Our survey of small businesses and employees revealed joint interest in retirement savings, but misconceptions about their retirement options have caused small businesses not to take action.
Overview

As Millennium Trust began exploring how to increase retirement readiness for small businesses and their employees, we discovered that few researchers had actually asked businesses what factors were holding them back from offering a plan. There is certainly some spillover information available from research done on businesses that already do offer a plan, but those that were not offering a retirement benefit had barely been directly addressed in the past decade or more. This is particularly surprising given that American workers are currently in the throes of a widely acknowledged retirement savings crisis, and about 55 million working Americans do not have access to a retirement savings program at work today.

We wanted to learn more about these groups, so we asked them ourselves. The 2018 Millennium Trust Small Business Retirement Survey (“the Survey”) was conducted among 500 decision makers at companies with less than 150 employees that do not offer any type of retirement savings option, and 500 employees who are working full-time at employers with no retirement savings option. The Survey was commissioned by Millennium Trust Company and conducted by CITE Research between September 28, 2018 and October 8, 2018.

The results of our Survey confirm many of our existing assumptions, throw a wrench into others, and expose some interesting disconnects in the employer-employee worldview. What follows are the key findings and insights from the Survey.

The Nation’s Retirement Savings Crisis

While there are some who may disagree about whether or not the United States is facing a retirement savings “crisis” or simply a problem, those arguments are based on semantics. The stark facts show that too few Americans have access to a workplace retirement benefit, and a startling number of the Americans that do are not saving enough for retirement.

The data we uncovered in our own research shows that both small employers and their workers recognize and understand these concepts. According to the Survey, 84% of employers and 79% of employees do not think Americans are saving enough for retirement (Fig. 1).
But, that commonality between both groups breaks down as you get into their individual situations. Sixty percent of employees strongly agree that offering a retirement savings plan is one way that employers can attract and retain employees, but only 23% of employers strongly agree with that idea (Fig. 3).

**Figure 3: Offering Retirement Benefits Helps Employers Attract and Retain Talent**

Q: How much do you agree with the following statement? “Offering a retirement savings plan is one way that employers can attract and retain employees.”

In a similar vein, 88% of employees consider a retirement plan important when choosing a new employer, and 83% think it’s important for staying with a current employer. However, only 21% of employers consider a retirement program extremely important to employees.

In the U.S. today, 53% of small- and medium-sized businesses offer a retirement savings benefit to their employees\(^2\). That means 47% of those same types of businesses do not offer a plan. So, what’s holding those businesses back? We wanted to find out.

When asked why they are not offering a retirement savings option to their employees, 64% of small businesses we surveyed said their company is not large enough to offer a retirement plan (Fig. 4).

This is a common misconception and shows a lack of awareness surrounding options other than 401(k)s. Another common misconception – that all retirement savings benefits are too expensive – came in at number two (28%).

The same themes held true when those businesses were asked what the biggest barrier was to offering a retirement savings option. Sixty-six percent of responding employers cited cost as the largest barrier, while 22% cited a lack of understanding of options for small businesses. The remaining 11% cited the time required to research, set-up, and administer a program (Fig. 5).

**Figure 4: Why Employers Aren’t Offering Retirement Benefits**

Q: Why are you not currently offering a retirement savings option to your employees? Please select all that apply.

- My company is not large enough: 64%
- Too expensive: 28%
- Too complicated or time-consuming: 16%
- Concerned about liability: 14%
- Don’t believe employees want a retirement program: 7%
- Other: 7%

**Figure 5: Employer Barriers to Offering a Retirement Benefit**

Q: Which of the following do you see as the biggest barrier to offering a retirement savings program at your company? Select one.

- Understanding of retirement savings options for small businesses: 66%
- Time: 11%
- Money: 22%
Employer Awareness of 401(k) Alternatives Is Modest

As established in the previous section, there are some common generalizations around retirement savings programs that appear to have taken hold in the small business population we surveyed – those being that all retirement programs are expensive, complex and time-consuming. While these perceived barriers can be true of certain retirement savings vehicles, they are not true of other retirement plan options available to small businesses.

The Survey illustrates that a majority of the businesses have not explored options aside from 401(k)s. Only 28% of respondents said they were very aware and have a solid understanding of different types of retirement programs for small business other than 401(k)s, and 48% said they are somewhat aware or have a limited understanding (Fig. 6).

It’s not terribly surprising that many of these small businesses are less than fluent in their understanding of retirement options. Remember, these are busy people at small companies that are likely handling many different tasks to help their businesses operate day-to-day or to stay afloat. It stands to reason, then, that the retirement industry needs to do a better job of highlighting alternatives for companies when a 401(k) is probably not the best fit.

The “Square Peg” Principle

We all understand the idea of trying to fit a square peg into a round hole. It doesn’t technically fit, but if you pound away and force it for long enough, it may eventually do the job. It appears as though this is the same general approach being taken by the firms and individuals tasked with selling retirement plans to the small business market.

When asked if they had researched retirement savings programs specifically for their company’s employees, nearly half responded that they had not researched any retirement savings programs for their business. Less than a quarter said they had researched programs other than a 401(k), like SIMPLE or SEP IRAs (Fig. 7).

All in all, 55% of the surveyed businesses had researched offering some sort of retirement savings option at their company. The majority of which looked at 401(k) plans exclusively.

General awareness of the 401(k) plan option is much higher than that of other types of plans and programs, so it’s not surprising that it would be the most-researched option. Given the overarching small employer concerns about company size and sensitivity to cost, it’s easy to understand why none of these employers ended up offering anything. Ultimately, they looked at the “square peg” and recognized it was a poor fit, but didn’t realize there are other options out there that could better suit the needs of the business and their employees.
Conducting online research for small business retirement options returns a tremendous amount of information about many of the small business retirement options, but the information is often confusing or disorganized. Sometimes that's by design so that the business is driven to contact a retirement representative at a financial services company for more information – something many small business decision makers may not have the time or incentive to do. Even the ones that do make contact are very often shown only a 401(k) plan as a solution, even if it’s not necessarily the right solution.

Conclusion

More than half of the small businesses we surveyed are interested in offering a retirement plan, to the point where they went online and did research. But more often than not, those same decision makers stalled out after reading up on 401(k)s because they believe their business isn’t large enough, are not aware they have other options, or think they can’t afford it.

The few employers that did continue their research of other types of plans still chose not to offer anything. This is likely due to several factors: less than clear information available online, a continued push of 401(k)s by financial institutions when it’s not the right fit, and in some cases, a burnout from reading so much granular detail online.

Overall, the broad implications of the Survey are clear. The financial services sector needs to do more to offer a better suite of retirement savings solutions for small businesses. These solutions need to be easy to understand, require minimal time from an employer, and be priced in a way that makes them attractive to small businesses. Providers should also make sure that small businesses know that options other than the 401(k) plan exist, and provide them with detailed, yet organized, information on what their options are when a 401(k) plan is not the right fit.

Initiatives like expanded Multiple Employer 401(k) Plans (MEPs) and state-sponsored retirement programs will likely help expand coverage, but that still leaves just two paths for most uncovered employers: one with a traditional program that probably isn’t the right fit, and another that might be a better match for their situation but is short on features and flexibility. Private sector solutions are needed to provide a flexible and effective third path forward.

To learn more, visit mtrustcompany.com/workplace-IRA.

References