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Small business retirement plans: A primer

Introduction

At any moment in time, only half of U.S. private-sector workers are participating in an employer-sponsored retirement plan, mainly due to lack of coverage. As a result, roughly one-third of households end up completely reliant on Social Security at retirement, while others move in and out of coverage throughout their careers and end up with only modest 401(k) balances. The lack of consistent coverage is driven by small employers. Only about half of small employers (those with fewer than 100 employees) offer a retirement plan compared to over 90% of large employers.

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This brief reviews what we know about small business plans, drawing primarily on recent work from the Center for Retirement Research (CRR), supplemented by evidence from industry, policy, and other academic sources.

The discussion proceeds as follows: The first section explores why small employers are less likely to offer a retirement plan than their larger counterparts. Yet, since about half of small businesses do offer a retirement plan, the second section explores the characteristics of small businesses with a plan. It also gauges the potential of those who provide services to small businesses—such as accountants, lawyers, and bankers—to further promote the adoption of retirement plans. The third section assesses whether various government initiatives and fintech innovations have moved the needle on coverage.

The final section concludes that while some small employers face real barriers to offering a retirement plan, many overestimate the financial and administrative burdens associated with plans and don't recognize their usefulness for recruitment and retention. Employers who understand the true costs and benefits of plans and receive practical implementation support are substantially more likely to adopt one. Moreover, recent policy innovations, such as state auto-IRA programs, lower-cost private plans, and an expanded Saver's Match, provide reasons for cautious optimism. In addition, fintech providers are lowering costs for many services while coupling with distribution channels. Still, small employers need a combination of clear information, trusted guidance, and simple pathways to adopt a retirement plan.

Why are small businesses less likely to offer retirement plans?

Small businesses (those with fewer than 100 employees) account for the vast majority of all firms and about a third of all workers (see Table 1). Therefore, the extent to which these firms enable their employees to save for retirement is a major issue.

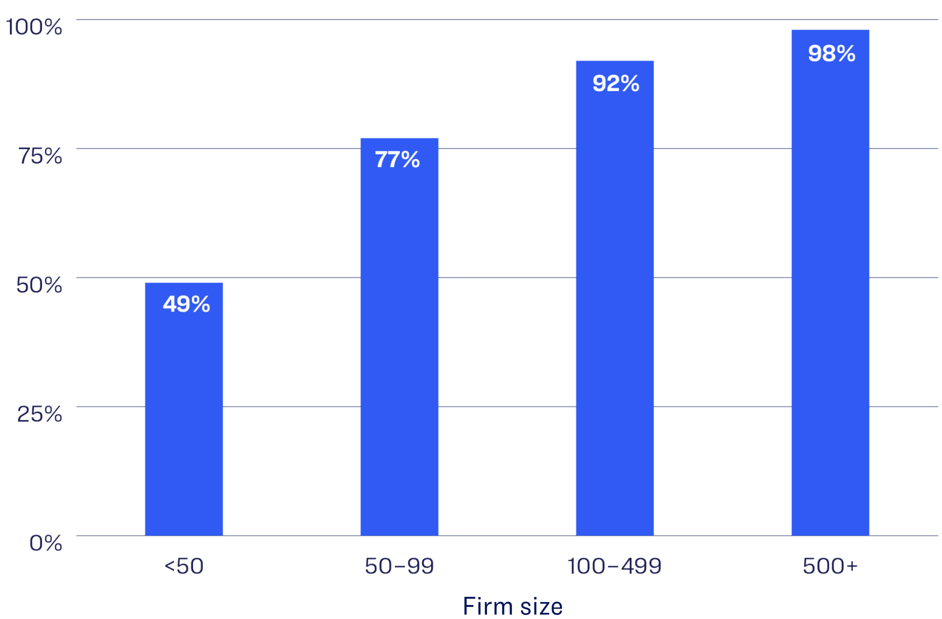
TABLE 1. PERCENTAGE OF FIRMS AND OF PRIVATE SECTOR WORKERS BY FIRM SIZE, 2024

	Firm size			
	1–99	100–499	500–999	1,000+
Firms	97.5%	2.0%	0.32%	0.2%
Workers	34.1	16.6	6.9	42.63

Source: U.S. Bureau of Labor Statistics, *Business Employment Dynamics* (2025).

Not surprisingly, retirement plan coverage in the United States is closely related to size. Large firms generally have dedicated human resources departments, stable revenue streams, and sufficient scale to spread administrative costs. Small firms often do not. Among the largest firms, 98% offer plans compared to only 49% of the smallest firms (see Figure 1).

FIGURE 1. PERCENTAGE OF PRIVATE SECTOR FIRMS OFFERING A RETIREMENT PLAN BY FIRM SIZE, 2024

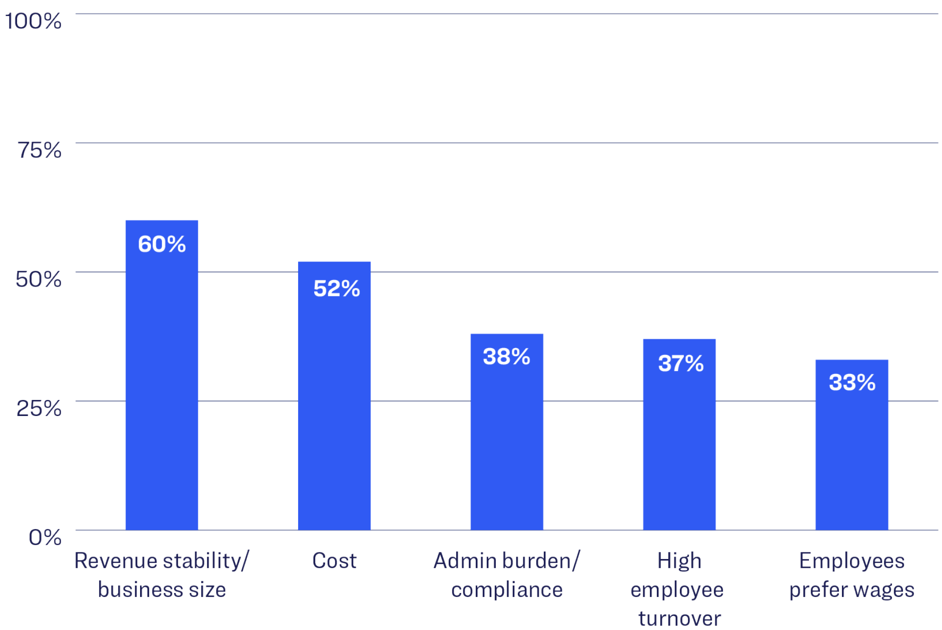


Source: U.S. Department of Labor, *National Compensation Survey* (NCS) (2024).

What barriers prevent small businesses from offering retirement plans?

A 2023 Small Employer Retirement Survey, sponsored jointly by the CRR, the Employee Benefit Retirement Institute, and Greenwald Research, identifies three consistent barriers reported by small employers that don't offer plans: 1) concern about firm size and stability; 2) perceived costs and complexity of retirement plans; and 3) employee preferences (see Figure 2).

FIGURE 2. MAJOR REASONS FOR NOT PLANNING TO OFFER A RETIREMENT PLAN, 2023

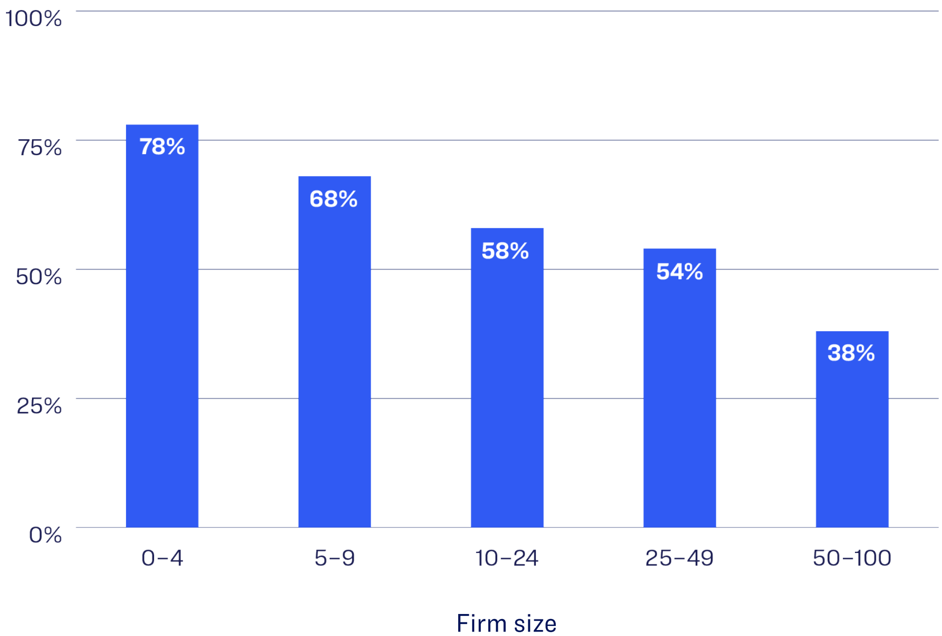


Source: Chen (2023).

Firm size and stability

Many small businesses operate with narrow margins and volatile revenues, especially when they're new. Owners often view retirement benefits as a long-term commitment that may be difficult to sustain during periods of weak cash flow. Survey responses indicate many employers believe their businesses are simply "not large enough" or "not established enough" to support a retirement plan. They tend to view retirement plans as discretionary, while payroll, rent, insurance, and inventory costs are immediate and unavoidable. These concerns about financial stability are especially common among firms with fewer than 25 employees (see Figure 3).

FIGURE 3. PERCENTAGE OF FIRMS THAT CITED REVENUE/SIZE AS A MAJOR REASON FOR NOT OFFERING A RETIREMENT PLAN BY FIRM SIZE, 2023



Source: Chen (2023).

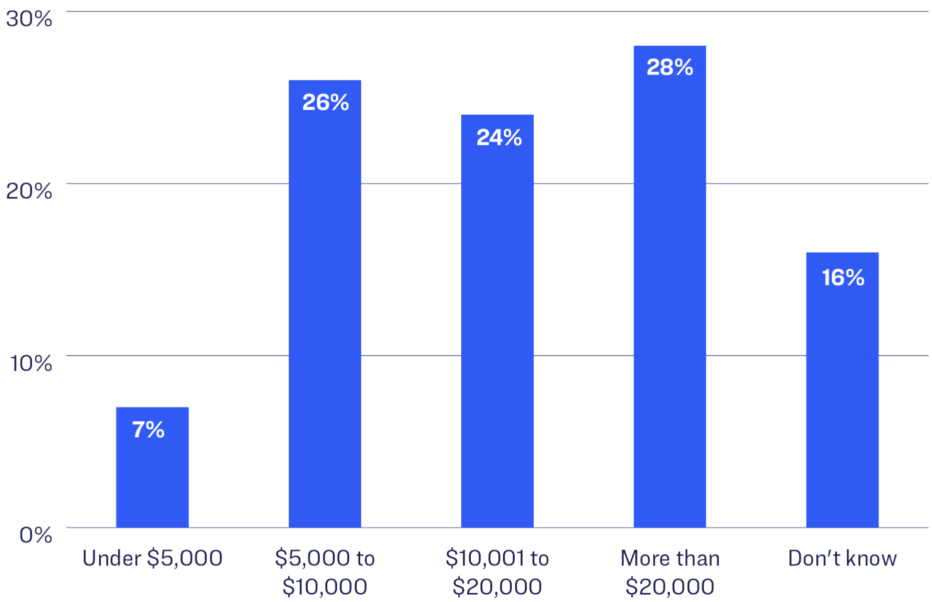
Costs and complexity

While the smallest firms may simply have too much on their plate to add another benefit, more established firms cite costs and administrative burden as the major barrier. Interestingly, many of these firms don't have a good idea of how much expense or time is actually involved in providing a plan. Several 401(k) providers offer options with annual employer costs of less than $2,000 for a firm with five employees, and less than $3,000 for a firm with 25 employees.[1] But, over half of small firms in the 2023 survey believe providing a retirement plan would cost more than $10,000 per year, and nearly 30% think it would cost more than $20,000 per year (see Figure 4).[2]

1 For example, a Guideline 401(k) can be as low as $708/year for five employees and $1,668/year for 25 employees. Similarly, Human Capital offers 401(k)s for $1,740/year and $2,940/year, respectively. One reason for the perceptions of high costs may be that the small employers mistakenly assume they have to provide safe-harbor plans, which require them to provide a matching contribution that's immediately fully vested. However, common small employer retirement plans—such as starter 401(k)s, SEP or SIMPLE IRAs, and even PEPs—are not safe-harbor plans. See Chen (2026) for more details.

2 A 2025 Capital Group survey also found that perceived costs, beliefs that the business is too small, and lack of administrative resources are the top reasons small businesses don't offer a retirement plan.

FIGURE 4. PERCEIVED ANNUAL COSTS OF OFFERING A RETIREMENT PLAN, 2023



Source: Chen (2023).

Not only do small firms overestimate the cost of offering a plan, but the vast majority—particularly those with fewer than 50 workers—are not aware that they can claim a tax credit of up to $5,000 for three years to help offset the costs of starting a plan. Interestingly, about 80% of employers say that such a credit would make offering a plan more attractive (see Table 2).

TABLE 2. AWARENESS OF RETIREMENT PLAN TAX CREDIT AND IMPACT ON ATTRACTIVENESS OF OFFERING A PLAN, BY FIRM SIZE

Number of employees	0–4	5–9	10–24	25–49	50–100	Total
Aware of tax credit	16%	15%	20%	23%	50%	24%
Views a credit as attractive	76	80	82	74	77	78

Source: Chen (2023).

Additionally, small firms don't have a good sense of how much time it would take to administer a retirement plan. Most firms believe it would take several days to a whole week every month. But in reality, after the initial setup, operating a retirement plan should only take a few hours a year.[3] Overall, small businesses overestimate the burden in terms of cost and complexity of introducing a retirement plan.

Employee preferences and workforce characteristics

Small employers frequently report that workers prefer higher wages to retirement benefits. This perception reflects both workforce demographics and employer assumptions.[4]

Many small firms employ lower-wage, younger, part-time, or seasonal workers. Such employees may prioritize immediate consumption needs over long-term retirement savings. Participation rates in voluntary plans also tend to be lower among workers with limited earnings, reinforcing employer concerns that a plan would not be valued.[5]

3 Drobleyn (2023).

4 For more on retirement plan coverage and worker demographics, see Chen and Munnell (2022).

5 Vanguard (2025).

Industries with lower rates of plan sponsorship—such as hospitality, retail, construction, and personal services—often rely on seasonal workers, have higher turnover, and have less stable employment relationships. In these environments, employers may view retirement benefits as a less necessary tool for recruitment and retention.

At the same time, employer perceptions may not fully capture employee preferences. Research consistently shows that workers are far more likely to save for retirement if they are automatically enrolled in a plan. Defaults and inertia play powerful roles in retirement saving behavior. Thus, even if workers initially prioritize wages, many ultimately participate once a plan is established.

Why do some small businesses offer retirement plans?

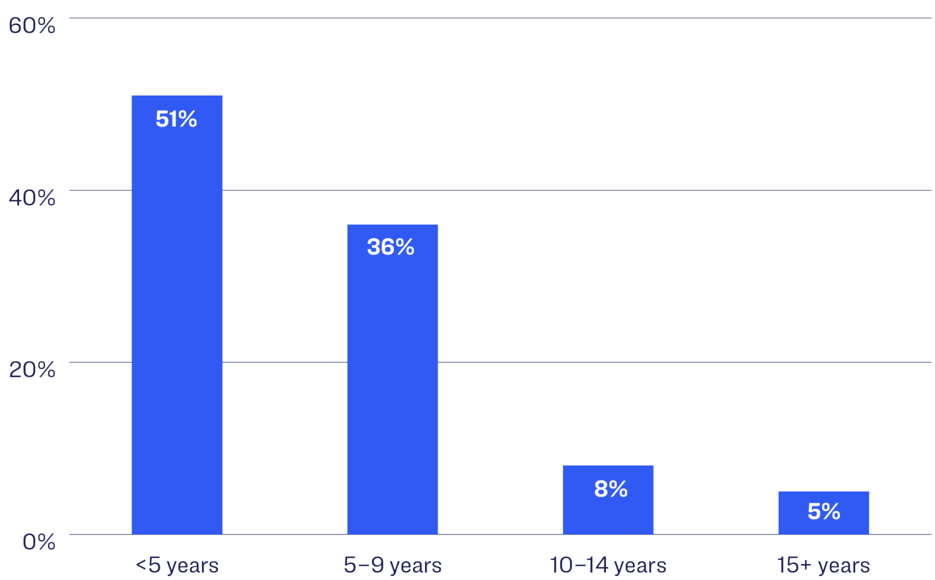
Despite the challenges, both real and perceived, about half of small employers sponsor a retirement plan. Understanding why these firms offer coverage may reveal pathways for expanding access. A regression analysis of the 2023 survey both confirms some of the patterns already discussed and reveals the importance of the owners' perceptions about the role of retirement plans in recruitment and retention.

Firm characteristics

Salary levels are one of the most predictive indicators: Firms where the average employee makes more than $30,000 are much more likely to offer a plan. For firms that aren't currently offering a plan, if average employee salaries are more than $100,000, they're much more likely to report an intention to start one in the next two years. Echoing that pattern, firms providing professional, technical, and scientific services are more likely to offer a plan, while those in retail, hospitality, and food services are significantly less likely to do so, reflecting the average salary of workers in those industries.

As already noted, firms with 50–99 employees are also more likely to offer a retirement plan than those with fewer employees. Firms offering plans also tend to be more mature and financially stable. Among small businesses that offer a plan, only half begin offering it in the first five years of operation. However, by the tenth year in business, this number jumps to 87% (see Figure 5). This pattern is likely because, as firms mature and grow, they're more likely to formalize compensation and benefit structures. A business that initially operates informally may eventually adopt payroll systems, health insurance, and retirement plans as it expands.

FIGURE 5. YEARS SINCE ESTABLISHMENT FOR FIRMS TO BEGIN OFFERING A RETIREMENT PLAN, 2023



Source: Chen (2023).

Beyond the characteristics of the firm and its employees, however, the beliefs of the business owner are also important.

Recruitment and retention

One of the strongest predictors of plan sponsorship is whether employers believe retirement benefits help attract and retain workers. Employers operate in competitive labor markets where benefits matter. Skilled workers often expect a robust benefits package, which includes a retirement plan. Small employers looking to hire skilled workers may need retirement benefits to compete with larger employers. When labor markets are highly competitive, such as after the COVID pandemic, small employers are more likely to offer retirement benefits.

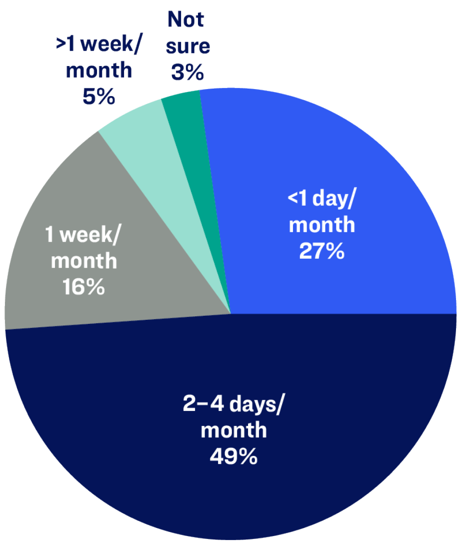
Notably, employer perceptions matter independently of firm characteristics. Two otherwise similar firms may make different decisions depending on whether the owner views retirement benefits as valuable for workforce management. Employers who see retirement plans merely as costs are less likely to adopt them. Employers who view plans as investments in workforce stability are more likely to offer coverage.

Implications for expanding coverage

Employers who have accurate information on the cost of retirement plans and who appreciate the usefulness of plans for recruitment and retention are more likely to consider offering a retirement plan. These findings point toward a potentially important role for education and support.

One source of help could be professional service providers, such as accountants, financial advisors, payroll providers, lawyers, and bankers, whom small businesses often trust and rely on when making financial and operational decisions. These providers could potentially help small business owners overcome barriers to plan adoption.[6] Our 2025 Small Business Provider Survey, however, suggests both an important area for improvement and a formula for success. On the one hand, many professional service providers—particularly bankers and accountants—themselves overestimate the costs and administrative burdens associated with retirement plans. For example, about 20% of service providers believe it would take at least one week per month to administer a retirement plan after initial setup and more than one-third overestimate the costs (see Figures 6 and 7). Thus, service providers may unintentionally deter plan adoption through their own misperceptions of the time and cost burden of offering a plan.

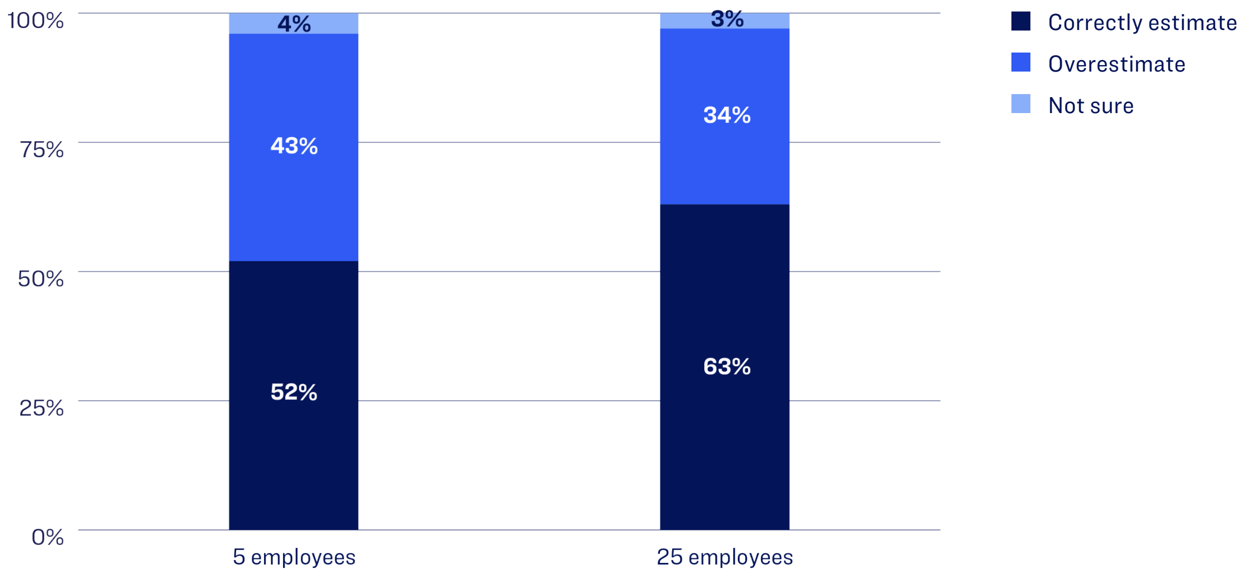
FIGURE 6. SERVICE PROVIDERS' ESTIMATES FOR MONTHLY TIME FOR RETIREMENT PLAN ADMINISTRATION



Source: Chen (2026).

6 Capital Group (2025) found that among small business owners not currently offering a plan, 61% say they would turn to a financial advisor first for guidance.

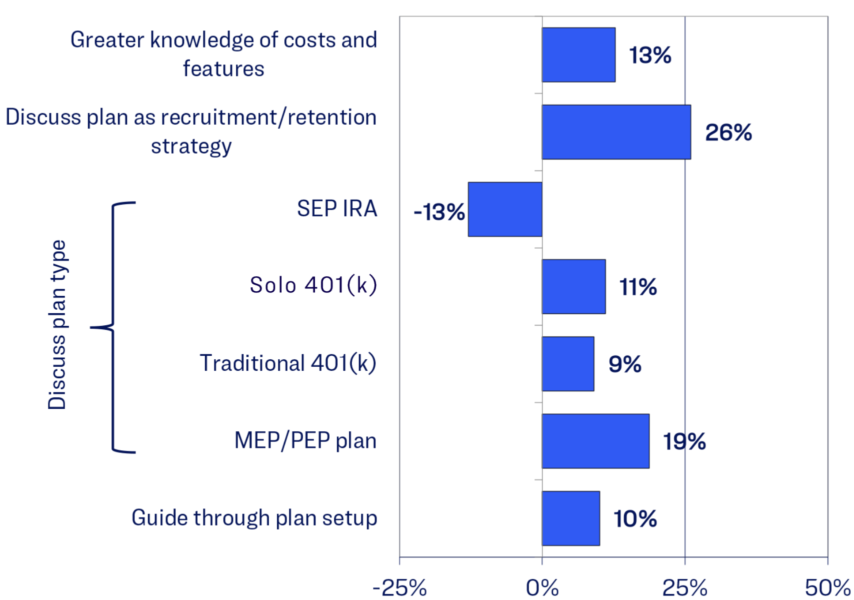
FIGURE 7. SERVICE PROVIDERS' ESTIMATES FOR HOW MUCH IT WOULD COST TO PROVIDE A RETIREMENT PLAN FOR 5 AND 25 EMPLOYEES



Source: Authors' calculations from Chen (2026).

On the other hand, some providers have a high rate of plan sponsorship among their clients. This success can be traced to greater knowledge of the costs and features of retirement plans, a tendency to frame plans as tools for recruitment and retention, an emphasis on recommending some form of the familiar 401(k) plan, and a willingness to provide hands-on support to translate client interest into action (see Figure 8). In short, assistance from service providers can help get small businesses to adopt a retirement plan, but the track record to date is mixed.

FIGURE 8. STRATEGIES THAT INFLUENCE THE SHARE OF SMALL EMPLOYER CLIENTS WITH A RETIREMENT PLAN



Notes: Only statistically significant factors are shown. For full regression results, see the Appendix in Chen (2026). Source: Chen (2026).

Can policy and technology help increase coverage?

For decades, policymakers have tried to solve the coverage problem by introducing simpler retirement programs that could be adopted by small businesses. These options, however, have had limited impact on coverage. The absence of significant federal action led the states to seize the initiative in the last 10 years by establishing state-based mandatory auto-IRA programs for workers whose employers don't offer a retirement plan. In 2019, the federal government resumed its efforts to expand coverage by making Multiple Employer Plans available to more firms in the SECURE 1.0 Act. Through SECURE 2.0, passed in 2022, Congress expanded small business tax credits for plan adoption and introduced the "starter 401(k) plan" to, once again, lower the cost and administrative burden of offering a plan. Finally, technology-driven providers are also attempting to reshape the small-plan market.

Federal plans for small businesses

While the federal government has experimented with several arrangements, the most well-established plans are the SEP and the SIMPLE IRA.

- SEP: The SEP (Simplified Employee Pension), enacted in 1978, allows employers to make tax-deductible contributions to an employee IRA (up to the lesser of 25% of salary or $72,000 per year). Unlike most employer-sponsored plans, employees are not eligible to make their own contributions to SEPs. Employers must make the same percentage contribution for all employees in a given year, but are not required to contribute every year. This plan may be attractive for self-employed workers or for small employers looking for a plan that's easy to administer.
- SIMPLE IRA: The SIMPLE (Savings Incentive Match Plan for Employees) IRA, enacted in 1996, was designed to be a dramatically simplified 401(k)-type plan, holding assets in an IRA for each employee to spare the employer the responsibility of maintaining the assets in trust and overseeing the investment options. It avoids nondiscrimination testing and standards, lengthy plan documents, summary plan descriptions, and annual reporting to the government. The SIMPLE IRA is available only to employers with 100 or fewer employees and the self-employed, and firms can either match the employees' contributions or contribute a fixed percentage of payroll without regard to whether employees contribute.

While the Treasury has also experimented with some other options—such as the Payroll Deduction IRA and the "myRA"—only the SIMPLE IRA has seemed to move the needle, and only to a limited degree. IRS tax statistics show that roughly 2.2 million taxpayers were contributing to SIMPLE IRAs and 3.5 million owned one.[7]

State initiatives

In 2006, researchers at the Brookings Institution and the Heritage Foundation proposed a mandatory program that combined auto-enrollment with payroll-deduction IRAs. Specifically, employers that did not sponsor a plan would be required to auto-enroll their employees in private-sector IRAs invested in a target date fund. Employees would be free to opt out any time (like 401(k) auto-enrollment) or to choose a different contribution rate or investment. Employers would neither be required nor permitted to contribute.[8] While the proposal initially generated a lot of interest and bipartisan support, no auto-IRA legislation has been enacted at the federal level.

Instead, the states have taken the initiative with auto-IRAs. The early adopters were Oregon (2017), California (2018), and Illinois (2019), but as of 2026, 15 states have mandatory auto-IRA programs up and running, and Washington state and Hawaii are setting one up (see Figure 9).[9] At this point, the programs have accumulated more than $3 billion and more than 1.2 million funded accounts.[10] The 1.2 million auto-IRA accounts after nine years compare favorably to the 3 million SIMPLE accounts after 30 years. While the accumulations are still modest, the amounts and accounts are growing every day, and more programs are coming online.[11]

7 Internal Revenue Service, *Statistics of Income* (2023).

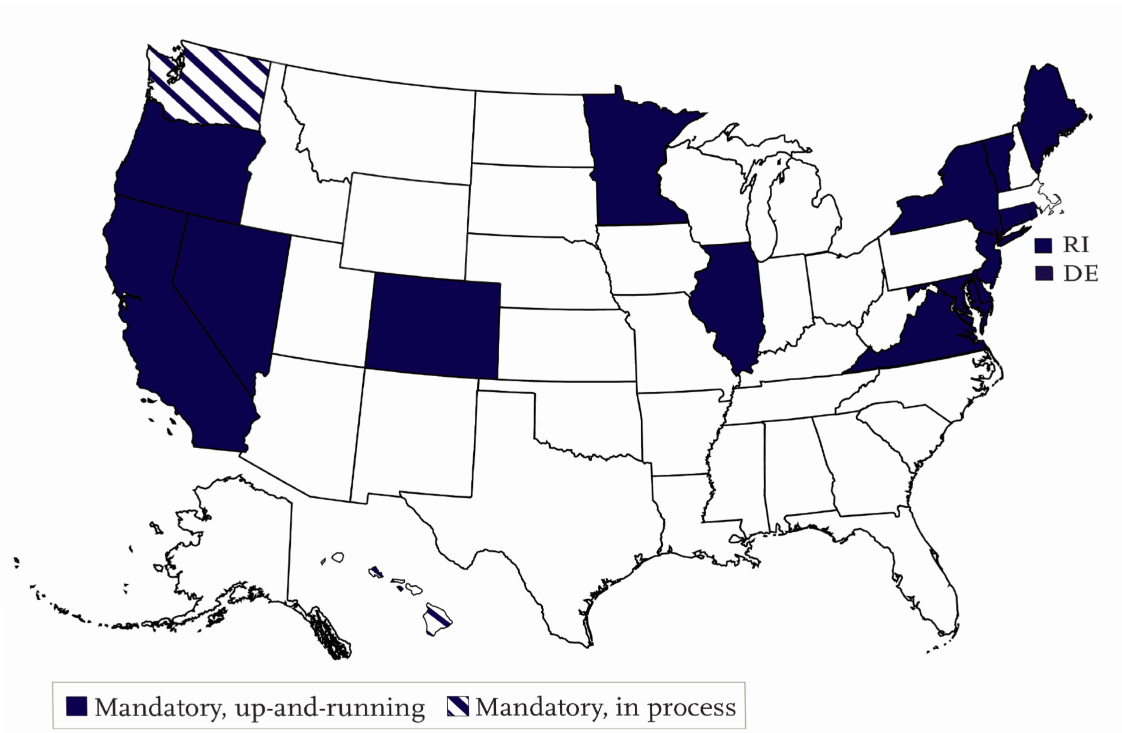
8 Additionally, even though the proposal was expected to involve no out-of-pocket costs for employers, it was accompanied by a tax credit for small employers to defray administrative costs if there were any.

9 For more detail about various state auto-IRA programs, visit Georgetown's Center for Retirement Initiatives at: https://cri.georgetown.edu/states.

10 Data are from Georgetown Center for Research Initiatives (2026).

11 Analysis from John, Rao, and Koenig (2024) shows that access to retirement plans varies dramatically by state—ranging from 31% to 59% of private sector workers. Generally, states that have a larger share of workers in professional jobs, a larger share in medium to large firms, and/or higher incomes are more likely to have higher access rates to retirement plans.

FIGURE 9. STATE INITIATIVES TO ADDRESS THE COVERAGE GAP, AS OF APRIL 2026



Source: Authors' illustration using data from Georgetown Center for Retirement Initiatives (2026).

Moreover, the Saver's Match—a refundable tax credit included in SECURE 2.0 and slated to start in 2027—should make the auto-IRAs more attractive and boost accumulations. Under this program, the federal government will provide eligible taxpayers a 50% match on the first $2,000 of contributions to a retirement account. Eligibility is based on household income.[12] The new program is a big improvement over the existing Saver's Credit, because: 1) the match is refundable instead of only being available to reduce a household's tax liability, and 2) the enabling legislation also includes funds for the Treasury to increase public awareness about the program. This match will not only help the state auto-IRA programs but should provide an additional incentive for small businesses to offer a retirement plan.

One further note: the results of the 2023 Small Business Retirement Survey, described earlier, show state-sponsored programs complement rather than substitute for the establishment of private plans. Among firms that already offer a plan, about 70% say they would continue to offer a plan if their own state offered a mandate. Among firms that did not offer a plan, almost 60% said a mandate would actually make offering their own retirement plan more attractive. Other studies have also concluded that state auto-IRAs complement the private market for retirement plans.[13]

Multiple Employer Plans

Another initiative to help small businesses, this time at the federal level, involves changes made to Multiple Employer Plans (MEPs) in the SECURE 1.0 Act. While MEPs have been around for decades, they represent less than 1% of total private-sector retirement plans, covering roughly 6% of active participants. Two main restrictions of MEPs may have limited their adoption: 1) employers had to share a common bond, and 2) the whole MEP could lose its tax-qualified status if one employer within the group was not in compliance (the "bad apple" rule).[14]

To increase participation, the 2019 legislation removed the bad apple restriction and created a new subclass

12 Single households below $20,500 will qualify for the full match, with the match phasing out at $35,500. For couples, the comparable numbers are $41,000 and $71,000.

13 A recent study, linking Form 5500 data and individual-level Census data, found that auto-IRA mandates increase the probability of firms offering a retirement plan by 3% and the probability that a worker participates in an employer plan by 33% (Bloomfield et al. 2025). A similar study by Guzoto, Hines, and Shelton (2022) also found that state auto-IRAs complement the private market for retirement plans.

14 For more details on MEPs and PEPs, see Chen and Munnell (2024).

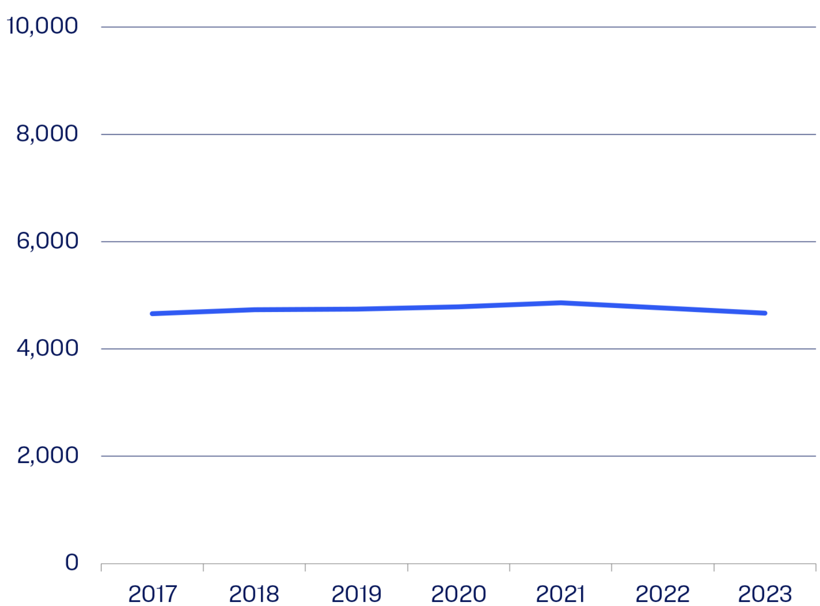
of MEPs, called Pooled Employer Plans (PEPs), which are not limited to employers with a common bond. The removal of the common bond and bad apple restrictions has generated a lot of excitement, particularly among financial services firms. Indeed, PEPs have several potential advantages over the existing options for small employers. PEPs can reduce the administrative burden, the fiduciary responsibility and—perhaps—the cost of offering a plan, while maintaining the ability to select the provider of choice and offer employer matches.[15]

Despite the enthusiasm, the initial uptake has been slow and occurred mainly in the mid-sized employer market that already has a plan, rather than the small employer market that does not have a plan. Several factors could be at play:

- The vast majority of small employers have never heard of MEPs or PEPs.
- It may be hard to beat the cost of providing a single-employer plan, which has declined dramatically.
- The employer retains some fiduciary responsibilities, such as selecting the provider, monitoring the fees, and determining whether the services offered are beneficial.
- An employer that gets bigger and wants to convert to a more customizable single-employer 401(k) may find it difficult to terminate its portion of the PEP.
- PEPs can also make mergers and acquisitions more challenging.

Data so far show limited growth in PEPs (see Figure 10). Research from Cerulli also suggests that the growth in PEPs is in takeover plans that are in the \$1–\$5 million and \$5–\$25 million plan segments, rather than in employers looking to offer a retirement plan for the first time.[16]

FIGURE 10. NUMBER OF MEPS AND PEPS 2017–2023



Source: U.S. Department of Labor (2019-2026).

15 Data on plan fees and who pays for them are extremely opaque. Even if fees are lower for the employer, the employee may still bear the cost of higher fees. See Pew (2017) for a detailed overview.

16 Cerulli (2026).

Potential of fintech solutions

Technology-driven providers are also reshaping the small-plan market by addressing both the cost and complexity of administering plans and the difficulty of reaching small employers. Traditionally, the small-plan market has been difficult to serve because start-up and administrative costs are high relative to account balances and contributions. Small employers often lack dedicated human resources staff, and owners may be reluctant to take on additional paperwork, fiduciary responsibility, or compliance obligations. Fintech firms seek to reduce these barriers through automation, simplified plan design, and lower-cost delivery models through partnerships.

On the operational side, fintech providers now offer cloud-based recordkeeping, integrated payroll systems, automated compliance testing, and streamlined onboarding. Many platforms can establish a retirement plan online within a matter of days and handle enrollment, payroll deductions, employee communications, and required filings with minimal employer involvement. As a result, the ongoing time commitment for employers can be reduced to just a handful of touchpoints a year, helping to reduce the administrative barriers.

Fintech innovation may also reduce and simplify costs. Traditional small-business retirement plans often involve financial advisors, recordkeepers, and third-party administrators charging separate fees. Some fintech providers have consolidated or bundled many of these functions. Bundling these services offers transparent pricing, such as flat monthly fees or low per-employee fees. This structure not only reduces total costs in many cases, but also makes costs more predictable and easier for small employers to understand, addressing another major barrier to adoption.

Importantly, fintech firms also tend to emphasize user experience and employee engagement. Simple enrollment procedures, mobile applications, automated investment management, and easy-to-read dashboards may encourage employee participation and engagement. In this sense, fintech providers may improve not only employer adoption but also employee saving behavior.

While technology has improved the back-end infrastructure (recordkeeping, administration, and compliance), it isn't the only innovation among fintech providers. Many of these platforms are also partnering with front-end distribution entities, such as payroll companies, accounting platforms, and banks, that already serve small businesses. These partners act as the primary interface with employers, while the fintech firm powers the retirement plan in the background.

These arrangements resemble a broader shift toward embedded financial services, where products are delivered within existing business platforms. Traditionally, small employers would need to make a long list of decisions, including the type of plan to offer, plan design, choosing a recordkeeper, and enrolling employees. The partnership between fintech firms and distribution partners eliminates many of these decisions.

Overall, fintech solutions are most promising when they simultaneously reduce administrative and cost barriers and leverage scalable distribution channels. The combination of efficient back-end infrastructure with front-end partners that have deep reach into the small-business ecosystem offers a viable pathway to expand coverage, particularly in the underserved micro and small employer markets.

However, fintech is unlikely to eliminate the coverage gap on its own. These fintech retirement solutions often require employers to first have automatic payroll. And many small employers remain unaware of available products or are uncertain about their responsibilities.

Conclusion

The retirement coverage gap among small-business workers remains one of the central challenges in the U.S. retirement system.

Small employers face real barriers to plan sponsorship, including financial uncertainty and workforce characteristics that may reduce participation. Yet the research also makes clear that many barriers reflect misperceptions and information gaps rather than insurmountable economic realities. More specifically, many small employers overestimate the financial and administrative burdens associated with retirement plans and don't recognize the usefulness of retirement plans for recruitment and retention.

Importantly, about half of small firms already offer retirement plans. These firms tend to be larger, more stable, and more likely to view retirement benefits as tools for managing their workforce. Employers that understand the true costs of plans and receive practical implementation support are substantially more likely to adopt coverage. Trusted intermediaries, such as accountants, payroll providers, financial advisors, and bankers, could be helpful in this endeavor, although the evidence suggests they may need training to be effective.

Recent innovations provide reasons for cautious optimism. State mandatory auto-IRA programs have expanded access for many workers. PEPs seek to reduce scale disadvantages, but may be better for the mid-sized market than for small employers. Fintech providers are lowering barriers to entry for employers and plan sponsors. Still, the evidence suggests that expanding coverage will require more than new products. Employers need clear information, trusted guidance, and simple pathways to adoption.

To that end, more information is needed on several fronts, such as:

- Which information interventions (advisors, payroll firms, state programs) most effectively correct misperceptions?
- How does small-business plan adoption affect firm survival, employment growth, and worker turnover?
- How do actual fees and services in PEPs compare with fintech-enabled single-employer plans?
- Do fintech plans improve participant outcomes (participation, contribution rates, asset allocation), not just employer adoption?

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