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Transamerica Survey Shows Small Business Equals Smaller Retirement Savings for Many U.S. Workers Say Retirement Benefits Crucial, But Many Small Business Employers Still Not Getting the Message

LOS ANGELES, Calif. – December 16, 2004 – When it comes to retirement, where you work may determine how comfortably you retire, according to a 2004 survey released by the Transamerica Center for Retirement Studies. Results from the sixth annual Transamerica Small Business Retirement Survey¹ show that while 92 percent of small business employees view employee-funded retirement plans as an important benefit, 35 percent of small business employers do not provide this type of benefit. This disconnect has resulted in a 30 percent gap in workers' access to plans at small² versus large³ businesses. And while the survey found that participation is on the rise, employees are spending less time monitoring their savings when compared to 2003, perhaps setting themselves up for problems down the road.

“The 50 percent of Americans employed by small businesses continue to be at a disadvantage when it comes to retirement savings,” said Catherine Collinson, retirement and market trends expert for the Transamerica Center for Retirement Studies. “Plans at larger firms tend to be more firmly established, and with a larger infrastructure, these companies have shown greater success encouraging participation and engagement. That’s why it is so important for the retirement industry to continue working to make plans affordable and accessible, regardless of company size.”

¹ Harris Interactive telephone survey conducted for the Transamerica Center for Retirement Studies between August 31 and October 6, 2004 among 601 U.S. business employers who have a role in decisions regarding employee benefits; of these employers 365 work for a small business (10-499 employees) and 236 work for a large business (500 or more employees). Also surveyed were 1,201 U.S. full-time business employees ages 18 and over of whom 666 work for a small business and 535 work for a large business. Employer data were weighted based on employee size distributions reported by Dun & Bradstreet within the 10-499 and 500+ employee ranges. The employee data were weighted by gender, age, education, ethnicity, region, household size and number of telephone lines in the household. Results from the employee sample were weighted to reflect the distributions of employees in U.S. firms of the target sizes. With a sample of this size, one can say with 90 percent certainty that the results for the employer sample have a sampling error of plus or minus 3.4 percentage points and plus or minus 2.4 percentage points for the employee sample. Sampling error for sub-samples of large and small business employers and employees is higher and varies.

² Small businesses defined as those with 10-499 employees.

³ Large businesses defined as those with 500 or more employees.

All plans are not created equal

For the first time, the survey, commissioned by the Center and conducted by Harris Interactive[®], compared retirement savings and attitudes of workers and employers from larger firms to those of smaller firms. The results were stark: in addition to the relatively low availability of employee-funded plans at small businesses, larger firms are also more likely to offer a company match, and tend to review employee retirement benefits more frequently than their counterparts at small businesses.

Larger companies also seem to be more successful at encouraging participation and employee engagement. Workers at larger firms are more likely to participate in their company's 401(k) plan (79 percent versus 72 percent) and contribute at slightly higher levels (8.6 percent versus 8.1 percent) than are their small-business counterparts. They also spend more time monitoring their retirement accounts (nine hours versus five hours per year, on average).

Employers take note – Retirement plans are a critical benefit

More than half (54 percent) of small business workers would choose a job that provides excellent retirement benefits but meets only their minimum salary requirements, versus one that provides an excellent salary but fewer retirement benefits. Of the small business employees who don't have access to a plan, over half are at least somewhat likely (24 percent) or very likely (28 percent) to consider leaving their current company in order to take a nearly identical job for a similar type of company that does offer a retirement plan.

Yet small business employers don't seem to be getting the message. Just 34 percent of employers believed their workers would choose retirement benefits over salary. And while 92 percent of workers rated a 401(k) or similar retirement plan as very important, just 76 percent of employers thought their workers would respond this way.

As in years past, the survey found a disconnect in how workers and employers view the company plan. Workers are less likely than employers to strongly agree that their company:

- manages the retirement plan program with the best interest of the employees in mind (44 percent vs. 82 percent);
- provides accurate information about how the plan is doing (57 percent vs. 66 percent);
- gives them the right information about their retirement plan (51 percent vs. 66 percent); and
- gives out enough information about their retirement plan (57 percent vs. 69 percent).

Good news may lead to false sense of security for small business employees

The survey found that employee confidence is on the rise – small business workers were more likely in 2004 to believe their personal finances will improve this year (59 percent vs. 49 percent in 2003). This confidence may be contributing to an increase in overall participation. At 72 percent, participation levels are rebounding from the lows hit in 2003 (61 percent).

However, this good news may be spurring a false sense of security among workers. Reversing an upward trend from the previous year, small business workers this year are less likely to be very involved in monitoring and managing their retirement savings (70 percent in 2004 versus 79 percent in 2003 and 67 percent in 2002). In addition, fewer workers this year feel the need to receive more information and advice from their company on how to reach their retirement goals (57 percent versus 65 percent in 2003).

“While positive news for the economy tends to lead to increased participation, employees shouldn’t forget the lessons of past years,” according to Collinson. “It’s so important for employees to remain active and engaged with their retirement planning in order to achieve their goals.”

About the Transamerica Center for Retirement Studies

The Transamerica Center for Retirement Studies promotes knowledge and understanding of employer and employee-related retirement issues in the small to mid-size business community, ranging from emerging retirement trends to new legislation. Current and past surveys are available on the Center’s Web site at www.ta-retirement.com/thecenter.

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