

Transamerica Prescience 2026

**Fourth report:
Small business benefits trends**

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best life



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The Prescience 2026 Council Initiative

Prescience \ 'pre-sh(ē)-ən(t)s, 'pr ē,-s(ē-) ən(t)s

Foreknowledge of events; human anticipation of the course of events; foresight.

The world is changing at an epic rate, and these changes continue to affect the way people work and what they expect from their employers. The time is right for another look downstream. That's why, in partnership with EACH Enterprise, Transamerica initiated our Prescience 2026 Council.

Transamerica Prescience 2026 is a series of polls and brainstorming sessions, each focusing on a particular aspect of the employee/employer experience. In the first round of queries, experts were asked about their expectations for employee financial wellness offerings. In the second round, we asked about the economy, the workforce, the cost of that workforce, and related governmental policies. The third survey asked the panel for opinions about workforce dynamics.

We dedicated the fourth poll in the Prescience 2026 Survey to the small employer market (under 100 employees), asking our panel of experts to consider trends in financial wellbeing and retirement benefits relative to small employers. Experts were asked to identify the retirement plan type and market segment for which they would respond. Ninety percent responded primarily for single-employer plans, 40%+ for pooled employer plans (PEPs), and 30%+ for multiple employer plans (MEPs). Nearly all (98%) focused their responses on plans in the corporate sector.

Transamerica Prescience 2026 is a collection of thoughts and opinions expressed by members of the Prescience 2026 Council, and not necessarily those of Transamerica. This survey was fielded in April 2023, so relevant legislation and/or regulatory proposals introduced afterward may not have been considered by the Council.



Major findings

Small companies are big business

According to the U.S. Bureau of Labor Statistics (BLS), approximately 58% of the U.S. workforce, or 72.7 million workers, works for companies with fewer than 100 employees.¹ It's clear that small businesses and entrepreneurs are shaping the American economy every bit as much as their larger counterparts.

Like all organizations, small businesses face challenges when it comes to hiring and retaining quality employees, managing employee benefits, and supporting overall financial well-being of employees and their organizations.

Small businesses, high confidence

Our panelists anticipate rapid growth in the small defined contribution (DC) plan market over the next three years. Their confidence in small business as a critical segment for expansion is clear. But what factors are driving this confidence?

Access to retirement plans

Our panel of experts believes that an increasing number of small business employees will have access to a DC plan in the coming years. In fact, 82% of our panel agrees or strongly agrees that the percentage of private sector employees working in establishments with fewer than 100 employees offering a DC plan will have grown to 60%, up from 51% in March 2020.²

Employee engagement

Employee benefits are important – no matter the enterprise size. Our experts believe that, when given the opportunity, employees will take advantage of company-sponsored retirement plans. When asked about participation rates in small employer plans, 63% of our panelists believe rates will increase to 80% in 2026 from 73% in 2021.³ Those experts forecast that employees will continue to take advantage of their employer-sponsored plans at a steadily increasing rate – improving their potential to save adequately for retirement.

Improving the savings habits of employees

Automatic enrollment has dramatically impacted participation rates for mid- to large-sized retirement plans. Our experts see small plan sponsors also using plan design changes to reinforce positive saving and investing behaviors. When asked to what extent they agree or disagree that the percentage of small plan sponsors automatically enrolling employees in the plan will have risen to 30% in 2026 (from 20% in 2021³), they resoundingly agree. In fact, 86% of respondents agree or strongly agree with the statement.

¹ "Employment by size of establishment, private industry," U.S. Bureau of Labor Statistics, March 2022

² "Retirement Benefits Access Rates for Private Industry Workers," U.S. Bureau of Labor Statistics, March 2020
Data was provided to panelists as part of the survey question to aid in their response.

³ "Emerging From the COVID-19 Pandemic: The Employer's Perspective," nonprofit Transamerica Institute®, August 2022
Data was provided to panelists as part of the survey question to aid in their response.



The percentage of small plan sponsors automatically enrolling employees in the plan will have risen to 30% in 2026.

47%

Agree

39%

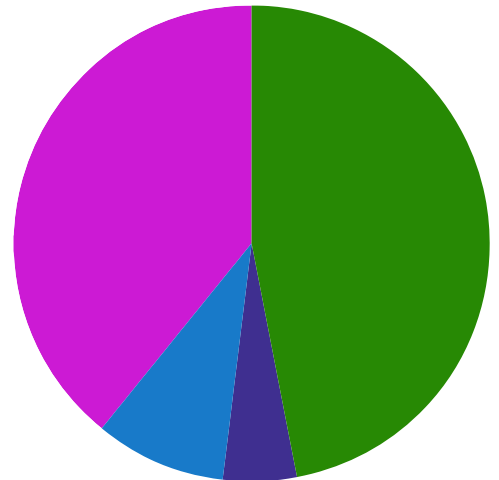
Strongly agree

9%

Disagree

5%

Neither agree nor disagree



The impact of state mandates on small businesses

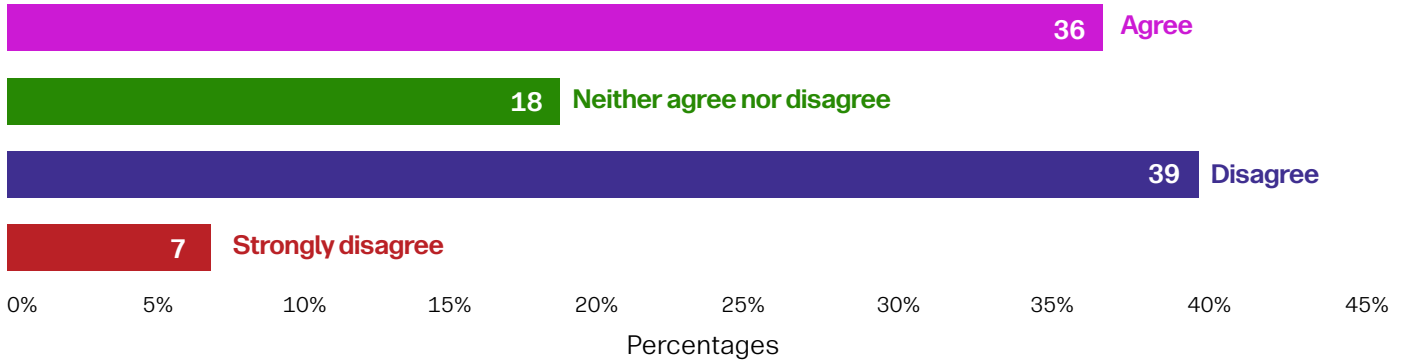
The need to improve retirement readiness and plan access for all Americans has prompted multiple states to pass legislation requiring all businesses to offer a retirement plan. Employees are more likely to save when they have access to a 401(k) or similar plan from their employer. For their employees, the total savings in household retirement accounts is \$36,000, compared with \$115,000 saved by workers employed by large organizations (estimated medians).⁴

Our experts were split on whether this trend would continue. This may be one area where the general opinion diverges from those of our experts.

⁴ "Stepping Into the Future: Employers, Workers, and the Multigenerational Workforce," nonprofit Transamerica Institute®, May 2023

The number of states to enact a mandated retirement plan for employers with five or more employees will have increased to 25 from 16* by 2026.

0 Strongly agree



* During the short time between when our panel of experts weighed in on this topic and the publishing of this paper, three more states passed state-mandated legislation, bringing the total to 19 — already beyond the minimum quoted in our question.

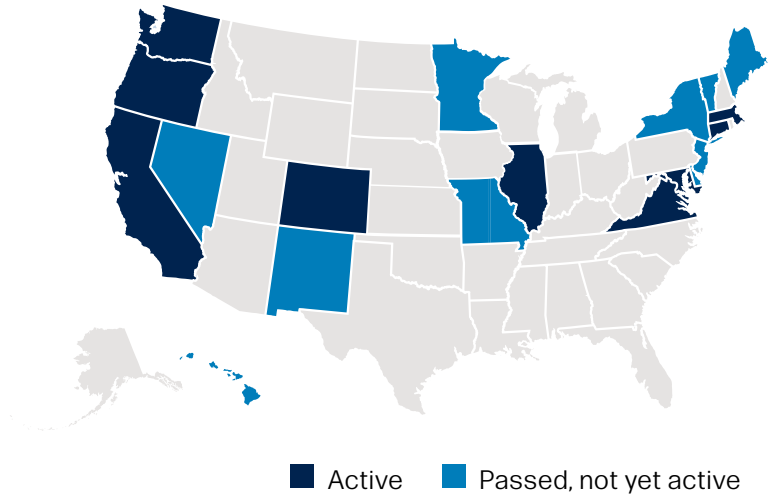
States where plan mandates have passed:

Active

- California
- Colorado
- Connecticut
- Illinois
- Maryland
- Massachusetts
- Oregon
- Virginia
- Washington

Passed, not yet active

- Delaware
- Hawaii
- Maine
- Minnesota
- Missouri
- Nevada
- New Jersey
- New Mexico
- New York
- Vermont



As of June 30, 2023

By the end of 2023, the number could reach 20, and panelists suggest 23 is a realistic projection for the number of states that will have enacted (although perhaps not yet implemented) a state mandate by year-end 2026.

What could all this mean for small businesses? State mandates have positive intentions, but the mandated plan may not provide employees with enough help to reach their retirement goals. Company-sponsored plans may be a better option for small employers, which is perhaps the reason a significant majority of respondents forecast an increase in the number of small businesses offering an employee-funded DC plan. Eighty-six percent said they agree or strongly agree that the percentage will have increased to 55% in 2026 from 46% in 2020. Our experts clearly believe that employees will embrace and participate in company-sponsored retirement plans.



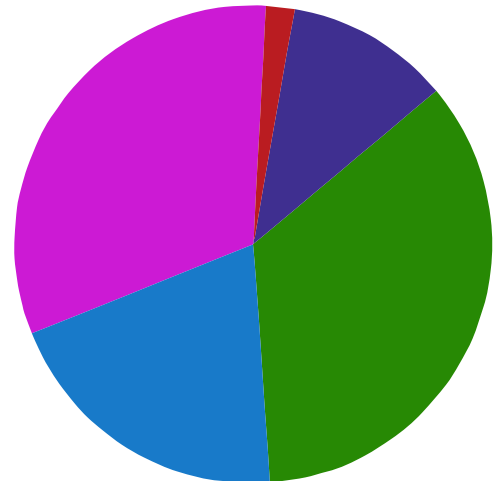
“If you are in a state with a mandate, then you are obliged to offer a plan. And I would expect to see companies preemptively offering plans in states without current mandated retirement plans. Non-compliance can be costly. We will see an even larger increase in small businesses offering defined contribution plans by 2026.”

Karen Yasukawa, CIMA®, AIF®, Senior Vice President,
Investments Senior Institutional Consultant,
Raymond James

If a small business is located in a state with a mandated retirement program, the employer must decide how to provide and implement a retirement plan. Will sponsors opt for a single-employer DC plan or adopt the state-facilitated plan? Our panelists were mixed when asked to what extent they agreed or disagreed with the following statement:

Most employers that offer retirement benefits for the first time as a result of a state mandate will opt to implement a single-employer plan.

- 35%**
Agree
- 32%**
Disagree
- 20%**
Neither agree nor disagree
- 11%**
Strongly agree
- 2%**
Strongly disagree





Our experts are mixed about how plan sponsors will respond to state-mandated retirement plans. In states where there is a mandate, they believe 15% of employers offering a retirement plan for the first time may choose the state plan, 45% a single-employer plan, and 40% would join a pooled arrangement (multiple employer plan (MEP), pooled employer plan (PEP), or Group of Plans (GoP)). Expanding the question to include employers across all states that offer a benefit for the first time, the percentage choosing a pooled arrangement may reach 47% – equaling the number of employers choosing to offer a single-employer plan.

SECURE and SECURE 2.0

The SECURE Act of 2019 enabled PEPs for qualified plans. Three years later, the SECURE 2.0 Act extended PEPs and MEPs to 403(b) plans. The SECURE 2.0 Act has over 90 provisions impacting retirement plans to varying degrees, with mandatory and optional provisions. Additionally, some provisions are retroactively effective, while others won't be effective for years to come.

We asked how our panel of experts felt about the potential impact of these provisions on small businesses. Beginning with pooled arrangements, we asked panelists to what extent they agreed or disagreed with the statement, "More than 50% of employers with fewer than 100 employees offering retirement benefits will be covered by pooled arrangements such as PEP, MEP, or GoP, or a Professional Employer Organization (PEO)." Our experts had a clear position, with 68% disagreeing or strongly disagreeing.

Panelist responses to the statement: More than 50% of employers with fewer than 100 employees offering retirement benefits will be covered by pooled arrangements such as PEP, MEP, or GoP, or a Professional Employer Organization (PEO).

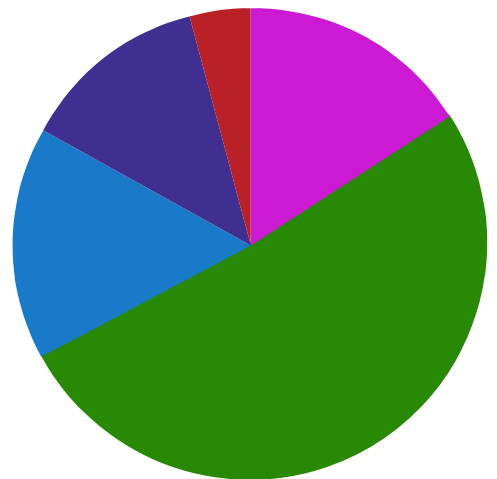
52%
Disagree

16%
Strongly disagree

16%
Neither agree nor disagree

13%
Agree

4%
Strongly agree

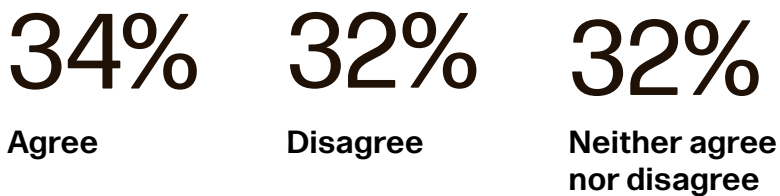


PEPs can offer lower 401(k) fees for workers and greater liability protection for business owners than a single-employer plan. Of course, there are pros and cons to each. A pooled arrangement may provide fiduciary relief to plan sponsors as the pooled plan provider (PPP) or MEP sponsor takes on fiduciary responsibilities. They may also enjoy lower fees and reduced administrative burden.

In exchange for these advantages, plan sponsors give up a bit of control in other areas, including selecting the investment menu and specific plan design options.

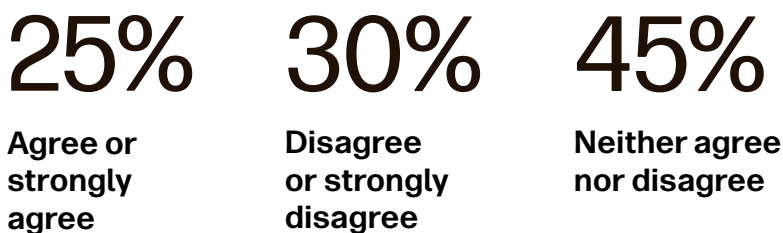
How does our panel of experts think small businesses will respond to the availability of pooled arrangements to address their need/desire to offer a DC plan? We looked at specific types of arrangements.

When asked whether they agreed or disagreed that the number of Association MEPs will have risen to over 500 (from 149 at year-end 2019) the responses were evenly split.



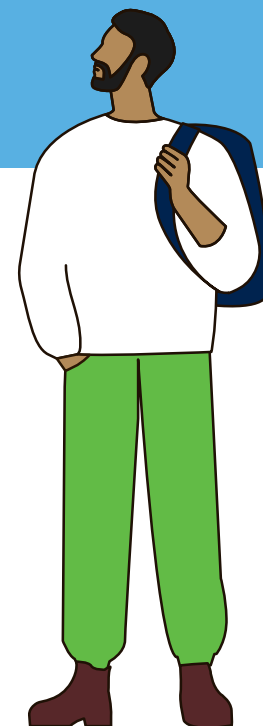
We wanted to look at the growth of PEOs in the market as well, so we asked panelists whether they agreed or disagreed that the number of PEOs will have risen to over 600 (from 299 at year end 2019).

Our experts were uncharacteristically unsure:



“The question is really about fit. Which type of plan FITS best with the employer and their employees. I wonder if the micro-market plans may skew toward pooled arrangement or state-mandated plans. Whereas larger employers, even those in the small market, may prefer the ability to have more control over things like plan design and investment menus.”

Rob Wisner, President,
The Paragon Alliance Group, LLC



We asked the panel to opine on how the number of SEP and SIMPLE IRA plans may be impacted by the SECURE 2.0 Act. Specifically, we asked:

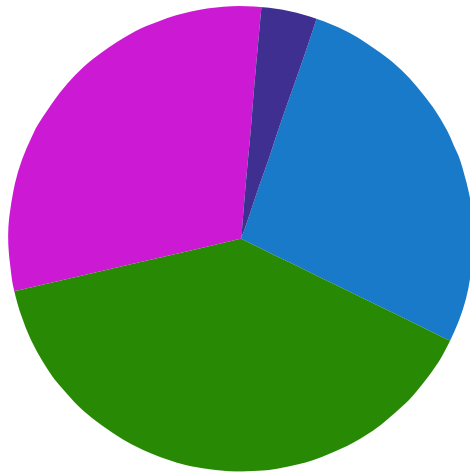
To what extent do you agree or disagree with the statement that the number of SEP and SIMPLE IRA plans will double through 2026?

39%
Neither agree
nor disagree

30%
Disagree

27%
Agree

4%
Strongly agree



“Small business owners are looking for plan designs that help reduce administrative burdens, limit fiduciary liability, while addressing the employee’s need for retirement plan coverage. SIMPLEs and SEPs can be part of that solution.”

Bill Schories, CIMA®, AIF®, CRPS®, National Sales Director - DCIO, Invesco Distributors, Inc.

What impact will the increase in pooled arrangements have on the companies providing these pooled plans? When asked specifically about PEPs, 52% of panelists agreed or strongly agreed that the number of PPPs will have risen above 200, from the 60 existing at year-end 2019.

The PEO industry is becoming more integral to small business, in part because a PEO may provide access to benefit packages that would otherwise be financially out of reach. These solutions include supplemental health plans, disability insurance, group life insurance, and more. The challenges of choosing the right benefits for a given population of employees make a conversation with a trusted expert and advisor valuable.

What does the future hold? Our experts will continue to share their insight and experience in subsequent Prescience 2026 polls. These will examine the cost-benefit analysis on financial wellness initiatives, including one-on-one financial counseling metrics and employee engagement efforts.

About Transamerica

With a history that dates back more than 100 years, Transamerica is recognized as a leading provider of life insurance, retirement, employee benefits, and investment solutions, serving millions of customers throughout the United States. Recognizing the challenge – and opportunities – of increased longevity, Transamerica’s dedicated professionals work to help people take the steps necessary to live their best lives.

“A big question is about the state and future of the PEO industry itself. Is it consolidating? It seems to be. What impact, if any, will that have on the number of plans? It is a good question. The future of the PEO industry is as compelling as the future of pooled arrangements.”

Catherine Collinson, CEO and President of nonprofit Transamerica Institute and Transamerica Center for Retirement Studies

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