

Written Comments Submitted to the Commerce Committee
State of Connecticut

By Quynhchau Le

Hearing on SB 971: An Act Concerning Small Business Retirement Plans

February 24, 2009

My name is Quynhchau Le. As a Connecticut taxpayer and an employee in the Employer Retirement Plan field, I ask the Committee oppose this bill in its current form.

The idea of having a State Retirement Savings plan to allow small businesses to share in the discounted annual administrative fees on their retirement plans is a good idea if the main reason which prevents the small businesses from sponsoring a retirement plan is because of fees. However, there is no evidence to prove that the reason for small businesses to not establish retirement plans is due to annual administrative fees. Thus, there is no evidence to prove that these small businesses will jump at the opportunity of a State 401(k) Savings Plan.

Retirement Plans have been available for several decades. In addition, there are many current plans which small businesses can sponsor with discounted or limited annual administrative fees. They are the SIMPLE 401(k) Plans, SIMPLE IRA's, SEPs, ... just to name a few. These plans are perfect for small businesses who do not wish to get exposed to the full-blown 401(k) plans.

Moreover, even if the small business owners do not wish to maintain a retirement plan, the employees do have the option to take advantage of their own IRAs and they do have up until the due date of their tax returns to do so. However, only a small percentage of individuals actually take advantage of their IRA's. Thus, the most obvious and immediate action the State can take is to encourage individuals to take the lead on their retirement savings by making contributions to their own IRAs if their Employers do not current sponsor retirement plans. There are financial institutions that will provide IRA's with investment and administration related fees at only 1/10th of the State's proposed fee structure. These exist today. The State can take an active role to help the individuals with their IRA savings by providing State tax credits for such savings.

To assume that the reason for small businesses not to sponsor retirement plans is because of fees is a dangerous thing to do. First and foremost, in order for small businesses to consider sponsoring retirement plans, they have to have the incentive to do so. Second of all, in order to save toward retirement, the individuals (including the business owners) must have the funds available to set aside for that purpose.

Under the current economic condition, most small businesses already have a difficult time keeping their doors open at all. Sponsoring a retirement plan may not be their top priority. Their first priority right now may be working hard to keep their business operating and their employees employed.

The same goes for the individual employees; if they are having difficulties making ends meet, most likely, savings toward retirement would not be among their top priorities.

Being small businesses is difficult enough. Nonetheless, if small business owners are also retirement plan sponsors, their responsibilities and liabilities may be doubled. Idealistically, sponsoring a 401(k) plan does not mean they are required to make Employer contributions. However, to encourage 401(k) participation, many employers would have to offer company matching contributions. It's the cost of this contribution that many employers can not afford. Since the small businesses are most likely being Top Heavy, they

would be required to make Top Heavy contributions to the employees as well. This requirement would negatively impact them.

In addition, the State 401(k) plan will jeopardize many current jobs in the Retirement Planning industry:

- Approximately 2,000 to 4,000 employees (include employees of TPA firms, investment providers, Payroll recordkeeping companies) may lose their jobs.
- Most of the TPA firms are considered small businesses (by the State's definition of less than 100 employees). Thus, most of these firms may be forced to go out of business. As a result, as an intention to help small businesses, the State actually hurts the small businesses.
- There are other alternatives for small businesses with regard to retirement plans. However, the State only includes 401(k) plans in its proposal, i.e. only encourages the 401(k) plans. Nonetheless, 401(k) plan is not the one-plan-fit-all type of plan. Thus, promoting only the 401(k) plan is misleading since other plans may be more appropriate for some small businesses. In this sense, the State is really competing against us, since what we do is trying to implement the plans which best fit the small businesses' objectives, goals, and financial situation.
- The state would be taking revenue away from severely wounded banking and investment industry at the expense of taxpayers.

As a taxpayer and a resident of Connecticut, I would like to ask that the committee would oppose this bill because it would do a great deal of harm to the Employee Retirement Plan industry, and it may cause a great deal of taxpayer money to go without any measurable benefit to the Connecticut small businesses or residents.

Respectfully submitted:

Quynhchau Le
21 Edgemont Avenue
West Hartford, CT 06110