

February 23, 2009

To: Chairman & Members of the Committee

From: Michael E. Callahan, FSPA, EA, CPC, MAAA
Vice President
Pentec, Inc.

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on SB971. My name is Michael Callahan, and I am Vice President of Pentec, Inc & Pentec Capital Management, Inc. These companies provide 401(k) compliance and investment related services to over 500 small businesses nearly all here in Connecticut.

Our business is located in Southington, CT. We employ 23 people that work, live, and pay taxes in Connecticut.

My first point is that the State of Connecticut should not compete with the State's own private businesses unless there is a market failure. No such failure exists. We have a robust highly competitive business environment employing thousands of employees throughout the state.

First and foremost, we provide services to small business in Connecticut. We object to the premise that the state can provide them complex services at a lower cost. I have Certified Pension Consultants, Qualified 401-k administrators, Qualified Pension Administrators, MBA's, Certified Financial Planners and Actuaries on staff due to the complexity of the rules. I find it hard to believe that the State could do it for half the cost without sacrificing quality and compliance related issues. My employees, who pay Connecticut income tax and sales tax, would either have to take half their pay and be hired by the State or lose their jobs and collect unemployment.

The services to 401(k) plans are unlike those provided by the State from the 401(a), 403(b), and 457 plans. Under ERISA, the Federal Law that governs qualified plans requires each small business plan be treated separately. That means that we cannot have one giant plan covering all small businesses, but a myriad of small plans inside one giant multiple employer plan all with separate testing and disclosures. It also means that if one business entity gets disqualified, the whole plan gets disqualified. That's why the private sector is normally reluctant to establish these programs.

Connecticut is the home of some of the largest financial services companies in the world, providing 401(k) plans to employers and employees in every state in this country. The fact is 401(k) plans are an export of this state.

SB 971 would allow the state to compete directly with private service providers even though small businesses already have many low-cost retirement plan options.

Furthermore, by adopting this legislation, the state of Connecticut would be effectively telling the out-of-state customers of the State's many retirement plan providers that the state of Connecticut does not trust Connecticut companies to provide plans to its in-state businesses.

All small businesses must meet federal requirements that force them to meet specific rules for minimum contributions to their employees, most often at a level of at least 3% of pay. This cost cannot be eliminated. These are the costs most employers already complain about and cannot be eliminated. So, as an example, if an employer has a \$1 million payroll, the employer must make a \$30,000 contribution to the staff if the owners want to be included. If the cost of the investments can be reduced by 50% (about 1/2 of 1%) the savings to the employees, not the employer would be \$150. It's the Federal requirement of \$30,000 that's the barrier, not the \$150 that the employers pay.

There are already provisions in the Federal Tax Code that provide for low cost retirement plans for small businesses. SIMPLE plans can be provided at a cost of \$10 per person, set up with a \$10 annual maintenance fee.

This has been tried in the past. Not too long ago employers could obtain the services at COSTCO using a company called Gold "K" for service. They went out to businesses and the employers using their services were abandoned.

We ask that you do not support SB 971.

Thank you.