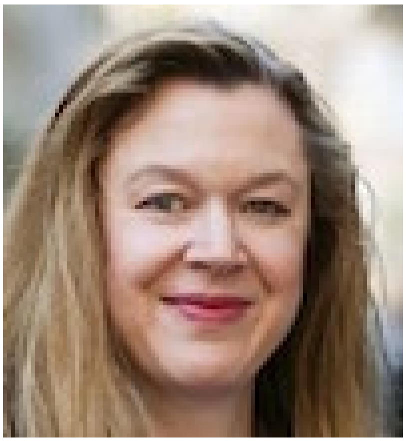
Will Small Employers Adopt Multiple Employer Plans?

By Lori Lucas *Fri, Sep 21, 2018*

The CEO of the Employee Benefit Research Institute considers the potential impact of President Trump's executive order in support of multiple employer plans, or 'open MEPs,' for small businesses. 'The data are mixed,' she writes.



President Trump's August 31 Executive Order (EO) on Strengthening Retirement Security in America could be a game changer for the retirement prospects of workers at small businesses. According to the Bureau of Labor, while 89% of workers of larger employers (500 or more employees) have access to retirement plans, for workers at smaller employers (less than 100 employees) that proportion drops to 53%[1]. This clearly contributes to the $4.13 trillion aggregate retirement savings shortfall that EBRI estimates American workers face, according to its Retirement Security Projection Model.

First, some background: Why do small employers refrain from offering retirement plans? Cost is a key factor. A Pew Charitable Trusts survey found that the top reason small business owners give for not offering a retirement plan is cost (followed by resources).[2] More widely available multiple employer plans (MEPs) could alleviate cost burdens by allowing small employers to band together and gain economies of scale.

Trump's EO calls for expanding access to multiple employer plans by addressing issues that have prevented widespread adoption of such plans. Namely, the EO instructs the Secretary of Labor to consider new rules around when a group or association of employers qualify for a MEP (the "common nexus" requirement). It asks the Secretary of the Treasury to consider amending regulations to address consequences if employers within MEPs fail to meet plan requirements (the "one bad apple" rule).

Whether both the common nexus and one bad apple rules can be properly addressed is the subject of a different blog. Further, we'll let others assess whether the hoped-for economies of scale will actually materialize. But assuming the answer to all of the above is "yes," a further question is: Will small employers adopt more widely available MEPs?

The data are mixed. In one provider survey, 33% of small employers (5–99 employees) indicated that they would be likely to consider a MEP if easily accessible. Meanwhile, the Transamerica Center for Retirement Studies finds that among companies that say they are not likely to offer a 401(k) plan — many of which cite not being big enough — a quarter would consider joining such a MEP.[3] However, 23% were "somewhat likely" to do so — only 2% said they were "very likely." The Transamerica study also points out that less than a third of employers view an employee-funded retirement plan as very important in attracting and retaining employees.

At the same time, among small companies that do not offer a 401(k) or similar plan, Pew found that about a quarter were likely to begin sponsoring a plan in the next two years — and this was before the EO. It is possible that a MEP gives such plan sponsors an easier pathway to offering benefits, allowing them to more easily change their intentions into action. And indeed, nearly half of those in the study said that availability of a plan with reduced administrative requirements would increase the likelihood of their organization offering a retirement plan in the future.

Assuming that a third of small employers that do not currently offer DC plans adopt MEPs going forward, preliminary estimates from EBRI's Retirement Security Projection Model indicate that the $4.13 trillion aggregate retirement savings shortfall would be reduced by $65 billion.

But this assumes 100% participation among eligible employees, and that small businesses joining MEPs will implement plans that look similar to existing plans of companies of their size. The majority of small employers, according to the Pew survey, do not offer automatic enrollment or automatic contribution escalation, although many offer employer contributions.

If cost is truly the reason small employers don't currently offer such plans, it is possible that fewer employers that participate in MEPs will offer employer contributions than average. Without automatic enrollment and automatic contribution escalation, participation in such plans may be low.

Importantly, in the Transamerica survey, 88% of workers believed that the value of a 401(k) or similar plan is an important benefit, and 81% agreed that retirement benefits offered by a prospective employer were a major factor in the final decision to accept a job.

Other possible proposals and alternatives to increase coverage exist:

- President Obama's proposed Automatic IRA program: estimated to reduce the retirement savings shortfall by $268 billion[4].
- The Automatic Retirement Plan Act (ARPA) of 2017: estimated to decrease the deficit

by $645 billion[5].

- Universal DC plans: estimated retirement savings shortfall would decline by $802 billion[6].

[1]March 2017
[2]*Small-Business Views on Retirement Savings Plans: Topline Results of Employer Survey*. 2016 Pew Charitable Trusts report.
[3]*Striking Similarities and Disconcerting Disconnects: Employers, Workers, and Retirement Security*. 18th Annual Transamerica Survey, August 2018.
[4]Under the Obama proposal, the model assumes a 3% default contribution rate and no opt-outs. It further assumes that there were no employer contributions and that no current defined-contribution-plan sponsors decided to discontinue their current plan and shift to the auto-IRA.
[5]ARPA assumes triennial automatic enrollment with a default contribution rate of 6 percent, and auto contribution escalation at 1 percent per year [up to 10 percent]. Assumes no opt-outs for this calcuation.
[6]This analysis assumes that all employers offer a type of plan and a set of generosity parameters similar to employers in their size range. Assumes observed contributions and opt-outs.