

STATEMENT of SENATOR GORDON H. SMITH

**Finance Subcommittee on Long-Term Growth
And Debt Reduction Hearing**

**“Small Business Pension Plans: How Can We Increase Worker Coverage?”
June 29, 2006**

- Small businesses are the heart of the American economy. Small business owners are out there everyday taking the risks and creating American jobs.
- When running a small business, there’s no set calendar which guarantees your vacation or even your weekends off. You’re working all the time – even Christmas. Owning a small business is a hard work, and I applaud all small business owners. They are the spark plugs of the American dream.
- Over the last decade, small businesses have generated the vast majority of new jobs—60 to 80 percent of net new jobs annually.

- With approximately 26 million small businesses in America, they represent over 99% of all employer firms in the United States.
- Small businesses have also contributed immeasurably to America's innovation and technological advances as well. They employ roughly 40% of high tech workers and produce 13 to 14 times more patents per employee than large patenting firms.
- The contributions of small businesses to our economy are many and manifold.
- Unfortunately, they tend to be underappreciated and overregulated in the halls of government. But small businesses are central to the progress of our country and they are central to increasing America's retirement savings.
- More than half of all private sector employees are employed by small business, yet small businesses are less likely than large employers to sponsor an employer retirement plans. Moreover, employee participation rates are low.

- Businesses with fewer than 20 employees have only 15% percent of their employees enrolled in a retirement plan. Businesses with 20 to 99 employees had only 43% of employees covered by an employer-provided plan. Employers with 100 to 500 employees had a little more than half of their employees participating in an employer-provided retirement plan.
- Why are these rates so low? Small businesses face significant barriers to establishing a retirement plan.
- There is the cost factor – the cost of setting up a plan and administering it are often too high.
- There is also the potential for additional federal regulation requirements and liability ramifications. Small companies with fewer than 20 employees already spend 45 percent more per employee than larger firms to comply with federal regulations and tax compliance.

- Add to this the complexity and volumes of pension plan regulations and I believe small businesses are systematically discouraged from offering their employees a retirement plan.
- This is a problem that needs a solution.
- I've heard from many small business owners in Oregon that say they want to offer a retirement plan to their employees, but the cost, complexity, and liability outweigh the benefits – benefits such as recruiting and retaining key employees as well as increasing employee satisfaction and loyalty.
- These benefits are all very important to small business owners, because without good, hard-working employees their future economic success is limited.
- If we are serious about increasing Americans' savings in order to be financially secure in retirement, we need to assist small businesses in the retirement plan area. They are integral to any national savings solution.

- Today, we are here to focus on small employer coverage and employee participation— and to begin what will be a fruitful conversation on what we in Congress can do to help small businesses and American's save for retirement.
- I would like to know turn to introducing our distinguished panel of witnesses.