



On the cusp: What's holding small business owners back from offering retirement savings plans?

Small business is big for jobs

62.7%

The percent of net new jobs created by small businesses in the U.S. from 1995 to 2021.*

There is no doubt that small businesses are the backbone of America's economy. They account for 99.9% of U.S. businesses and employ nearly half of private sector employees.* Yet 65% of small business owners still don't offer their employees a retirement plan. Many business owners may also be unaware of their employees' desire to have a retirement plan to help them prepare for a secure financial future. Nearly 75% of owners we surveyed, who don't currently offer a plan, indicated an intention to do so within the next two years, but only 13% of them said that was likely to happen in the next six months, suggesting they may be putting it off.

The SECURE 2.0 Act marked a significant stride towards enabling more small business owners and employees to pursue retirement stability. How can financial professionals and retirement plan recordkeepers help them take the next critical step?

To better understand their motivations and challenges, Capital Group, home of American Funds, partnered with Escalent, a data analytics and advisory firm, to survey 615 small business owners and employees from May 17 to June 16, 2023.

Personal retirement income

Anticipated sources of retirement income for small business owners who don't offer a retirement plan:

51%

Savings

48%

Investments

42%

Social Security

What motivates small business owners?

Presumably all small business owners prioritize growing their business and will need to attract and retain quality employees in today's competitive market. And while over two-thirds of owners said the main reason they offer a retirement plan is to help employees save for the future, less than half of owners who offer a plan say they do so to help retain current employees and attract new talent.

Owners were asked: What are the main reasons you offer a retirement plan?

Helping employees save for the future	69%
Retaining current employees	47%
Attracting top talent	40%

* Source: Frequently asked questions – March 2023, U.S. Small Business Administration, Office of Advocacy.

31%

Small business owners who are highly likely to offer a retirement plan in the next two years

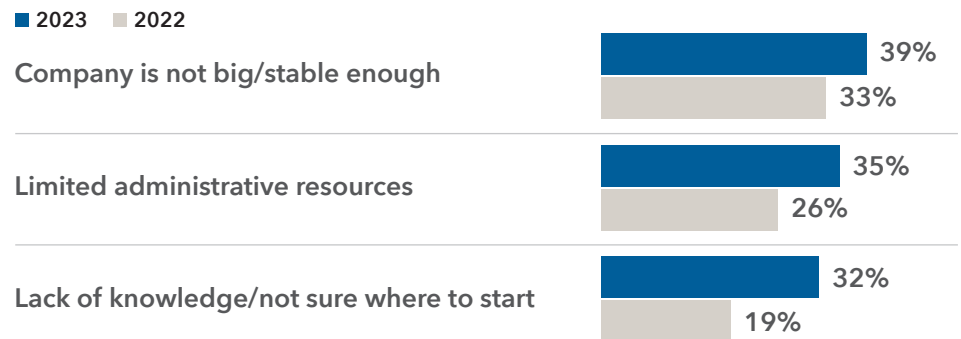
+7%

The uptick after passage of SECURE 2.0 Act

Some barriers persist when considering a retirement plan

Despite a 7% uptick in interest in offering a plan post SECURE 2.0, some small business owners expressed continued hesitation due to misperceptions around size requirements or perceived lack of stability of their businesses. Nearly 40% of owners believe their company isn't big enough, or stable enough, for a retirement plan. Thirty-five percent said limited administrative resources are holding them back, and 32% were unsure where to start – a significant increase over the past year, and despite the broad awareness of new incentives.

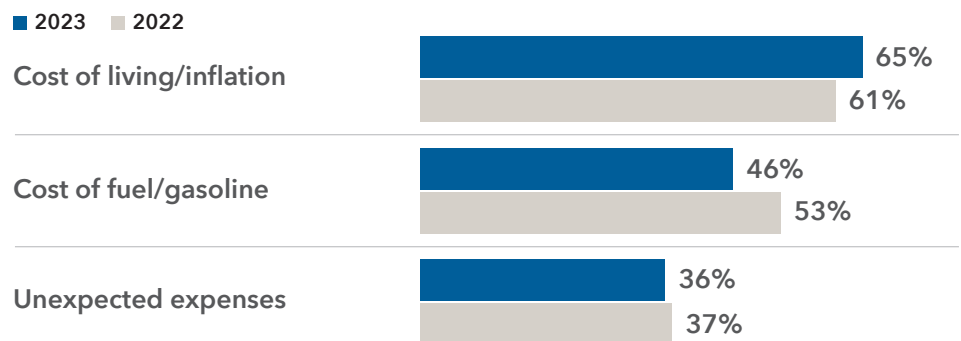
Reasons for not offering a retirement plan



Some business owners are unaware of the impacts of rising costs on their employees

While there's increased awareness overall among small business owners, many employers still don't seem to realize the extent to which their employees are feeling the affects of the increased cost of living and inflation over the last two years. Interestingly, employees *with access to a retirement plan* were 10% less likely to feel the impact. Meanwhile, owners who offer a retirement plan were more than twice as likely than owners who don't offer a plan to recognize cost of living and inflation as the primary factors impacting employees' finances.

Factors impacting employees' finances over a 3-6 month period



Most small business owners believe the SECURE 2.0 Act will benefit workplace plans

Small business owners with more than 50 employees were much more familiar with the SECURE 2.0 Act than those with fewer than 50 employees. Four out of five owners who offer a plan believe the legislation will benefit their current workplace plan for employees. This was especially true for Gen Z/Millennial small business owners (88%) compared to older business owners (77%).

The survey revealed both owners (38%) and employees (45%) were most interested in learning about penalty-free withdrawals for emergency expenses. Owners were significantly *more interested* than employees (36% vs. 18%) in learning about expanded eligibility for long-term, part-time employees.

SECURE 2.0 provisions owners and employees are most interested in learning about

	Total	Owners	Employees
Penalty-free withdrawals for certain emergency expenses	42%	38%	45%
Lower-income employees will be eligible to receive a federal matching contribution	31%	36%	27%
Expanded eligibility for long-term, part-time employees	28%	36%	18%

To learn more about SECURE 2.0, half of owners and employees stated that online research is their top source, followed by a financial professional or planner, and social media.

Sources most likely used to learn about the SECURE 2.0 Act

	Total	Owners	Employees
My own online research	52%	50%	54%
Financial advisor or financial planner	37%	32%	42%
Social media	21%	30%	9%

When it comes to learning about SECURE 2.0, owners and employees are generally unsure what types of resources will be most helpful. Owners who offer a plan want an easy way to understand the legislation, including detailed information from their financial professional. Employees who have a retirement plan would most prefer in-person communication from their employer.

Familiarity with SECURE 2.0 Act legislation

57% Owners

versus

9% Employees

Small business owners are far more familiar with SECURE 2.0 legislation than their employees.

Key takeaways

Starting a retirement plan – or taking one to the next level – doesn't need to be difficult. Four takeaways for small business owners to consider:

- **Determine what motivates you.** Whether you want to help your employees save for the future, attract and retain talent or save for your own future, a workplace retirement plan may be a good investment for your business.
- **Overcome barriers.** You may think your business isn't big enough or you don't have enough resources to administer a plan; however, with a range of options, there's sure to be a solution that meets your needs.
- **Don't do it alone.** A financial professional can help you evaluate your retirement plan needs and choose a solution that makes sense for you and your business.
- **Take advantage of new incentives.** SECURE 2.0 Act created a substantial new startup plan tax credit based on contributions the employer makes on behalf of participants and expanded the existing startup tax credit on employer out-of-pocket plan costs. It also introduced other incentives aimed at helping small business owners and employees save for the future. A third-party administrator or your financial professional can help you get started and maximize these benefits.

How the survey was conducted

Capital Group partnered with market research firm Escalent to survey 615 small business owners and employees from May 17 to June 16, 2023, and 621 small business owners and employees from September 9 to December 5, 2022. The surveys included a mix of small business owners and employees age 21 and up that offer/participate in a workplace retirement plan and owners and employees that don't offer/participate in a workplace retirement plan.



SCAN TO READ

SECURE 2.0 Act of 2022:
A boost to retirement savings

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