

HEARING ON SB 652: An Act Concerning Small Business Retirement Plans

My name is Jean Grace and I have provided administrative services to employer sponsored retirement programs for 25 years.

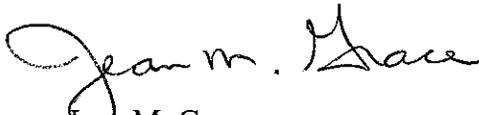
I am concerned that the efforts of the State of Connecticut to provide administrative services to small private employer plans may not accomplish the goal of increasing retirement savings for employees and may not be cost effective.

Let us assume your premise that the cost of running a retirement program causes some small employers to shy away from offering a plan. Further assume such Employers agree to set up a program under the State program. To avoid non-compliance with ERISA testing requirements, most programs will allow rank and file employees to defer contributions to the plan but will offer little or no Employer contribution. Under current laws such employees are allowed to contribute deductible IRA contributions. According to statistics only a small percentage of eligible employees contribute to an IRA. While IRA contribution limits are lower than 401k Plan limits, if employees are not even taking advantage of some amount of savings why believe they will elect to contribute to a 401(k) Plan without that plan incurring the cost of promoting the plan to employees?

SB 652 also proposes to significantly reduce the costs associated with private employer retirement programs. As mentioned above, current costs include services other than direct account maintenance costs. Some fees are spent on the important task of educating employees on planning to save for retirement and investment strategies. Private employer plans must also meet various requirements to be a qualified plan. This includes plan document as well as compliance testing. Even plans with standard provisions must ensure the plan has been offered to all eligible employees. To whom will the employer turn if the Plan is chosen for audit by the Internal Revenue Service or Department of Labor?

I request the Committee understand the services which must be provided to set up and maintain a tax-qualified defined contribution retirement program. Also review the other savings programs which are currently available to employees. State of Connecticut funds would be better spent educating employees or offering incentives to employers to use the programs currently available. The Committee should oppose this bill.

Respectfully submitted:



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