



**Written Testimony of Principal Financial Group to the Commerce Committee
Regarding
SB 971, An Act Concerning Small Business Retirement Plans.**

February 24, 2008

My name is Aaron Friedman. I work for the Principal Financial Group, a major provider of retirement plans to small- and medium-sized businesses, and I serve as the product manager for our mutual fund-based product that is used for employer-sponsored retirement plans. I am also a long-time Connecticut resident and taxpayer, residing with my family in Trumbull, Connecticut.

As product manager for Principal, I am responsible to ensure that all components necessary to run a retirement plan are provided to employer-clients, and also to monitor the expenses and revenue related to retirement plans. As such, I am intimately aware of plan costs and the factors that drive such costs.

First, Senate Bill 971 does not acknowledge several components crucial to plan administration, including but not limited to:

- Consulting: Employers need help unique to the needs of their own particular company, including plan design, to meet overall objectives for retirement savings that are consistent with the budgetary considerations specific to that employer; help is also needed to navigate the fiduciary requirements under ERISA.
- Education: Creation of a plan is not enough. Employees must understand how the plan works, how to make elections, and how to invest. Without education, the State will not get increased participation from employees. Individualized attention is necessary – as everyone has different financial circumstances – but such attention is expensive.

Second, while Senate Bill 971 recognizes the Internal Revenue Code, and at least references ERISA (note that there are concerns with respect to the State's ability to meet the complex requirements of either), one area seemingly ignored in the bill are the securities law implications, Federal and state securities laws, and the extensive compliance obligations related to them, also need to be considered in any evaluation of this bill.

Third, related but not limited to the above considerations, Senate Bill 971 would prove to be prohibitively expensive. The fiscal note on the comparable bill from last session indicated a \$500,000 start-up cost for each of the first two years. As a product manager for a provider of retirement plans, I can tell you that the \$500,000 figure represents a dramatic understatement of the necessary financial commitment on the part of the State in launching and administering a plan. Studies during 2008 on similar bills in Maryland and California estimated initial and ongoing costs to be significantly higher.

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While it is the intent of Senate Bill 971 that initial and ongoing plan costs would be recovered from participating employers and employees over time, there is no guarantee that the state-run or sponsored plan assets would generate enough fees – ever – to cover such costs. In the meantime, that substantial amount would come out of Connecticut taxpayers' pockets.

There is currently a very competitive market among providers of retirement plans to small businesses, the self-employed and non-profit organizations in Connecticut (including low-cost plan options such as SIMPLE and SEP plans). The State should not be using taxpayer dollars to compete with such providers, including Connecticut employers.

If the State were to establish a plan, I – as a Connecticut taxpayer – would be paying for the privilege of having the State compete with my employer, and for the State to put my job at risk. This is equally true for the other Principal employees who live and pay taxes in Connecticut, for the employees of our competitors in Connecticut, for small businesses that exist to provide plan services (such as PENTEC in Southington, The Pension Service in North Haven and Old Saybrook, and Hooker & Holcomb in West Hartford), and for independent advisors in Connecticut who provide plan-related financial education and advice.

For the reasons discussed in this testimony and many others, we do not believe Senate Bill 971, or any similar proposal for a state-run or sponsored plan, has merit. Connecticut residents would be better served if the State were to launch educational campaigns concerning the menu of existing options available to employers, by promoting financial literacy programs for individuals, and by exploring the possibility of tax credits and incentives for employers that choose to offer 401(k) or other plans already available in Connecticut.

However, if the State insists on exploring the idea behind Senate Bill 971, we believe it would be more responsible to begin by commissioning a detailed study, as was done in Washington State during 2008. Such a study could explore and investigate true barriers to savings and employer sponsorship of retirement plans, the expected costs related to a state-run or sponsored retirement plan, and other potential solutions that might achieve increased savings by employees without burdening taxpayers and putting Connecticut jobs at risk.

Thank you very much for the opportunity to testify today – not just on behalf of the Principal Financial Group but also as a concerned Connecticut taxpayer.

Sincerely,

A handwritten signature in black ink, appearing to read 'Aaron Friedman', written in a cursive style.

Aaron Friedman