

Why GAO Did This Study

Because about one-third of private-sector employees in the United States work for small employers, Congress and federal agencies have made efforts to encourage small employers to sponsor retirement plans for workers. However, federal data show workers' access to plans remains limited, leaving many without a work-based plan to save for retirement. For this report, GAO examined (1) characteristics of small employers that are more or less likely to sponsor a plan for their employees, (2) challenges small employers face in establishing and maintaining a plan for their employees, and (3) options to address these challenges and attract more small employer plan sponsors.

GAO defined small employers as for-profit firms that employ 100 or fewer employees. GAO analyzed Internal Revenue Service (IRS) and Department of Labor (Labor) data, interviewed agency officials and experts, held discussion groups with small employers, and reviewed relevant federal rules, literature, and retirement plan proposals.

What GAO Recommends

GAO recommends that Labor convene an interagency task force with Treasury, IRS, and SBA to coordinate existing research, education, and outreach efforts to foster small employer plan sponsorship. GAO also recommends that IRS consider modifying tax forms to gather complete, reliable information about SEP IRAs. Agencies generally agreed with GAO's recommendations; however, Labor disagreed with GAO's recommendation to create a single webportal for federal guidance. However, because federal resources are scattered across different sites, GAO believes consolidating plan information onto one webportal could benefit small employers.

View [GAO-12-326](#). For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeck@gao.gov.

PRIVATE PENSIONS

Better Agency Coordination Could Help Small Employers Address Challenges to Plan Sponsorship

What GAO Found

Based on available data, about 14 percent of small employers sponsor some type of retirement plan. Overall, GAO found that the likelihood that a small employer will sponsor a retirement plan largely depends on the size of the employer's workforce and the workers' average wages more than on the industry in which the employer operates and the geographic region in which the employer is located. GAO found the greatest likelihood of plan sponsorship was among small employers with larger numbers of employees and those paying an average annual wage of \$50,000 to \$99,999. GAO also found that the most common plans sponsored by small employers are 401(k)s and Savings Incentive Match Plans for Employees (SIMPLE) Individual Retirement Arrangements (IRA)—an employer-sponsored IRA designed for small employers—at 46 percent and 40 percent, respectively, of total plans. However, IRS currently does not have the means to collect information on employers that sponsor another type of IRA plan designed for small employers, the Simplified Employee Pension (SEP) IRA plan, which limits what is known about employers that sponsor these plans.

Small employers and retirement experts identified several challenges to starting and maintaining retirement plans. Many small employers said they feel overwhelmed by the number of retirement plan options, administration requirements, and fiduciary responsibilities. For example, many are concerned about the potential risks associated with sponsoring a plan. Although federal agencies conduct education and outreach on retirement plans, a number of small employers and other stakeholders said small employers were unaware of these initiatives. For example, Labor, IRS, and the Small Business Administration (SBA) collaborate to develop and disseminate information and guidance online but do so through separate websites and in a largely uncoordinated fashion. Small employers and other stakeholders also cited other challenges to plan sponsorship, including a lack of financial resources, time, and personnel. However, some small employers said their employees prioritized health benefits over retirement benefits. To address some of the challenges to plan sponsorship, some small employers said they use contracted service providers that perform plan administration tasks.

Small employers and other stakeholders offered options for addressing some challenges and reducing the complexity of plan sponsorship for small employers. Options included simplification of federal requirements for plan administration, such as easing or eliminating certain plan testing requirements. Some stakeholders said increasing the tax credit for plan startup costs could further defray costs and help boost plan sponsorship. Some stakeholders also said that the federal government could conduct more education and outreach efforts to inform small employers about plans. Pension reform proposals in the United States, along with certain features of pension systems in other countries, may provide additional options that could increase plan sponsorship and increase workers' access to retirement plans. For example, asset pooling is a feature that allows small employers to pool resources for economies of scale, which can lower plan costs. In light of the variety of options, Labor, the Department of the Treasury, IRS, and SBA should jointly evaluate existing options and develop new proposals with the goal of mitigating barriers to small employer plan sponsorship.