

PROMOTING RETIREMENT SECURITY AMONG SMALL BUSINESS EMPLOYEES





Starting or maintaining a retirement plan can be a major undertaking for small businesses. A survey of small business owners completed by LPL Financial in 2017 revealed that cost and complexity were cited as the top two reasons that small businesses decided not to offer a plan for their employees.

However, research has shown that employees are more likely to save, and save more, when they have access to and are automatically enrolled in an employer-sponsored retirement plan. (See [“The Small Business Retirement Savings Challenge”](#) for more on this topic.) These findings have spurred LPL to further research how best to help small businesses establish plans that automatically enroll employees and automatically escalate their level of contributions in subsequent years.

MANAGING THE HIGHER COSTS OF AUTOMATIC PROVISIONS

One of the key challenges for small businesses is cost, and automatic enrollment and escalation increase costs. If an employee is automatically enrolled in a 401(k) plan when she comes to work, that will often entitle her to a matching contribution, which increases the employer’s costs. If the employee were not automatically enrolled, she might not have contributed, thus saving the employer the cost of matching contributions.

A number of members of Congress have identified exactly this issue and have introduced legislation to address it very directly. Under those proposals, a small business (up to 100 employees) that adopts a certain level of automatic enrollment and automatic escalation would be entitled to a tax credit to help cover the cost of the matching contributions.

Generally, under the most recent proposals, a “matching contribution credit” would equal the total matching contribution made on behalf of employees who are not “highly compensated” under the Internal Revenue Code (very generally, a highly compensated employee is an employee earning more than \$130,000). However, the amount of the proposed employer’s tax credit with respect to each employee (1) cannot exceed 2% of the employee’s compensation, and (2) only applies during the first five years that the employee participates in the plan.

ENTHUSIASM AMONG SMALL BUSINESSES FOR THESE PROPOSALS

We believe that this matching contribution credit proposal could possibly address a key challenge for small businesses, so we set out to research this issue. Our findings confirm that this credit would be a powerful tool to increase the retirement savings for employees of small businesses.

We surveyed our advisors who work with small business retirement plans and asked them a series of questions. Their answers provided strong support for the proposals described above.

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83% of respondents believed that automatic enrollment would have a positive impact on employee enrollment in small business plans, with approximately 64% stating that the impact would be very positive. Their quotes were equally instructive:

*“We have seen time and time again examples of business with poor participation in their plan see it **jump to 85% to 90% with [automatic enrollment]**. This often happens even when the business owner is sure his employees won’t participate, can’t afford to save or aren’t interested...”*



*“**Automatic Enrollment and Automatic Escalation have a tremendous impact on employees of all ages and wages in the retirement landscape...**”*

*“There is **nothing more effective than auto-enrollment.**”*

*“**Auto enrollment has been a game changer for getting employees to enroll...**”*

89%

of plan advisors stated that the new automatic enrollment tax credit based on matching contributions would increase the likelihood of a small business adopting automatic enrollment and automatic escalation, and a full 59% think that the likelihood would increase substantially.

So we know that automatic enrollment and escalation can be game changers. How can we help small businesses adopt these features?

In our survey, 89% of the respondents stated that the matching contribution credit proposal described above would increase the likelihood of a small business adopting automatic enrollment and automatic escalation, and a full 59% think that the likelihood would increase substantially. This demonstrates that the tax credit would materially increase the prevalence of automatic enrollment and escalation among small employers, with the beneficial effects described above.

This research builds on 2017 LPL research that found that:

- 91% of small employers without a plan would be at least somewhat more likely to start a plan if the cap on the tax credit for starting a plan (the “start-up credit”) were increased from \$500 to \$5,000 (as under the SECURE Act, which was enacted at the end of 2019) and adjusted to cover all initial costs.
- 86% of small employers with a plan would be at least somewhat more likely to offer automatic enrollment if they were eligible for a \$500 credit for doing so (also as under the SECURE Act as enacted).

In short, the increase in the start-up credit under the SECURE Act will help small businesses start a plan. The \$500 credit for offering automatic enrollment will spur great growth in this important feature. The next important step is the matching contribution credit, which would help with matching contributions and automatic escalation. Adding the matching contribution credit to the SECURE Act credits could help usher in a new era of retirement security for employees of small businesses.

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A form of the matching contribution credit is in bills sponsored by several key members of Congress, including:

- Congressman Richard Neal (Democrat from Massachusetts and Chairman of the House Ways and Means Committee);
- Senators Rob Portman (Republican from Ohio) and Ben Cardin (Democrat from Maryland), two long-time leaders in retirement policy;
- Senators Susan Collins (Republican from Maine and Chair of the Senate Aging Committee) and Senator Margaret Wood Hassan (Democrat from New Hampshire); and
- Representative Ron Kind (Democrat from Wisconsin) and former Representative Dave Reichert (Republican from Washington).

CONCLUSION

Small businesses face unique challenges in establishing retirement plans and in helping their employees save for retirement. Based on extensive research in this area, LPL believes that the widely bipartisan tax credit proposals described above would provide a new level of retirement security to employees of small businesses.

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