income and pension plans.

This study primarily focuses on private industry workers 16 years and older, including owners of businesses. From the SIPP survey, it is possible to identify the type of retirement plan or plans respondents participate in and the type of retirement plan that respondents' firms sponsor but in which respondents do not participate. The SIPP survey asks respondents both about the size of the establishment in which they work and the total size of the firm for which they work.

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