

# GAO Highlights

Highlights of [GAO-13-748T](#), a testimony before the Committee on Health, Education, Labor, and Pensions, U.S. Senate

## Why GAO Did This Study

About 42 million workers, or about one-third of all private-sector employees, work for employers with fewer than 100 employees, and recent federal data suggest many of these workers lack access to work-based retirement benefits. Despite efforts by the federal government to develop new plan designs and to increase tax incentives, plan sponsorship remains low among small employers. MEPs, a type of arrangement involving more than one employer, have been suggested as a potential way to increase coverage.

This testimony describes (1) the challenges small employers face in helping ensure that their workers secure retirement income, and (2) types of MEPs and their potential to address these challenges. GAO drew from its previous reports related to small employer challenges in establishing and maintaining a retirement plan and recent work on MEPs issued from March 2012 through September 2012.

## What GAO Recommends

GAO is not making any new recommendations. GAO made several recommendations in prior reports to Labor and the Internal Revenue Service (IRS) to address challenges facing small employers and to improve oversight and coordination for MEPs. The agencies generally agreed with GAO's recommendations. However, Labor disagreed with a recommendation to create a single webportal for federal guidance. GAO believes consolidating information could benefit small employers, mainly because resources are scattered.

View [GAO-13-748T](#). For more information, contact Charles A. Jeszeck at (202) 512-7215 or [jeszeck@gao.gov](mailto:jeszeck@gao.gov).

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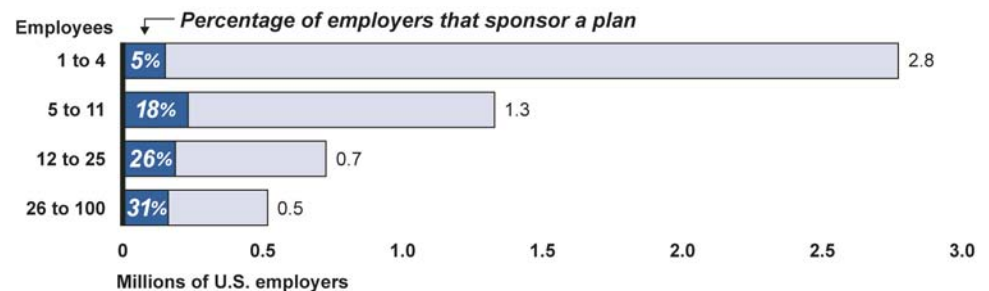
## RETIREMENT SECURITY

### Challenges and Prospects for Employees of Small Businesses

## What GAO Found

About 14 percent of small employers sponsor some type of plan for their employees to save for retirement and these employers in general can face numerous challenges establishing and maintaining a plan. GAO's March 2012 report found that many of the small employers who were contacted said they felt overwhelmed by the number of plan options, plan administration requirements, and fiduciary responsibilities. For example, some small employers found it challenging to select investment funds for their plans. Small employers also cited other challenges in sponsoring a plan, including a lack of financial resources, time, and personnel. GAO's April 2012 review of select 401(k) plans—the most common type of plan sponsored by small employers—found that some smaller plan sponsors did not know about or fully understand fees they and their participants were charged, such as fees associated with group annuity contracts. In addition to these fees, participants in small plans often pay higher recordkeeping and investment management fees than participants in larger plans. GAO's work demonstrates the need for plan sponsors, particularly small sponsors, to understand fees in order to help participants secure adequate retirement savings. Any fees paid by participants, even a seemingly small amount, can significantly reduce retirement savings over time.

## Small Employer Plan Sponsorship by Number of Employees in 2009



Source: GAO analysis of Labor and IRS data.

Little is known about the types of employers that participate in multiple employer plans (MEP), particularly because, since 2004, no publically available information has been collected on such employers. MEP representatives have suggested MEPs as a viable way for small employers to reduce the administrative and fiduciary responsibilities that come with sponsoring a pension plan, and for reducing costs, in part through asset pooling. However, GAO found that these advantages are not always unique to MEPs. There was also no consensus on the potential for MEPs to increase plan coverage. During GAO's September 2012 study the Department of Labor (Labor) ruled that some MEPs made up of otherwise unrelated employers did not constitute a single pension plan but an arrangement under which each employer sponsored a separate plan for its own employees. Because this raises significant policy and compliance questions and data are limited, it is important that Labor gather information on participating employers to inform policy and oversight activities on retirement security for employees of small businesses.