Retirement Plans that Work for Small Business

-Background and Issues-

Presented by
Terry Gardiner
Small Business Majority
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About Small Business Majority

• **Small business organization** – founded and run by small business owners

• **National** – offices in Washington, DC, Virginia, Ohio, Colorado, Missouri, New York, California, Oregon, Virginia and Washington State

• **Research and advocacy** on issues of top importance to small businesses (<100 employees) and self-employed, including healthcare, taxes, access to capital, clean energy and more

• Very focused on **outreach to and education** of small business owners across the country
Terry Gardiner directs Small Business Majority’s policy development from our Seattle office.

He is particularly focused on policies that will ensure the successful implementation of the Affordable Care Act. He also plays a key role in policies that promote a vibrant clean energy economy, access to capital and small business economic development.

Originally a commercial fisherman, Terry founded and spent 22 years as the CEO of Silver Lining Seafoods, later NorQuest Seafoods. He grew the company to over $100 million in sales, with 1,000 employees and markets in 22 countries.

Terry is a former Speaker of the Alaska House of Representatives, in which he served for 10 years and authored a host of successful groundbreaking legislation.
Most US businesses are very small

<table>
<thead>
<tr>
<th>Size of Business</th>
<th># Companies</th>
<th># Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self Employed</td>
<td>21,700,000</td>
<td>21,700,000</td>
</tr>
<tr>
<td>Small Businesses &lt;10</td>
<td>4,661,829</td>
<td>12,964,000</td>
</tr>
<tr>
<td>Small Business 10-100</td>
<td>1,159,448</td>
<td>29,182,000</td>
</tr>
<tr>
<td>Medium 100-500</td>
<td>90,386</td>
<td>17,548,000</td>
</tr>
<tr>
<td>Large 500+</td>
<td>18,469</td>
<td>61,210,000</td>
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Over the last decade the total workforce in the United States increased 12.8%, but the number of self-employed increased **38% to 22 million**.
Washington Small Businesses

- 400,000 Self-employed Entrepreneurs
- 140,000 small businesses (<100 employees)
- 130,000 small businesses (< 20 employees)
- 900,000 small business employees; 40% of state workforce
- Average wage is lower in small businesses
  - Small firms <20 = $33,567
  - Large firms >500 = $58,460
Politically, small business matters

- Small biz trusted by voters who care about helpful public policy
- Poll of 6 battleground states found 88% of Independent voters had favorable rating of small biz
- Small biz is second only to military as highest-rated US institution
- Higher levels of confidence in small biz than big biz
Washington Smaller Businesses have Lower Average Wage

<table>
<thead>
<tr>
<th>Business Size</th>
<th>Average Annual Wage</th>
<th>% of Top</th>
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<tbody>
<tr>
<td>500+</td>
<td>$58,460</td>
<td>100%</td>
</tr>
<tr>
<td>100-499</td>
<td>$44,969</td>
<td>77%</td>
</tr>
<tr>
<td>20-99</td>
<td>39,959</td>
<td>68%</td>
</tr>
<tr>
<td>&gt;20</td>
<td>$33,567</td>
<td>57%</td>
</tr>
</tbody>
</table>
Many Americans are not saving enough for retirement.
Access to a retirement plan varies by income

U.S. PRIVATE SECTOR WORKERS: Does your employer offer a pension or retirement plan? By Personal Annual Income

Lower income individuals are much less likely to have access to a retirement plan.

Low-income & Part-time Workers

- Low-income workers: 70% of workers with annual incomes between $20,000-$29,999 lack pension or retirement plan coverage.

- Part-time full-year: 79.6% of workers who work part-time or part of the year do not have a pension or retirement plan.

### Employee Characteristics of Nonsponsors, by Size of Firm

<table>
<thead>
<tr>
<th>Annual Salary</th>
<th>Total</th>
<th>5-20 Workers</th>
<th>21-100 Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20,000</td>
<td>30%</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>$20,000–$40,000</td>
<td>59%</td>
<td>58%</td>
<td>68%</td>
</tr>
<tr>
<td>Over $40,000</td>
<td>8%</td>
<td>8%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: Employer Benefits Research Institute annual Small Employer Retirement Survey, 2003*
AARP- Washington state is facing a retirement security crisis

- Recent survey of WA residents age 45-64 found 42% have less than $25,000 in savings.
- 45% don’t own retirement account assets
- 80% of workers employed with business with fewer than 25 employees don’t have a retirement plan
- Nearly 60% of middle-class retirees can expect to outlive their financial assets
- If older adults don’t have enough money to be self-sufficient in retirement, they must rely on public safety net services – expensive for state
National Problem: retirement plan options not working for small business owners and employees

- Workers with retirement plans

- 78% of Washington Small Businesses do not offer a retirement plan
Small business will support change

Main issues small biz recognize about retirement (out of 100%)

- Security Concerns: 56%
- Concerned About Enough Retirement: 65%
- Too Complicated: 50%
- Too Expensive: 63%
- Responsibility to Provide: 73%
- Support New Plan: 82%
Reasons small businesses do not offer a retirement plan

– 2003 Small Employer Retirement Survey-EBRI

- Revenue uncertain/low: 28%
- Too expensive: 16%
- Disinterest: 12%
- Too much to short term employees: 12%
- Biz too new: 7%
- Biz too small: 6%
- High contributions: 4%
- Burdensome: 3%
- Wages preferred: 3%
- No need: 2%
- Already have benefits: 7%
Small businesses believe Washington needs to do more

- 85% believe Washington residents won’t have enough money saved for retirement.

- 65% are concerned their employees won’t have enough money saved for retirement.
Washington small businesses support START legislation

- 73% believe Washington should do more to help residents prepare for retirement.

- 63% support legislation establishing a voluntary retirement savings plan option.
National - Small business wants retirement plan that fits

Important features small biz want in retirement plans (out of 100%)

- Flexibility: 71% important, 29% not important
- Employer grouping: 62% important, 38% not important
- Little admin/low price: 80% important, 20% not important
- Convert to meet needs: 75% important, 25% not important
75% agree Americans are financially unprepared for retirement

Only 19% offer a 401(k) though

69% say their business is too small to do so

Over 50% believe it’s too expensive
Save toward a retirement today

Key features:

- Voluntary for employers and employees
- Portable as people move from job to job
- Self-employed business owners would be eligible
- No on-going costs or risk for the state
- An effective tool to encourage private savings
- After initial start-up costs paid by state or industry, START is self-sufficient, 100% funded from individual account fees
Voluntary and portable

• Small employers can offer START plans as an option for employees

• Employees can take START accounts with them from job to job

• START benefits low-wage workers more likely to change jobs repeatedly and less likely to have retirement savings vehicles through work
Target retirement funds

- Choose a fund based on your age and years to retirement
- Invest in diversified stocks & bonds
- Become more conservative towards retirement age
- Annual expenses low compared to other funds
Conclusions

• **Research**: National and Washington small business retirement data is very similar and conclusive

• **Problem**: 80% of small businesses do not offer any of the existing retirement plan options that have existed for decades

• **Why?**: Small business has consistently stated that existing plans don’t match their and employee needs

• **Solutions**: Small Business, of all political persuasions, want and strongly support new alternative retirement plan options
Contact Information

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