Research on Retirement Benefits at Other Private Employers

SAS Institute

SAS has roughly 5,000 U.S. employees, the majority of them in Cary.

SAS offers a defined contribution plan with employer profit sharing contributions.[1]

According to IRS filings, these employer contributions averaged over $11,000 per employee in 2007, compared to average employee contributions of about $7,000. We do not know the average pay at SAS, but this is a high percent of pay at almost any reasonable pay level.

SAS offers on-site retirement planning seminars.

For those who retire at age 55 or older with 15 years of service, SAS provides an account with up to $50,000 for medical expenses in retirement. [2]

Annual turnover has never exceeded 5%.[3]

The company was founded in 1976, so even the founding employees have only 34 years of service.

SAS has a "hire hard" recruitment philosophy. It is hard to get hired, for example "in 1999, SAS had about 20,000 applicants for roughly 200 posted positions."[4]

Pay is average or slightly below average for the software industry. The company believes that people should come and stay for the work itself, not for the money. [5]

IBM Corporation

IBM has over 100,000 US employees. In 2008, it was the 8th largest private employer in North Carolina.

IBM offers a 401(k) plan with employer contributions of 6% to 10% of pay. Until 1999, IBM offered a defined benefit plan for all employees and continued that plan for some employees until 2008. [6]

IBM prides itself on the low fees in its 401(k) and free sessions with financial coaches. The company spends about $10 million a year on the coaching program.

[1] SAS website: http://www.sas.com/jobs/USjobs/benefits.html. This page also lists the other benefits offered.
[2] Plan Sponsor, http://www.plansponsor.com/MagazineArticle.aspx?id=6442455995
[3] Ibid
[4] Wharton Work/Life Roundtable Case Study, http://wfnetwork.bc.edu/pdfs/SASwharton.pdf
[5] Ibid
[6] Businessweek, July 2, 2009, http://www.businessweek.com/magazine/content/09_28/b4139058355275.htm

The company also uses auto-enrollment and auto-escalation of employee contributions. The participation rate in the 401(k) is 94%.

IBM switched from a traditional pension for several reasons. Most of their competitors among IT companies did not offer pensions. IBM wanted more flexibility in attraction and retention incentives, in other words they wanted to encourage some to stay and others to leave based on skills and performance, rather than age and service. In addition, they wanted to reward performance rather than longevity by switching costs from pensions to performance-based pay.[7]

Wal-Mart

Wal-Mart is the largest private employer in North Carolina and employs over one million Americans.

Wal-Mart offers a 401(k) plan with employer profit sharing contributions for all associates (employees) with over one year of service. Based on IRS filings, employer contributions averaged over $1,000 per participant in 2007, compared to employee contributions of less than $500. The one year of service requirement is not unusual in high turnover industries, due to administrative costs of setting up accounts for short-term employees.

Turnover at Wal-Mart is reported to be between 44% and 70% per year[8], so few associates stick around for more than a year or two. Retirement benefits are probably irrelevant to attraction and retention of associates staying less than 5 years.

Turnover is probably much lower among store and regional managers and central office staff. These associates may view the 401(k) plan as an important part of their benefits package.

Most or all employer contributions are made in Wal-Mart stock and Wal-Mart stock represents about 40% of holdings in the 401(k) plan.

Small Business

Small businesses employ just over half of all private sector employees.[9]

Small employers are much less likely to offer retirement benefits than large employers. When they do offer retirement benefits, they are more likely to offer defined contribution plans than defined benefit plans.[10]

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[7] "Impact of Replacing a Defined Benefit Pension with a Defined Contribution Plan or a Cash Balance Plan", Robert Clark and Fred Munzenmaier, *North American Actuarial Journal*, Volume 5, Number 1, p. 50 http://www.soa.org/library/journals/north-american-actuarial-journal/2001/january/naaj0101_3.pdf. Also from news articles around 1999.

[8] http://www.pbs.org/itvs/storewars/stores3.html, http://www.pbs.org/wgbh/pages/frontline/shows/walmart/secrets/stats.html

[9] http://www.sba.gov/advo/stats/sbfaq.pdf

[10] Bureau of Labor Statistics data (http://www.bls.gov/ncs/ebs/sp/ebnr0015.pdf) show only 53% of workers at firms with 1-99 employees have access to retirement benefits while 83% have access at firms with 100+. This report: http://www.bls.gov/news.release/pdf/ecec.pdf shows the contributions to DB vs. DC plans by employer size (table 8).

There are several theories about why small employers are less likely to offer retirement benefits[11]:

- Administrative costs of a plan are somewhat fixed. If those costs can be spread over 1,000s or 100,000s of employees, the per-employee cost is tiny. If they are spread over 10 to 100 employees, they can be prohibitive. The fixed costs of DB plans are generally higher than for DC plans although, again, they are tiny if spread over 1,000s of employees.
- Establishing and running a plan requires decisions and oversight from internal staff, not just external administrators. If a company is small enough to have only one HR person or only a part-time HR person, that person is likely to fill his entire working time with hiring, legal compliance, compensation, and health benefits. As a generalist, he is probably also unfamiliar with the particulars of retirement plans.
- Pay levels are also much lower at small businesses and we know that people's consumption preferences change with income. At low income levels, they may be more concerned about putting food on the table and paying their rent, for which cash is far more useful than retirement benefits.

It is important to keep in mind the life cycle of small businesses. After a small business is created it might follow one of these paths: a) it could fail, b) it could succeed but stay small, c) it could grow into a large business, d) it could be bought by a large business. Because only a few small businesses follow path b, most small businesses have not been in existence very long.[12] This is important for retirement benefits for several reasons:

- It takes time to set up a retirement plan. When establishing a business, your first priorities are developing your business plan, getting funding, finding facilities, hiring your initial staff, and building a customer base. Establishing a retirement plan is usually a low priority and is thus unlikely to happen in the first few years of a company's existence.
- Defined benefit plans are often used by large employers to retain employees with 10 to 20 years of service and encourage employees with 30 to 40 years to retire. If a company has only been in existence for 9 years, then it obviously has no employees with 10 or more years of service.
- Benefit plans are often created in response to complaints from existing or potential employees. It may take several years of complaints to get a voluntary 401(k) plan with no employer contributions. After several more years, management might notice that few employees participate and balances are low, leading them to put in a match. It may take several decades to notice that former employees who are now retired are living on very little income.

Small businesses are still able to attract and retain employees, or they would not be in business. This clearly illustrates that retirement benefits are not the only way to attract and retain employees. Pay, work environment, the nature of the work, and career opportunities are also very important and can more than compensate for a lack of benefits.

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[11] http://www.ebri.org/surveys/sers/index.cfm?fa=sers2003 and http://www.sba.gov/advo/research/rs361tot.pdf

[12] According to the Bureau of Labor Statistics (http://www.bls.gov/opub/mlr/2005/05/ressum.pdf), fewer than half of small businesses survive for 4 years.