SIFMA
Securities Industry and Financial Markets Association
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New York ▪ Washington ▪ London ▪ Hong Kong
120 Broadway, 35 Floor ▪ New York NY 10271-0080 ▪ P:212. 313.1200 ▪ F:212.313.1301 ▪ www.SIFMA.org

March 10, 2008

The Honorable Gary D. LeBeau
The Honorable Jeffrey J. Berger
Co-Chairs
Joint Commerce Committee
State Capitol, Room 110
Hartford, Connecticut 06106

RE: S.B. 652, An Act Concerning Small Business Retirement Plans

Dear Chairmen LeBeau and Berger:

The Securities Industry and Financial Markets Association (SIFMA)[1] is writing to express its serious concerns with S.B. 652 as currently drafted. SIFMA applauds the legislature for considering initiatives to increase retirement plan coverage among small employers. We believe that state agencies and state legislators can play a helpful role in efforts to expand coverage by increasing public awareness about the retirement plan options that are available to small employers as well as federal tax incentives that minimize start-up costs for employers who offer retirement plans.

However, SB 652 goes much further by directing the state to create another retirement plan option for small employers in Connecticut. SIFMA would encourage the state to closely analyze the costs and benefits before approving such an initiative. Certainly, substantial state expenditures and additional state government staff would be necessary to oversee a program, even a program which outsourced the roles of recordkeeping and investment management. With the increased demands on state budgets, this type of initiative should not take priority over other state activities – particularly when there are simpler and cost-effective options already available in the private sector.

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[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

In addition, the state should recognize that the creation of a retirement plan for small employers would expose the state to additional liability. ERISA, the federal law regulating employers who offer benefit plans to their employees, imposes significant fiduciary duties on employers. States are subject to similar types of liability in the operation of plans that are available to governmental employees. State facilitation of savings plans would likely lead to increased litigation exposure from small employers and their employees.

A state sponsored plan for small employers could also result in unintended consequences. It is possible that a state would adopt tax preferences or other policies that are not available to small employers who adopt a traditional 401(k) or SIMPLE plan. Not only would this increase complexity and confusion, but the state-sponsored option would create a barrier to full and fair competition by other providers in the marketplace. In an attempt to help some small businesses, this legislation could actually hurt other businesses – large and small.

The costs to the state are particularly important given that the private sector already offers a number of good, low-cost options. For example, in response to the need for streamlined options for small employers, Congress authorized the Savings Incentive Match Plan For Employees (SIMPLE) in 1996. A SIMPLE IRA or 401(k) is intended for employers with less than 100 employees, permits annual contributions of up to $10,500 plus an employer contribution to employees, and has few administrative requirements. The fees for the SIMPLE IRA plan are typically limited to annual per account fees that can be $40 or less per year, depending on the institution chosen. Payroll deduction IRAs and SEP-IRAs also remain inexpensive options for small employers.

While SIFMA believes that the legislation is driven largely by a desire to offer small employers a low-cost retirement savings option, a state sponsored retirement plan for the private sector will likely result in little or no cost savings. SIFMA is aware of only one study that has examined the potential for cost savings through the creation of a state-sponsored plan. The study, authored by the Maryland Supplemental Retirement Plans (MSRP) (attached), concluded that after a period of 5 to 7 years, the state option would have fees of at least $40 per employee account. The study noted that it is difficult to achieve economies of scale in the small employer market because the provider must deal with multiple employers who do not use an automated payroll system. This situation is quite different than the economies of scale a state can achieve with its own retirement plan or a large private sector employer.

SIFMA therefore believes that the state's resources are better spent on raising public awareness of existing programs. Many small employers are unaware of the SIMPLE IRA or that it is a very cost-effective option that does not place significant burdens on the employer. SIFMA and its members would be pleased to assist state policymakers in developing a broad campaign that would educate employers about retirement plans and retirement savings. Such a campaign could include:

- **Website Education.** The state should consider establishing a website that describes the options that currently exist for small employers. An informational chart created by the U.S. Department of Labor (http://www.dol.gov/elaws/pwba/plans/final.asp) is an example of the type of material that could be included in a website. In fact, at the federal level, the DOL initiated a website titled "Select A Retirement Plan" but that effort has not been continued due to lack of funding.

- **Small Employer Outreach.** SIFMA would also encourage state agencies that are involved in tax administration, unemployment, and other topics relevant to small employers to provide additional retirement plan education and assistance. State tax mailings to small employers could include articles or other helpful information about the options that exist and why a small employer should consider offering a retirement plan. These types of initiatives could be implemented with very little additional cost because many states have already established hotlines that provide assistance to small employers. However, very few of these hotlines offer assistance relating to retirement plans.

- **Small Employer Partnerships.** SIFMA also believes that states should partner with small employer groups to educate employers and the public about retirement plans and retirement savings generally. In schools, in civic meetings, and with industry groups, education and mentoring programs could be established to further promote the importance of employer-sponsored retirement plans to retirement security.

Again, SIFMA commends the state for its interest in expanding the number of people who save for retirement. SIFMA, however, believes that making people aware of existing private sectors options is both more cost-efficient and effective. We appreciate the opportunity to provide input on this legislation. Please feel free to contact me at 212-313-1311 or our lobbyist, Pat McCabe, at 860-293-2581 if you have any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director and Counsel
State Government Affairs