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## PLAN DISTRIBUTIONS

### *Retirement Crisis Solutions: Closing the Small Employer Gap*

*As Americans face a growing retirement crisis, many employees across the country do not have access to a workplace retirement plan. Overcoming misperceptions of plan options can improve access and help both employers and employees in small businesses.*

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For years, discussions of the retirement crisis in the United States have focused on Americans' savings—or lack of savings. Headline after headline, and survey after survey, have reported that Americans are not setting aside enough money to live comfortably through their retirement. As many in the

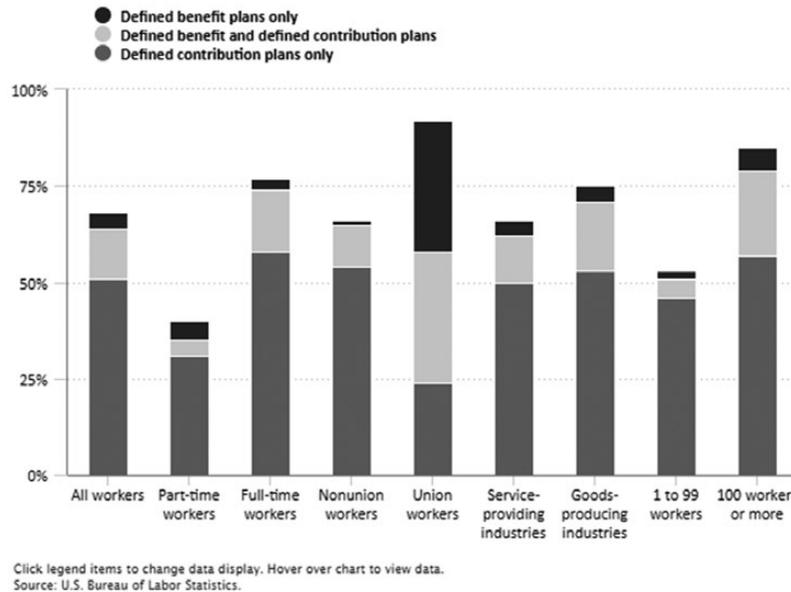
industry understand, an important aspect of the issue is access to workplace plans.

Americans prefer to save in workplace retirement plans, even though other alternatives are available. For example, individual retirement accounts (IRAs) have been an option for decades, yet relatively few people have taken advantage of the opportunity to set aside tax-advantaged savings in these accounts.

While 33 percent of American households own IRAs, just 11 percent made direct contributions to their accounts in 2017. The vast majority of households with IRAs use them as repositories for assets distributed from workplace retirement plans. At the end of the second quarter of 2018, IRAs held \$9.3

## Exhibit 1

Retirement benefits access rates, private industry workers, March 2018



["51 percent of private industry workers had access to only defined contribution retirement plans," Bureau of Labor Statistics, <https://www.bls.gov/opub/ret/2018/51-percent-of-private-industry-workers-had-access-to-only-defined-contribution-retirement-plans-march-2018.htm> (Dec 27, 2018).]

trillion, or about one-third of all retirement savings. ["The Role of IRAs in US Households' Saving for Retirement, 2018." Pg. 1-3. ICI Research Perspective. <https://www.ici.org/pdf/per24-10.pdf> (Dec 27, 2018)]

There are a variety of theories about why Americans save in workplace plans. It may be that a plan's higher contribution limit is compelling, or that payroll deduction makes workplace saving more convenient, or that automatic enrollment overcomes inertia. Whatever the reason, workplace plans have become ground zero for retirement saving in the United States.

### Not All American Workers Have Access to Workplace Plans

During the past decade, defined benefit plans have become a thorn in the side of chief financial officers around the nation, and defined contribution plans have become the primary savings vehicle for American workers. But not all employers offer retirement savings options to their employees.

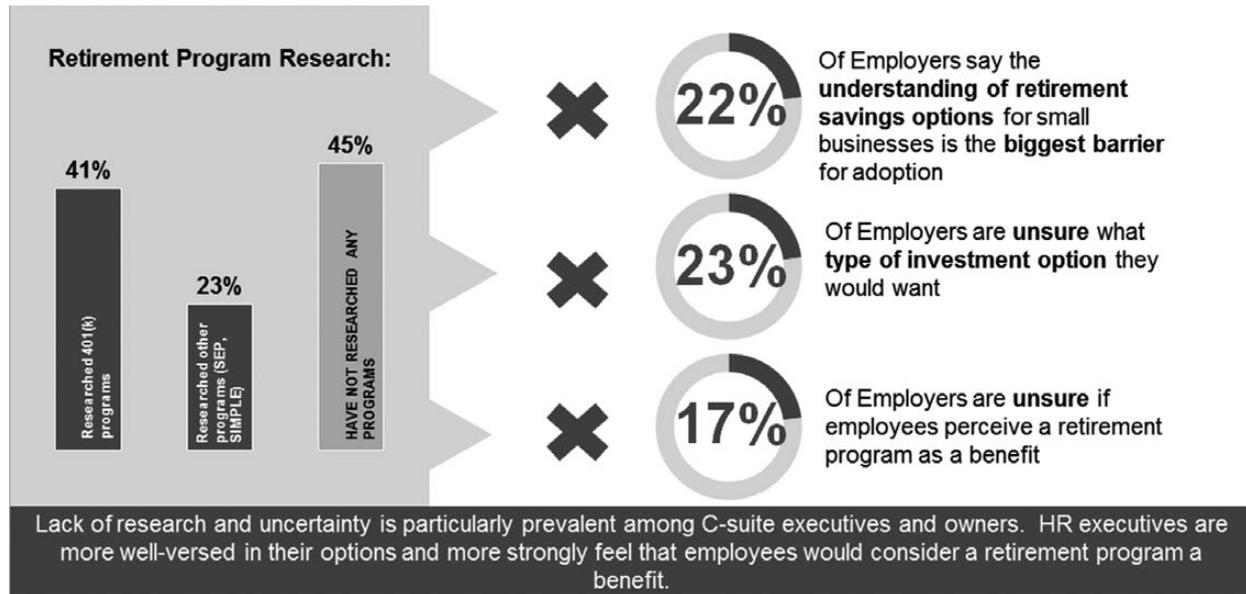
In March 2018, the Bureau of Labor Statistics reported that 71 percent of all workers had access to some type of workplace plan, but the statistic is

somewhat misleading. ["Retirement benefits: Access, participation, and take-up rates," Bureau of Labor Statistics, <https://www.bls.gov/ncs/ebs/benefits/2018/ownership/civilian/table02a.htm> (Dec 27, 2018)] Among all public- and private-sector workers:

- 81 percent of full-time workers had access to plans.
- 40 percent of part-time workers had access to plans.
- 95 percent of union workers had access to plans.
- 67 percent of non-union workers had access to plans.

In addition, plan access is less prevalent among US private-sector workers than it is among public-sector workers. Just two years ago, 32 percent of full-time, full-year, private-sector wage and salary workers, ages 18 to 64—about 30 million American workers in all—did not have access to workplace plans. ["A Look at Access to Employer-Based Retirement Plans and Participation in the States," The PEW Charitable Trusts, <https://www.pewtrusts.org/en/research-and-analysis/reports/2016/01/a-look-at-access-to-employer-based-retirement-plans-and-participation-in-the-states> (Dec 27, 2018)]

Exhibit 2



Millennium Trust Small Business Retirement Survey, 2018.

Plan availability varied by state and employer size, as well as by other factors. The highest access and participation rates were in Wisconsin, Minnesota, and Iowa. The lowest were in Florida, Nevada, and New Mexico. [“Employer-Based Retirement Plan Access and Participation across the 50 States,” The PEW Charitable Trusts, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2016/employer-based-retirement-plan-access-and-participation-across-the-50-states> (Dec 27, 2018)] Across all geographic regions, employees at large corporations (500 or more workers) were more likely to have access to employer-sponsored plans than were employees at small companies (less than 100 workers). [“Saving for Retirement Varies by State and Region,” The PEW Charitable Trusts, <https://www.pewtrusts.org/en/research-and-analysis/articles/2016/01/15/saving-for-retirement-varies-by-state-and-region> (Dec 27, 2018)]

### Improving Plan Access Means Overcoming Misperceptions

A new survey from Millennium Trust explored employer awareness of retirement saving options, as well as the barriers to and drivers of retirement savings program adoption. The 2018 Millennium Trust Small Business Retirement Survey included both employers and employees. (See Exhibit 2.) All of the employers’

companies had 150 or fewer employees, and none sponsored a retirement plan when the survey was conducted.

The majority of survey participants, both employers and employees, agreed that there is a retirement savings crisis in America and that it is a serious issue. Validating the point was the fact that 26 percent of the employees participating in the survey had no savings in retirement programs or IRAs.

Most employers and employees believed that improving access to retirement plans through the workplace would improve savings rates in the United States.

The primary barrier to plan sponsorship, according to employers, was cost, although the assertion appears to be grounded in perception rather than reality. Almost half (45 percent) of employers surveyed had never researched any type of retirement plan, and just 23 percent had explored plans designed specifically for smaller businesses, such as payroll deduction IRAs, Simplified Employee Pension (SEP) IRAs, Savings Incentive Match Plans for Employees (SIMPLE) IRAs, and multiple employer plans (MEPs).

Therefore, it seems possible that a significant barrier to retirement plan adoption among smaller businesses is a lack of knowledge about the options available and the costs associated with these options.

As the Millennium Trust survey suggests, small business owners may think that a 401(k) plan or pension plan is their only retirement plan option. Offering a traditional retirement savings solution, such as a 401(k) plan, can be expensive or burdensome to establish and administer for smaller businesses, which may explain why many do not offer a retirement plan. However, the costs associated with a payroll deduction IRA, SEP, SIMPLE, or MEP can be significantly lower than the costs associated with a 401(k) plan. In addition, many 401(k) alternatives are easier to set up and maintain.

The least expensive option may be payroll deduction IRAs. Employees open traditional or Roth IRAs with financial institutions and authorize their employers to send a specific amount to the IRA each pay period. Any business of any size can establish a payroll deduction IRA program, and any employee can participate. There is no annual filing or reporting requirement, and there are no plan statements or plan communications. [“Operating a Payroll Deduction IRA.” IRS. <https://www.irs.gov/retirement-plans/operating-a-payroll-deduction-ira> (Dec 27, 2018)]

If the employer and employees want a plan that allows larger contribution amounts, a SEP or SIMPLE may be the better choice. Both types of plans are relatively easy to establish and maintain, and both have contribution requirements for employers:

- SEP plans allow employers to make optional contributions of up to 25 percent of each employee’s pay each year. All employees must receive the same percentage contribution. Only employer contributions are permitted.
- SIMPLE plans require employers to contribute either a 3 percent matching contribution or a 2 percent non-elective contribution for eligible employees. Employees may make contributions, too.

Employers receive a tax deduction for employer contributions to employees’ accounts. [“SIMPLE IRA Plan FAQs – Contributions,” Internal Revenue Service <https://www.irs.gov/retirement-plans/simple-ira-plan-faqs-contributions> (Dec 27, 2018)] In addition, employers may be able to claim a tax credit of up to \$500 during

each of the first three years of operations to cover startup and employee education costs. [“Retirement Plans Startup Costs Tax Credit,” Internal Revenue Service, <https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit> (Dec 27, 2018)]

The government has previously considered a variety of legislative proposals that would alter the retirement plan landscape in the United States. Proposals that may be considered in 2019 include resolutions that would eliminate the “one bad apple” rule, which discourages MEP participation because a single employer’s behavior could disqualify an entire plan. This change could make MEPs more palatable to employers of all sizes and would be particularly beneficial for small employers that desire the more favorable contribution rules of a traditional 401(k) plan.

### **Sponsoring a Retirement Plan Can Be Good for Business**

Another interesting aspect of the 2018 Millennium Trust Small Business Retirement Survey was the finding that one-third of small employers do not think retirement plans are very important to their employees, and a slightly smaller fraction (26 percent) do not think retirement plans will help their companies attract and retain talent.

Employee opinions were starkly different from those of their employers. The vast majority of employees said the availability of a retirement plan was a key consideration when choosing a new employer, and also when deciding whether to stay with a current employer.

### **Employers Need Education**

For years, experts have advised educating employees about the benefits of retirement plans. It appears that smaller employers also need to be educated about the diversity of plans available, the costs associated with those plans, and the potential benefits of offering a plan. Owners and C-suite executives of smaller businesses adhere to the beliefs that (1) their firms are too small to offer retirement plans and (2) the cost of retirement plan sponsorship is too high. These ideas may be the real barriers to retirement plan sponsorship among smaller employers. ■

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