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PRIVATE PENSIONS

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

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GAO-12-459T

Chairman Kohl, Ranking Member Corker, and Members of the Committee:

I am pleased to be here today to discuss the challenges that small employers face when sponsoring retirement plans for their workers. About 42 million workers, or about one third of all private-sector employees, work for employers with less than 100 employees and recent federal data suggest many of these workers lack access to a work-based retirement plan to save for retirement. An estimated 51 to 71 percent of workers at employers with less than 100 workers do not have access to a work-based retirement plan, compared to an estimated 19 to 35 percent of those that work for employers with 100 or more workers. Small employers face a number of barriers to starting and maintaining a plan for their workers. Certain characteristics associated with small employers may contribute to the challenges of sponsoring a plan. For example, in 2008, we reported on challenges that can limit small employer sponsorship of Individual Retirement Arrangement[1] (IRA) plans, including administrative costs, contribution requirements, and eligibility based on employee tenure and compensation, among others.[2] Additionally, federal data suggest that about half of all new businesses (nearly all of which are small) do not survive for more than 5 years.

My statement is based on our report released today that examines (1) the characteristics associated with small employers that are more or less likely to sponsor a retirement plan, (2) challenges small employers face in establishing and maintaining a retirement plan, and (3) options that exist to address those challenges and increase small employer sponsorship.[3]

To answer these objectives, we combined and analyzed retirement plan data from the Department of Labor (Labor) and the Internal Revenue Service (IRS) employer data to produce a regression analysis and

[1]An IRA is a personal savings arrangement that offers certain tax advantages. IRAs may include individual retirement accounts and individual retirement annuities.

[2]GAO, *Individual Retirement Accounts: Government Actions Could Encourage More Employers to Offer IRAs to Employees*, GAO-08-590 (Washington, D.C.: June 4, 2008).

[3]GAO, *Private Pensions: Better Agency Coordination Could Help Small Employers Address Challenges to Plan Sponsorship*, GAO-12-326 (Washington, D.C.: March 5, 2012).

descriptive statistics on 5.3 million small employers.[4] We conducted literature reviews and interviewed groups of small employers in five cities[5] as well as other stakeholders.[6] We conducted our work in accordance with generally accepted government auditing standards from October 2010 to March 2012. More complete information on our scope and methodology is available in our issued report.

In summary, we 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. Small employers, retirement experts, and other stakeholders also identified a number of challenges—such as plan complexity and resource constraints—to starting and maintaining retirement plans. In addition, stakeholders offered options for addressing some challenges to plan sponsorship, which included simplifying federal requirements for plan administration and increasing the tax credit for plan startup costs. Although Labor, IRS, and the Small Business Administration (SBA) collaborate in conducting education and outreach on retirement plans, agencies disseminate information online through separate websites and in a largely uncoordinated fashion. In addition, IRS currently does not have the means to collect information on employers that sponsor a certain type of IRA plan. As a result of our findings, we are recommending efforts for greater collaboration among federal agencies to foster small employer plan sponsorship and more complete collection of IRA plan sponsorship data.

Background

To encourage employers to sponsor retirement plans for their employees, the federal government provides preferential tax treatment under the Internal Revenue Code (IRC) for plans that meet certain requirements. In addition, the Employee Retirement Income Security Act of 1974 (ERISA), as amended, sets forth certain protections for participants in private-sector retirement plans, including fiduciary responsibilities that may apply

[4]For the purposes of this study, GAO defined a small employer as a for-profit firm with at least 1 employee and no more than 100 employees.

[5]The five cities were Atlanta, Boston, Chicago, Los Angeles, and Washington, D.C.

[6]Other stakeholders included retirement experts, organizations representing small employers, retirement plan service providers, representatives of the accounting profession, and officials at Labor and IRS.

to plan sponsors, which establish certain standards of conduct for those that manage employee benefit plans and their assets.[7]

Small employers may choose a plan for their employees from one of three categories: employer-sponsored IRA plans; defined contribution (DC) plans; and defined benefit (DB) plans (often referred to as traditional pension plans).[8] Employer-sponsored IRA plans, which can be either Savings Incentive Match Plans for Employees (SIMPLE) or Simplified Employee Pension (SEP) plans, generally allow employers and, in SIMPLE IRA plans, employees, to make contributions to separate IRA accounts for each participating employee. Employers generally have fewer administration and reporting requirements compared to other types of plans. The second plan category—DC plans—which includes 401(k) plans, allows employers, employees, or both to contribute to individual employee accounts within the plan. DC plans tend to have higher contribution limits for employees than employer-sponsored IRA plans; however, they also have more reporting requirements and other rules; for example, they may be subject to requirements for nondiscrimination testing or top-heavy testing.[9] The third category is DB plans, which promise to provide a specified retirement benefit to employees; the employer is generally responsible for funding the plan.[10]

Over the years, Congress has responded to concerns about lack of access to employer-sponsored retirement plans for employees of small employers with legislation to lower costs, simplify requirements, and ease administrative burden. For example, the Revenue Act of 1978 and the Small Business Job Protection Act of 1996 established the SEP IRA plan

[7]Pub. L. No. 93-406, 88 Stat. 829. Plan sponsors assume fiduciary responsibilities to the extent they qualify as fiduciaries as defined by ERISA. See 29 U.S.C. §§ 1002(21), 1101-14.

[8]For more information and the sources of the requirements for these plans, see GAO-12-326.

[9]Some plans may be required to conduct annual nondiscrimination testing to ensure that the contributions or benefits do not discriminate against rank-and-file workers in favor of highly compensated employees. See 26 U.S.C. § 401(a)(4). Top-heavy testing may also be required to ensure a minimum level of benefits are provided to rank-and-file workers in plans sponsored by owner-dominated businesses, where the majority of benefits accrue to "key" employees such as owners and top executives. See 26 U.S.C. § 416.

[10]The retirement benefit provided by DB plans is often calculated based on factors such as the employee's length of service and pay.

and the SIMPLE IRA plan respectively, featuring fewer administration requirements than other plan types. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) also included a number of provisions that affected small employers, which were made permanent by the Pension Protection Act of 2006 (PPA). The PPA also established additional provisions that support retirement plan participation by rank-and-file employees, such as automatic enrollment.

Federal agencies also play a role in fostering retirement plan sponsorship by small employers. To help encourage sponsorship, federal agencies conduct education and outreach activities and provide information about retirement plans for small employers. Labor, IRS, and SBA—which maintains an extensive network of field offices—have collaborated with each other and with national and local organizations to develop information on small employers retirement plans and conduct outreach with small employers.

Various private-sector service providers—from individual accountants, investment advisers, recordkeepers, and actuaries to insurance companies and banks—assist sponsors with their retirement plans. Some sponsors hire a single provider that offers a range of plan services for one fee, sometimes referred to as a “bundled” services arrangement. Other sponsors hire different providers for individual services under an “unbundled” arrangement, paying a separate fee for each service. Plan services include legal, accounting, trustee/custodial, recordkeeping, actuarial (for defined benefit plans), investment management, investment education, or advice. Service providers can also assist with plan administration functions, including any required testing and filing of government reports.

Number of Employees and Average Pay Level Greatly Influence Plan Sponsorship

More Employees and Higher Average Wages Increase the Likelihood of Plan Sponsorship

We found that the number of employees and average wages greatly influence the likelihood that a small employer will sponsor a retirement plan.[11] Further, our regression analysis using Labor and IRS data found that small employers with larger numbers of employees were the most likely of all small employers to sponsor a plan, as were those paying average annual wages of $50,000-$99,999. Conversely, employers with the fewest employees and the lowest average annual wages were very unlikely to sponsor a plan.

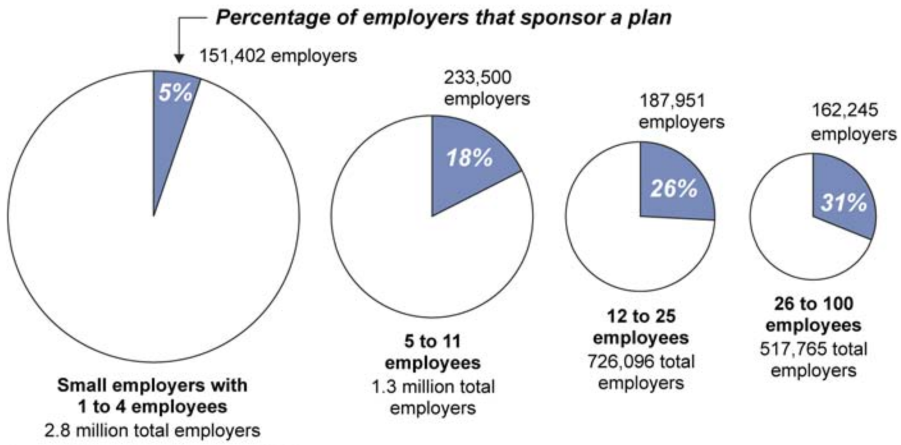
A separate analysis we conducted using Labor and IRS data found an overall small employer sponsorship rate of 14 percent in 2009.[12] It is important to note, however, that this sponsorship rate does not include small employers that sponsor SEP IRA plans because IRS currently does not have a means to collect data on employers that sponsor this plan type.

Further examination found that small employers with 26 to 100 employees had the highest sponsorship rate—31 percent—while small employers with 1 to 4 employees had the lowest rate—5 percent (See fig 1).

[11]Several experts stated that a firm's age could also affect the likelihood of plan sponsorship, with newer employers less likely to sponsor a plan. However, our analysis was unable to address the number of years in operation due to technical challenges. For further discussion of the technical challenges, see GAO-12-326.

[12]The sponsorship rate cited in this testimony is limited to single employers that sponsor a plan. Consequently, the rate does not include small employers that participated only in multiple employer plans or multiemployer plans, which are outside the scope of this study. We are currently conducting ongoing work on these plan types and their role in the private pension system.

Figure 1: Small Employer Plan Sponsorship by Number of Employees in 2009



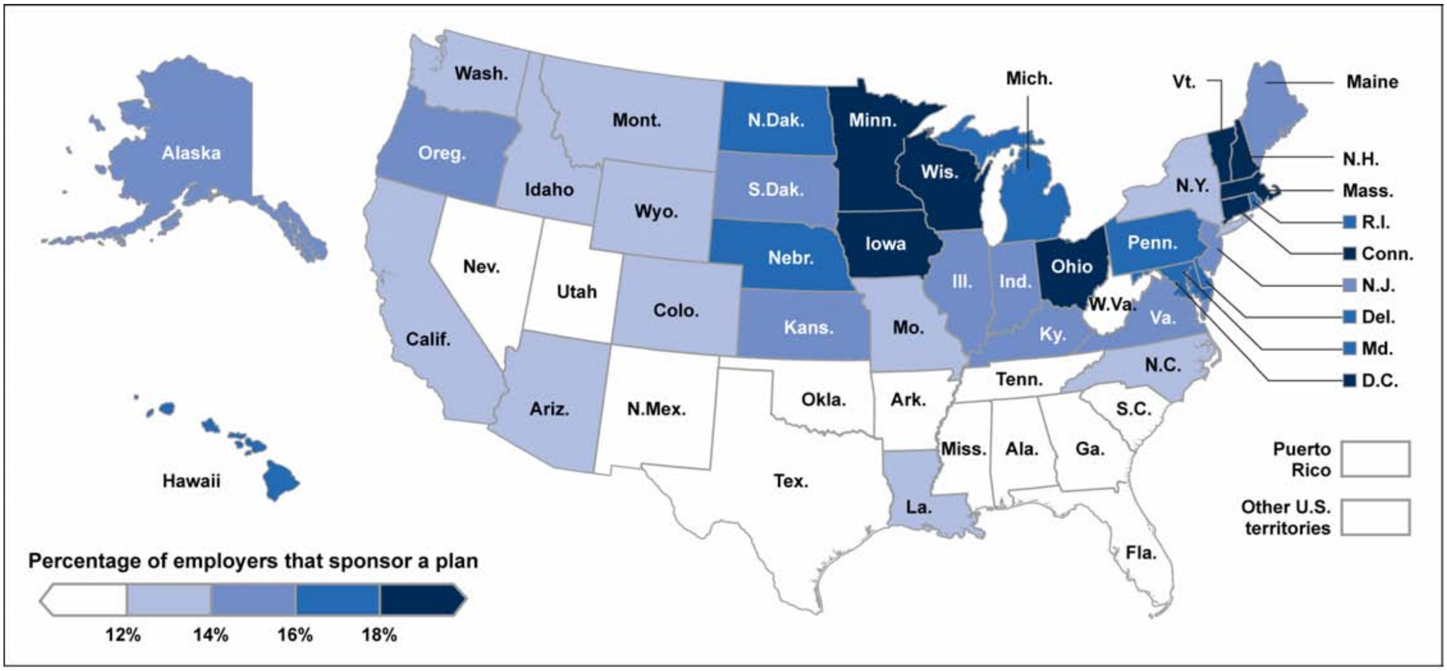
Source: GAO analysis of Labor and IRS data.

In our examination of average annual wage characteristics, small employers with average annual wages of $50,000 to $99,999 had the highest rate of plan sponsorship at 34 percent while small employers with average wages of under $10,000 had the lowest sponsorship rate—3 percent. In examining the interaction between both characteristics—the number of employees and average annual wages—we found that the sponsorship rate for small employers with 26 to 100 employees exceeded 75 percent when average wages were $50,000 or more. In contrast, small employers with one to four employees reached their highest sponsorship rate of 13 percent when average annual wages were $50,000 or more.

We also found differences in sponsorship rates in different parts of the country, and found small employers in the Midwest and Northeast were more likely to sponsor plans while employers in the West and South were less likely.[13] Connecticut, Wisconsin, and Washington, D.C. had the highest sponsorship rates—with Washington, D.C., showing the top rate of 23 percent. Mississippi and Florida had the lowest sponsorship rates at fewer than 10 percent (see fig 2).

[13]For purposes of this analysis, we used Census Bureau geographic regions.

Figure 2: Small Employer Plan Sponsorship by State in 2009



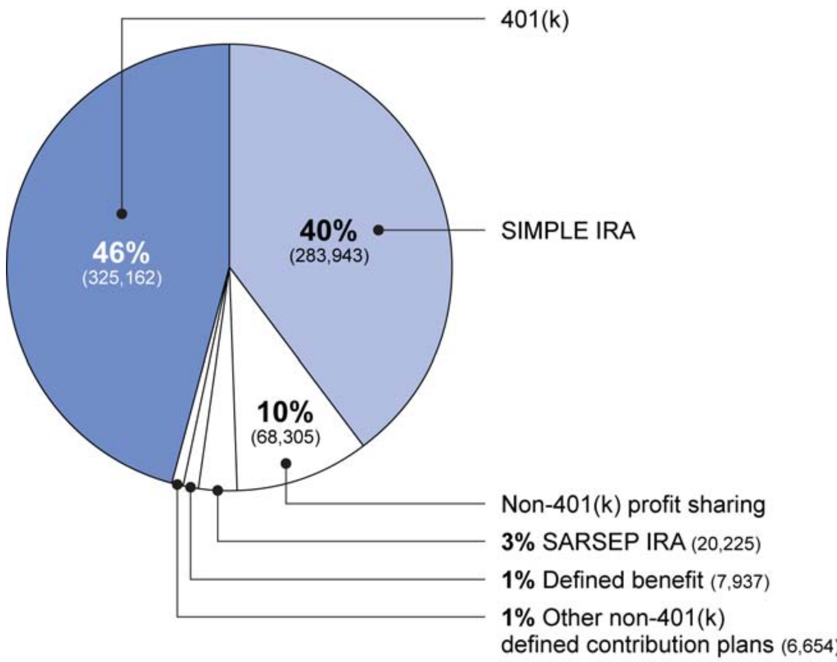
Source: GAO analysis of Labor and IRS data.

401(k)s and SIMPLE IRAs Were the Most Common Plan Types

According to our analysis of Labor and IRS data, 401(k) and SIMPLE IRA plans were overwhelmingly the most common types of plans sponsored by small employers. Out of slightly more than 712,000 small employers that sponsored a single type of plan, about 86 percent sponsored either a 401(k) or a SIMPLE IRA plan.[14] Figure 3 shows the proportion of plan types sponsored by small employers.

[14]Three percent of the small employer population sponsored more than one plan; however, these small employers were excluded from our plan type analysis to avoid double counting plans.

Figure 3: Small Employer Plan Sponsorship by Plan Type in 2009



Source: GAO analysis of Labor and IRS data.

Notes: Percentages in figure do not add up to 100 due to rounding.

A SARSEP plan is a type of SEP IRA plan set up before 1997 that permits employee salary reduction contributions. Employee salary reductions under SEP IRA plans were eliminated beginning in 1997; however, SARSEP plans established prior to 1997 may continue to offer salary reductions. 26 U.S.C. § 408(k)(6)(H).

While SIMPLE IRA plans were the most common plan type along with 401(k) plans, they made up a smaller proportion of overall contributions. Contributions to SIMPLE IRA plans in 2009 amounted to $4.3 billion or 11 percent of the total contributions made by small employers and their employees into the plan types we analyzed. By contrast, 401(k) contributions amounted to $29.2 billion, or 76 percent of all contributions.

Plan Complexity and Resource Constraints Were Most Frequently Cited Barriers to Retirement Plan Sponsorship

Many Small Employers Find Retirement Plans Complex and Burdensome to Start and Administer

Small employers and other stakeholders we interviewed identified various plan options, administration requirements, fiduciary responsibilities, and top-heavy testing requirements as complex and burdensome—often citing these factors as barriers to sponsoring retirement plans or as reasons for terminating them.

Plan options and administration requirements: Small employers and other stakeholders said that plan options and administration requirements are frequently complex and burdensome and discourage some small employers from sponsoring a plan. For example, some small employers and retirement experts said that the broad range of plan types and features makes it difficult for small employers to compare and choose a plan that best meets their needs. Some stakeholders also described the administrative burden on small employers of plan paperwork, such as reviewing complicated quarterly investment reports or complying with federal reporting requirements—like those associated with required annual statements—as particularly burdensome.[15]

Fiduciary responsibilities: A number of stakeholders indicated that understanding and carrying out a sponsor's fiduciary responsibilities with respect to managing or controlling plan assets presents significant

[15]Most tax-qualified plans are required to annually file Form 5500, developed jointly by Labor, IRS, and the Pension Benefit Guaranty Corporation to satisfy the annual reporting requirements under ERISA and the IRC. ERISA established a reporting and disclosure framework, in part, to protect the interests of participants and beneficiaries by requiring that certain financial and other information be provided to participants and beneficiaries, as well as to the federal government. Modifications or exceptions to the general reporting requirements may be available to some small plans.

challenges to some small employers.[16] Some small employer sponsors found the selection of investment fund choices for their plans particularly challenging. Further, a number of stakeholders said some small employers may not have an adequate understanding of their fiduciary duties and are not always aware of all their responsibilities under the law.

Top-heavy requirements: Top-heavy requirements are more likely to affect smaller plans (those with fewer than 100 participants) than larger ones, according to IRS. A number of stakeholders said compliance with requirements is often burdensome and poses a major barrier to small employer plan sponsorship.[17] According to some experts, some small employers with high employee turnover may face an even greater likelihood of becoming top-heavy as they replace departing employees while key employees—such as business owners or executives—continue to contribute to the plan. A number of stakeholders stated that compliance with top-heavy rules is confusing and can pose significant burdens on some small employers. For example, some retirement experts said that small employers whose plans are found to be top-heavy may encounter a number of additional costs in the effort to make their plans compliant. These plans can incur additional costs associated with hiring a plan professional to make corrections to plan documents and instituting a minimum top-heavy employer contribution for all participating rank-and-file employees. While sponsors can avoid top-heavy testing by adopting a safe harbor 401(k) plan that is not subject to top-heavy requirements, experts pointed out that the employer contributions required for such plans may offset the advantages of sponsoring such a plan.

[16]To the extent they qualify as fiduciaries under ERISA, plan sponsors may assume fiduciary responsibilities, such as the duty to act prudently, solely in the interest of plan participants and their beneficiaries, and to diversify the investments of the plan. 29 U.S.C. § 1104(a).

[17]Top-heavy testing is required annually for certain plans and the requirements ensure a minimum level of benefits are provided to rank-and-file workers in plans that are sponsored by owner-dominated businesses, where the majority of benefits accrue to “key” employees, such as owners and top executives. Certain plans, such as SIMPLE IRAs, are not subject to the top-heavy requirements. 26 U.S.C. § 416.

Federal Guidance Is Available to Address the Complexities Associated with Plan Sponsorship But May Lack Visibility among Small Employers

Federal agencies provide guidance that can assist small employers in addressing some of the challenges they face in starting and maintaining retirement plans. Labor and IRS, often in collaboration with SBA, have produced publications, conducted workshops, and developed online resources, among other efforts, to assist small employers. However, a number of stakeholders, including the IRS Advisory Committee on Tax Exempt and Government Entities, indicated that many small employers are unaware of federal resources on retirement plans, which may, in part, be due to difficulties in finding useful, relevant information across a number of different federal websites. For example, IRS's Retirement Plans Navigator, a web-based tool designed to help small employers better understand retirement plan options, is located on a separate website from the rest of the agency's online plan resources for small employers. Furthermore, Labor and IRS each present retirement plan information separately on their respective websites. Neither agency maintains a central web portal for all information relevant to small employer plan sponsorship, though such portals exist for federal information resources in other areas such as healthcare.[18]

Small Employers Identified Lack of Financial Resources, Time, and Personnel as Deterrents to Sponsoring Retirement Plans

Small employers that lack sufficient financial resources, time, and personnel, such as smaller or newer firms, may be unwilling or unable to sponsor plans.

Financial resources: Small employers, especially those with lower profit margins or an unstable cash flow, could be less willing or less able to sponsor a retirement plan. One-time costs associated with starting a plan and the ongoing costs involved with maintaining the plan—as well as any requirement to match employee contributions or make mandatory contributions to an employee's account—were cited as barriers to plan sponsorship. Further, small employers we interviewed stated that general economic uncertainty makes them reluctant to commit to such long-term expenses and explained that they needed to reach a certain level of profitability before they would consider sponsoring a plan.

Time and personnel: Some small employers stated they may not have sufficient time to administer a plan themselves or lacked the personnel to take on those responsibilities. Further, small employers may not have

[18]For example, see: http://www.healthcare.gov/.

time to develop the expertise needed to investigate and choose financial products, select the best investment options, or track their performance. For example, one small employer described how business owners without the financial expertise to compare and select from among different plan options would likely find the experience intimidating.

Small Employers Report That Insufficient Incentives and Lack of Employee Demand Discourage Plan Sponsorship

Some small employers we interviewed stated that they may be less likely to sponsor a retirement plan if they do not perceive sufficient benefits to the business or themselves. For example, several small employers stated that their firms sponsored plans in order to provide owners with a tax-deferred retirement savings vehicle and one employer described how the firm annually assesses the plan to determine if it continues to benefit the owners. Additionally, a number of small employers stated that employees prioritized healthcare benefits over retirement benefits. Some small employers, such as those who described having younger or lower paid workforces, stated that their employees were less concerned about saving for retirement or were living paycheck to paycheck and did not have funds left over to contribute to a plan. As a result, both types of workers were not demanding retirement benefits.

Plan Service Providers Help Small Employers Meet Some But Not All Retirement Plan Needs

A number of small employers indicated that they use plan service providers to address various aspects of plan administration, which enabled them to overcome some of the challenges of starting and maintaining a plan. For example, one employer noted that her business would not have the time or the expertise to administer its plan without the help of a service provider. While some service providers said they offer affordable plan options and some small employers said the fees service providers charge were affordable, others said they were too high. Further, some stakeholders pointed to other limitations of using service providers, such as the difficulties of choosing providers, setting up a new plan through a provider, switching from one provider to another, as well as the significant responsibilities that may remain with the sponsor, such as managing plan enrollments and separations and carrying out their fiduciary duties, where applicable.

Proposed Options to Spur Plan Sponsorship Target Simplification, Incentives, and Education

Stakeholders proposed several options to address some of the administrative and financial challenges that inhibit plan sponsorship.[19] These options included simplifying plan administration rules, revising or eliminating top-heavy testing requirements, and increasing tax credits.

Simplify plan administration requirements: Some stakeholders suggested options that could simplify plan administration requirements. Options included reducing the frequency of statements sent to plan participants and allowing some required disclosures to be made available solely online. IRS officials stated that the agency is also considering proposals to replace a requirement for some interim amendments[20]—which stakeholders have identified as a burden for some small employers—with a requirement for notices to be sent directly to employees, which would reduce the number of times plan documents must be amended and submitted to IRS.[21]

Revise or eliminate top-heavy testing: A number of stakeholders proposed revising or eliminating top-heavy testing requirements to ease administrative and financial burdens. For example, representatives of the accounting profession told us that top-heavy testing is duplicative because other plan testing requirements help detect and prevent plan discrimination against rank-and-file employees.[22] Representatives of a large service provider told us that lack of plan participation or high turnover among a business' rank-and file employees frequently cause plans sponsored by small employers to become top-heavy.

[19]The key proposals discussed in our full report are not exhaustive, and we did not attempt to quantify the costs and benefits of each proposal or their potential effectiveness in encouraging small employer plan sponsorship.

[20]When statutes and regulations change, some sponsors may be required to modify plan documentation and submit it to IRS. Each year since 2004, IRS has published a cumulative list of changes in plan requirements that must be incorporated by plan sponsors. See, for example, IRS Notices 2011-97.

[21]Under these proposals, the amendments that would be subject to the less-stringent requirement would be those triggered by changes to laws and regulations but which do not affect plan benefits.

[22]For example, some plans must conduct nondiscrimination testing—in addition to top-heavy testing—to ensure that the contributions or benefits provided under the plan do not discriminate in favor of highly compensated employees. See 26 U.S.C. § 401(a)(4) and 26 C.F.R. §§ 1.401(a)(4)-1 through 1.401(a)(4)-4. We did not specifically assess duplication between top-heavy and nondiscrimination testing requirements.

Increase tax credits: Some stakeholders believed that tax credits, in general, are effective in encouraging plan sponsorship, but other stakeholders said that the current tax credit for starting a plan is insufficient. A national organization representing small employers cited tax credits as a top factor in an employer's decision to sponsor a plan, adding that an employer's willingness to start a plan depends, to some degree, on the extent to which the tax credit offsets plan-related costs.[23] Similarly, some small employers stated that larger tax credits could ease the financial burden of starting a plan by offsetting plan-related costs. Additionally, one small employer said the incentive needs to be larger as sponsorship costs can amount to $2,000 or more per year.

Stakeholders Said More Education and Outreach Are Needed to Increase Awareness of Plan Options and Requirements

Numerous stakeholders agreed that the federal government could increase education and outreach efforts to inform small employers about plan options and requirements; however, opinions varied on the appropriateness of the federal government's role in these efforts. Officials of a service provider to small employers stated that, because clients are generally not aware of the retirement plan options available to them, the federal government should offer more education and outreach to improve awareness of the types of plans that are available and the rules that apply to each. Several small employers also offered ideas. For example, a small employer said the federal government should focus education and outreach efforts on service providers instead of on small employers. Conversely, some small employers said the federal government should have a limited role or no role in providing education and outreach efforts.

[23]Currently, small employers that sponsor plans may claim an annual tax credit of up to $500 based on plan startup costs for each of the first 3 years of starting a qualified plan. See 26 U.S.C. § 45E. However, any increase in tax incentives would have to be balanced by the loss of revenue to the federal government. Increasing tax credits to subsidize plan-related costs for small employers would generally reduce the amount of federal tax revenue collected. The Administration's Fiscal Year 2013 Budget proposed doubling the tax credit limit for small employers starting a plan to $1,000 per year for a maximum of 4 years. The Administration estimated that this proposal—along with another proposal for automatic IRA tax credits, would reduce revenue by $15 billion over 10 years, starting in 2013.

Other Options to Encourage Plan Sponsorship Would Require Broader Reforms

Domestic pension reform proposals from public policy organizations, as well as practices in other countries, include features such as asset pooling that could reduce the administrative and financial burdens of small employers. For example, one domestic proposal calls for the creation of a federally managed and federally guaranteed national savings plan.[24] Under this proposal, participation in the program would generally be mandatory for workers;[25] both employers and employees would contribute to the plan; and plan funds would be pooled and professionally managed.[26] By pooling funds, plan administration would be simplified and administrative costs and asset management fees would be reduced. In addition, Automatic IRAs—which are individual IRAs instead of employer-sponsored plans—are another proposal that draws from several elements of the current retirement system: payroll-deposit saving, automatic enrollment, and IRAs. Such a proposal would provide employers who do not sponsor any retirement plans with a mechanism that allows their employees to save for retirement.[27] However, as we reported in 2009, such proposals pose trade-offs.[28] For example, although a proposal that mandates participation would increase plan sponsorship and coverage for workers, employers might offset the resulting sponsorship costs by reducing workers' wages and other benefits. Retirement systems in other countries also use asset pooling

[24]T. Ghilarducci, *Guaranteed Retirement Accounts Toward Retirement Income Security*, Economic Policy Institute, Briefing Paper #204 (Nov. 20, 2007).

[25]Under this proposal, workers participating in equivalent or better employer DB plans where contributions are at least 5 percent of earnings and benefits take the form of life annuities would be exempt from participating in the guaranteed retirement accounts program.

[26]Recent legislation introduced in Congress, the Small Businesses Add Value for Employees Act (SAVE Act), would also build on the concept of asset pooling by establishing multiple employer plans for small employers, in which separate small employers would pool their resources to offer a single plan. See H.R. 1534, 112th Cong. (introduced Apr. 14, 2011).

[27]J. M. Iwry and D. C. John, *Pursuing Universal Retirement Security Through Automatic IRAs*, Retirement Security Project, No. 2009-03 (2009). In addition, the Administration's Fiscal Year 2013 Budget also proposed requiring employers in business for at least two years that have more than 10 employees to offer an automatic IRA option. The proposal includes new tax credits for small employers who adopt such arrangements. The Administration estimates that these proposals—including the increased pension startup cost tax credit—would reduce revenue by $15 billion over 10 years, starting in 2013.

[28]GAO, *Private Pensions: Alternative Approaches Could Address Retirement Risks Faced by Workers but Pose Trade-offs*, GAO-09-642 (Washington, D.C.: July 24, 2009).

and other features that help reduce administrative and financial burdens for small employers. For example, as we previously reported, the predominant pension systems in the Netherlands and Switzerland pool plan assets into pension funds for economies of scale and for lower plan fees.[29] The United Kingdom's National Employment Savings Trust (NEST) features low fees for participating employers and employees and default investment strategies for plan participants.

Conclusions and Report Recommendations

With a significant portion of the private-sector workforce not covered by a pension plan at any one time, retirement security remains a critical issue for our nation. Based on the limited data available, we found the rate of plan sponsorship among small employers, a segment of the economy which employs about one third of all private sector workers, was only 14 percent in 2009. Although one would expect that the high churn rate of small business formation and dissolution would impede small employer plan sponsorship, it also means that many millions of workers in this sector are without access to an employer-sponsored retirement savings plan. Thus, while remaining sensitive to the financial challenges currently facing our nation, expanding coverage among small employers should be an important consideration of national strategies seeking to strengthen the pension component of retirement income security.

Our discussions with small employers and other stakeholders identified a variety of challenges small employers face in sponsoring retirement plans. One initial problem is the inability of small employers to easily obtain useful information on how to establish and maintain plans. Although Labor and IRS already provide small employers with considerable online information about retirement plans, information is scattered across multiple federal websites and portals in a largely uncoordinated fashion, making it difficult for busy employers to navigate and locate what they need. However, even if federal information about retirement plans were more accessible to small employers, our interviews with small employers identified a number of other significant challenges to plan sponsorship, including plan administration requirements that are perceived to be unduly complicated and burdensome, not having sufficient financial and personnel resources to sponsor a plan, and insufficient incentives to create and maintain a plan.

[29] GAO-09-642.

These challenges, while very real, are also complex and in many instances may not lend themselves to easy answers. Because the expertise to address these issues is spread across multiple agencies and departments that may not always communicate or work together effectively on these issues, there is the potential that inertia and other competing priorities will push these issues onto the back burner.

The report we are issuing today recommends the creation of a multiagency task force, to be overseen by the Department of Labor, that would explore and analyze these challenges in greater detail, including ways to make information more accessible, to streamline reporting and disclosure requirements in a thoughtful manner, and to identify the appropriateness and effectiveness of existing and proposed tax incentives and plan designs to boost sponsorship among small employers. Such a task force could help jump-start sustained action on what we consider to be an essential element of our nation's retirement security challenge and initiate a national dialogue on the critical issues of pension coverage

Finally, federal agencies' ability to address the challenges to small employer plan sponsorship depends in part on the availability of relevant, timely, and complete data. During our work in estimating the extent of small employer plan sponsorship, we found that complete data on small employer plan sponsorship did not exist because IRS did not have the means to collect information on employers that sponsor SEP IRA plans. Although there are about 1.5 million SEP IRAs, many of these may be sponsored by larger businesses, and we simply do not know the distribution of these plans across all employers. Without a complete picture of small employer plan sponsorship rates, agencies may find it difficult to effectively target their research and outreach efforts. Thus, in our report we also recommend that the Secretary of the Treasury direct the Commissioner of the Internal Revenue Service to consider modifying existing tax forms, such as Forms W-2 or 5498, to gather complete and reliable information about these plan types. Although the challenges that small employers face in sponsoring plans are significant, they can be addressed and with appropriate federal action and cooperation, as well as assistance from the service provider community.

While the Department of Treasury, IRS, Labor, SBA, and the Department of Commerce generally agreed with our findings and conclusions, Labor disagreed with our recommendation to create a single web portal for federal guidance on retirement plans for small employers. Because federal resources are scattered across different sites, we believe consolidating plan information onto one web portal can benefit small employers. A complete discussion of our recommendations, Labor's comments, and our response are provided in our full report.

Chairman Kohl and Ranking Member Corker, and Members of the Committee, this concludes my prepared remarks. I am happy to answer any questions that you or other members of the committee may have.

For further questions on this testimony, please contact me at (202) 512-7215. Individuals making key contributions to this testimony include Edward Bodine, Kun-Fang Lee, David Lehrer, and David Reed.