



State of Connecticut
SENATOR DONALD E. WILLIAMS, JR.
Twenty-ninth District
President Pro Tempore

Testimony

SB 652 AAC Small Business Retirement Plans

Commerce Committee

Tuesday, March 11, 2008

Senator LeBeau, Representative Berger, and the Members of the Commerce Committee:

I am here this morning on behalf of the hard working people of Connecticut. The cost of living is rising, wages remain stagnant, and a retirement savings plan is becoming an unobtainable dream. These families don't have powerful lobbyists to protect their interests: instead they rely on us to fight for them. That is what I intend to do by co-sponsoring Senate Bill 652, AAC Small Business Retirement Plans.

This bill would enable the Office of the State Comptroller to offer retirement plan options to small businesses employing fewer than 100 employees, employees of non-profit organizations, and self-employed individuals. If enacted, Connecticut would become the first and only state in the nation to offer affordable retirement savings options to the private sector.

Currently, about 75 percent of businesses employing fewer than 100 employees do not offer retirement savings options, like a 401(k) plan. One significant reason for this is that due to their size, small businesses cannot achieve the economies of scale that would make 401(k) and other programs viable savings options for their employees. The fees associated with 401(k) plans have a disproportionate impact on people who work for small businesses. The result is that the majority of these employees don't have access to certain retirement savings options.

The Office of the State Comptroller estimates that investors could save about 50 percent on fees through a state-administered plan. This difference may sound insignificant, but a 50 percent reduction in fees equates to four fewer working years to achieve the same retirement savings. For example, over the course of a 35 year career, a typical worker earning \$46,250 – the average wage of a worker in the manufacturing sector – and saving 8.5 percent per year, would earn about \$1 million toward retirement. This is \$240,000 *more* than the same worker would have earned in a more costly private plan, assuming such a plan had even been available.

The State Comptroller's office currently administers a 401(a) defined contribution plan, an IRC section 457 deferred compensation plan, and a 403(b) retirement savings plan for state employees. The private sector retirement options proposed in this bill would extend the Comptroller's authority to the administration of plans for non-government employees. In addition to providing the economies of scale that would make this program attractive, the costs to the state would be minimal and potentially recouped through administrative fees in the same way that plans on the market are funded. The administrative fees could be repaid to the General Fund over the course of the first few years. The net cost to the state would therefore be zero.

You will hear testimony today from special interest groups who will argue that Connecticut workers should not have these retirement savings options because it will hurt their businesses. Please bear in mind as you listen to them, that the programs envisioned by this bill would primarily target individuals and families who are not currently participating in a plan; that is, an underserved population that needs – and deserves- affordable retirement options.

What's more, the benefits of this proposal extend beyond the individuals and families who will achieve greatly enhanced retirement security. Our proposal also would give Connecticut's small businesses a significant advantage in attracting and retaining skilled workers – ultimately making Connecticut a more attractive place to live, work and do businesses.

I look forward to working with you to assure that the working people of Connecticut have the benefit of this important and innovative initiative.