Helping Small Business Workers Improve Retirement Readiness Through Multiple-Employer Plans

Retirement Plans | Policy Issues and Recommendations

At State Street Global Advisors (SSGA), we are committed to making retirement work. More than 74 million Americans participate in defined contribution plans, including 401(k) plans.[1] For many people, improving retirement readiness begins in the workplace, by participating in an employer-sponsored retirement plan.

The Challenge for American Workers

If you're an American worker, the health of your retirement savings today is more likely to be determined by the size of your employer rather than the size of your pay check. As a result, many small business workers are likely not saving enough for retirement.

State Street Global Advisors' Observation

Providing small businesses with access to a multiple-employer plan (MEP) through an industry group or other association could encourage these types of employers to offer a workplace retirement plan. MEPs make it easier for small companies to offer retirement plans by spreading administrative and personnel related costs across a number of employers. Participating in MEPs also could help smaller plans achieve the kind of fee leverage that larger plans now enjoy.

Drawing Lessons from Larger Employers

In our view, many of the largest and most sophisticated employers in the United States have designed and implemented good, self-funded retirement plans. 89% of workers at large companies have access to retirement plans(s); however, only 45% of workers at small businesses have access to some type of plan to save for retirement.[2] Large employers are much more likely to provide

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a retirement plan. And when they do, the plan produces better results for those employees that participate in it. Large plans can offer best practices to smaller employers, for example:

Participation Rate. The average participation rate in the largest plan segment (plans with over $1 billion in assets) is close to 80%. For the smallest plan segment (plans with under $5 million in assets), participation rates dip to 73.1%.[3]

Savings Rates. In the largest plans, the average savings rate is 7.3%, while in the smallest plans it is 6.1%.[4]

Account Balances. The average account balance in the largest plans is about two times the average across all plan sizes — $140,000 compared to $63,878.[6]

Creating a Future Model for Small Business Retirement Plans

We believe an important opportunity facing legislators and regulators is determining the public policy shifts necessary to close the gap between large and small employers with regard to defined contribution plan provision and structure. One potential way to close the gap between large and small plans would be to create a safe harbor for employers that participate in well-structured, multiple-employer plans. These well-structured MEPs should mimic the largest plans in the US by leveraging automation and simplification to drive better participant outcomes. In our view, the features required for safe harbor coverage should include the following model plan elements:

- Auto enrollment starting at a minimum of 6% with a default into a qualified default investment alternative such as an indexed target date fund.
- Automatic contribution rate escalation at a minimum of 1% annually up to a cap of 15%.
- A simplified investment menu including an index target date fund, a limited number of core options and a lifetime income option to help manage longevity risk.
- A loan program available only for hardship to prevent plan leakage.
- A total plan expense ratio under a certain limit based on the size of the MEP.
- An optional employer match or discretionary profit-sharing type contribution.

SSGA's Proposals for Policy Makers

To make participation in MEPs easier and more attractive, we believe the following additional changes in public policy should also be considered:

- Reduce administrative burdens for smaller plan sponsors by eliminating the current Department of Labor nexus requirement for participant-funded retirement programs.
- Mitigate fiduciary risks for smaller plan sponsors by creating and offering a safe harbor to participating members of a multiple-employer plan, provided that certain best-in-class plan design features are incorporated.
- Acceptance of aggregated 5500-type reporting with a breakdown of contribution amounts by participating employers.
- Alterations to the tax code to prevent disqualification of a MEP despite a violation by one or more participating members.
- Removal of testing and reporting requirements for employers under a certain size.
- Update the tax code to encourage smaller plan sponsors to participate in MEPs and to offer their employees access to employer-sponsored retirement plans.

We believe granting small businesses the ability to participate in simplified MEPs would send an important signal to the retirement market. This change would inspire plan service providers and investment managers to create more products tailored to small businesses, providing a broader range of choices and greater economies of scale to an underserved market segment.

1 Number of Active Participants in Pension Plans — DOL Private Pensions Plan Bulletin History Tables and Graphs — June 2013.
2 "Employee Benefits in the United States — March 2014," Bureau of Labor Statistics news release of 7/25/14, pg. 1.
3 PLANSPONSOR DC Survey 2015.
4 Ibid.
5 PLANSPONSOR DC Survey 2013.
6 Inside the Structure of Defined Contribution/401(k) Plan Fees: A Study Assessing the Mechanics of the 'All-In' Fee 2011. Deloitte.

About State Street

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*AUM reflects approx. US$36B (as of March 31, 2018) with respect to which State Street Global Advisors Funds Distributors, LLC serves as marketing agent; SSGA FD, LLC and State Street Global Advisors are affiliated.

Primary Research

This Survey was fielded in partnership with TRC Market Research, an independent marketing research firm located in suburban Philadelphia. To protect the anonymity of the respondents, TRC was responsible for survey administration and data analysis. SSGA received the aggregate data for analysis purposes only.

The data was collected in April 2013 through a 20-minute Internet survey using a panel of 1,498 verified 401(k), 403(b), 457 and profit-sharing plan participants and retirees, age 40 to 70, who were actively engaged with their plans.

Percentages and Weightings

The results were weighted to reported defined contribution plan types and retirement status. The sample has a maximum sampling error of +/-2.5 percentage points at a 95% confidence level.

Learn More

Helping Americans focus on financial security in retirement is a conversation worth having. For further public policy discussion please contact **definedcontribution@ssga.com**

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