THE SMALL BUSINESS RETIREMENT SAVINGS CHALLENGE

New research reveals striking opportunities to increase retirement plan coverage among small employers. This research very powerfully demonstrates the importance of small, reasonable tax incentives in motivating small businesses to adopt and enhance retirement plans.
Today, we are unfortunately in the midst of a retirement savings challenge—indeed, Americans have fallen out of the habit of saving. Inadequate access to financial education and savings opportunities continue to exacerbate this challenge, especially for small businesses, which continue to face obstacles in sponsoring a retirement plan for their employees. We at LPL Financial believe that by working together with policymakers and employers, we can help ensure that everyone has greater access to retirement security.

The following study is a collaborative effort between our government relations, retirement, and research teams, and the results show that well-targeted tax incentives will help provide Americans with the tools they need to increase their retirement savings. We fully support legislation that will help small businesses offer savings plans to their employees, and believe the time to act is now.

We encourage you to join us in the effort to provide hardworking Americans a strong, financially-independent future.

Sincerely,

Dan Arnold
CEO, LPL Financial
The fact that there is a brewing retirement savings challenge in the United States is well known. The challenge must be evaluated in the context of the switch from defined benefit plans, which pay a pre-defined amount of money upon retirement, to defined contribution plans (such as 401(k) plans), which depend on workers to make the choice and tradeoffs involved in saving for their own retirement. These changes have led to less certain retirements for many Americans. In fact, research has found that 52% of households are at risk of not being able to meet their current standard of living in retirement.1

Although this number is striking, behavioral research also provides encouraging news; there are ways companies can help their workers save more money. Namely:

1. Offer a retirement plan;
2. Automatically enroll employees in the retirement plan;
3. Automatically select investments; and
4. Automatically increase the amount of employee contributions each year.

Employees of businesses that have followed these steps have shown a marked increase in the amount of money saved.2

SMALL BUSINESSES ARE AT A DISADVANTAGE

It is encouraging that companies can help workers save more by offering a retirement plan. A recent study showed that 87% of companies with 100 or more employees do have such a plan available. However, the story is different for small businesses. The same study showed that only 52% of companies with 100 or fewer employees offered a retirement plan of any kind. Though the participation rate moved higher as the number of employees rose, a significant gap still existed even for employers with 50–99 employees (with just 67% offering a plan).3

Given that small businesses are responsible for approximately 48% of private sector employment (according to 2014 census data) and were responsible for more than 60% of net new jobs created since the financial crisis (according to the Small Business Administration), the lack of availability of retirement plans for small business employees is impactful and is likely to be felt in the future.

WHY ARE SMALL BUSINESSES LESS LIKELY TO OFFER RETIREMENT PLANS?

LPL Financial surveyed more than 700 small business owners (defined as those with 25–99 employees) in February 2017 about their retirement plan offerings or lack thereof. Consistent with the research mentioned above, 68% of the owners in our survey reported offering a plan. Of the remaining 32% that did not, cost (cited by 39%) and complexity (cited by 19%) were the common barriers to offering a plan. Approximately 25% also stated that employees weren’t interested.
Current law provides a non-refundable tax credit of up to $500 over the course of three years for small businesses that start a plan, but our survey showed that many small business owners feel that the tax benefits are not a strong enough incentive to overcome the hurdles of cost and complexity. Although there is no magic number that will ensure every small business owner will implement a plan, our data did show that an increase in the tax credit would likely have a large impact on holdouts. Our survey 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 current tax credit for starting a plan were increased to $5,000 (as under several bipartisan legislative proposals) and adjusted to cover all initial costs.

**Reasons Employers Don’t Auto Enroll Staff in 401(k) Plans**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Too Expensive</td>
<td>45%</td>
</tr>
<tr>
<td>Employees Would Be Upset</td>
<td>35%</td>
</tr>
<tr>
<td>Sounds Risky &amp; Complicated</td>
<td>15%</td>
</tr>
<tr>
<td>Didn’t Know It Was an Option</td>
<td>5%</td>
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</tbody>
</table>

*Source: LPL Small Business Retirement Plan Survey, February 2017*

**AUTOMATIC ENROLLMENT**

Automatic enrollment is one way companies can get their employees to save more, but our survey found that only 53% of small business owners that have a retirement plan actually do so. Of those that didn’t automatically enroll employees, the top reason (cited by 41%) was that it is too expensive. If employers automatically enroll employees, they would have to pay more in matching contributions. A second factor (cited by 35%) was concern that employees would be upset. The remaining 24% cited that it sounded too complicated or they didn’t know they could automatically enroll employees.
We also asked if changes to tax policy could impact a small business’ willingness to automatically enroll their employees, and the results were encouraging. A majority of those who don’t currently automatically enroll their employees would be either much more or somewhat more likely to do so if a tax credit was offered. Under the survey, 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 bipartisan legislative proposals).

**Impact of Offering Tax Credit for Automatic Enrollment**

![Impact of Offering Tax Credit for Automatic Enrollment](image)

Source: LPL Small Business Retirement Plan Survey, February 2017

**CONCLUSION**

Our survey found that small businesses are less likely to offer retirement plans, consistent with findings from similar surveys. Importantly, we also found that improving tax incentives—for either starting a plan or automatically enrolling employees in one—may be a useful mechanism for helping employees of small businesses save more for retirement. Given the large footprint of small business on the American economy, a relatively small outlay for improved tax incentives could go a long way toward improving the retirement security of a large number of Americans.
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