

SMALL BUSINESS PENSION PLANS:  
HOW CAN WE INCREASE WORKER COVERAGE?

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THE COMMITTEE ON FINANCE  
UNITED STATES SENATE

JUNE 29, 2006

Mr. Chairman and members of the Subcommittee, thank you for holding this hearing on expanding retirement coverage for small businesses, and for the opportunity to testify on behalf of Edward Jones Investments. Edward Jones is one of the largest investment firms in the country and a leader in the financial services industry. We have over 8,500 offices throughout the country, more than any other investment firm in America.

We applaud the commitment you have made to promote legislation that will help ensure that Americans have adequate retirement savings. You have been a champion in this area, and we are pleased the pension bills currently in conference contain critical provisions from the Smith-Conrad bill (S. 1359). We make particular note of the inclusion of your automatic enrollment proposals. We believe these measures will in part provide more coverage and boost savings for many workers – particularly low and moderate income workers. We also have been following your most recent legislative initiative which focuses on narrowing the retirement income gap between men and women. We understand you are developing legislation and we certainly want to offer our assistance in any way that would be helpful.

Mr. Chairman, this is an important hearing. Edward Jones strongly supports Congressional proposals designed to help employees of small businesses, where the retirement coverage need is the greatest. We serve over 6 million clients, of whom approximately twenty percent are small business owners. Our small business clients often are very small -- many with under 10 employees, and it is our experience that small business owners can be reluctant to adopt a retirement plan. The statistics are not encouraging, and we at Edward Jones share the concern about the alarmingly low number of small businesses that provide a retirement plan for their employees.

There have been many surveys and much discussion about why small businesses don't have plans. I don't need a survey, I can tell you first hand. When I visit with small business owners, they tell me setting up a plan is too complicated and too expensive. Fortunately, there is an opportunity to address some of these issues in the conference committee now meeting to work out the differences in the pension bills passed by the House and Senate.

While the conference committee has concentrated much of its attention on working out the funding issues associated with defined benefit plans, there are some key provisions at stake that are critically important to the retirement security of employees of small businesses. We strongly support passage of a pension bill that includes those provisions. In particular, we support:

## **Permanence of the 2001 Tax Act.**

The 2001 Tax Act contained a very comprehensive retirement savings title that made many improvements to the retirement plan rules. In that title, attention was focused on the issue of how to encourage small businesses to enter and remain in the employer retirement system.

- Most importantly, the Act increased and updated the limits on retirement plan contributions. These increases make it possible for Americans to save more in a qualified plan, which in turn makes it attractive for small business owners to create a plan.
- The 2001 Act permitted individuals who have attained age 50 to make additional “catch-up” contributions as they near retirement.
- The 2001 Act also established the “saver’s credit”, which provides a much-needed savings incentive for low and middle-income individuals.
- The 2001 Act eliminated IRS user fees for small businesses that adopt or amend a retirement plan with respect to the first five years the plan is in existence.
- The 2001 Act eliminated a complicated procedure that required businesses to set up two plans if they wanted to provide enhanced contributions for their employees.
- The 2001 Act recognized that start-up expenses often prevent employers from establishing a plan. The Act provided a tax credit to certain small businesses for start-up costs.

Mr. Chairman, these pro-small business savings provisions will expire after 2010. The House pension bill would make these provisions permanent. We support making these provisions permanent as soon as possible. If we wait, the uncertainty regarding the possible expiration of certain provisions will make small business owners hesitant to set up a plan for fear that the rules will change. Sometimes we have one opportunity to establish a plan for a small business; if we lose that opportunity because of uncertainty regarding the rules, that business may never have a plan.

Permanence of the 2001 Act’s retirement provisions is our highest priority among the retirement plan issues pending in the pension conference.

### **SIMPLE Plan Reform.**

The pending pension bills also make beneficial modifications to SIMPLE plans. SIMPLE plans have low administrative costs and are proving to be an excellent retirement savings arrangement for small businesses that would otherwise not have a plan. The SIMPLE plan has been a success story. The Investment Company Institute recently surveyed its members to track developments in the SIMPLE IRA market. Survey respondents indicated that between June 30, 2005 and December 31, 2005, the number of SIMPLE IRA plans increased 4 percent, the number of participants rose 5 percent, and the SIMPLE assets invested in mutual funds were up 15 percent.

The Senate pension bill would make the SIMPLE plan even more attractive to small businesses. It allows portability to and from SIMPLE plans, and the bill reduces an excessive penalty on certain SIMPLE plan withdrawals so that it conforms to the generally applicable penalty on early withdrawals.

### **Reducing Red-tape for Small Businesses.**

The Senate bill would remove a significant obstacle preventing many small businesses from maintaining a retirement plan. Under current law, retirement plans generally must file a Form 5500 with the government every year. This multi-page reporting obligation can be very burdensome for a small business. The Senate bill would exempt the very smallest businesses from this burden and would direct the Labor Department and IRS to simplify the Form 5500 for other small businesses.

### **Investment Advice.**

Both the House and Senate bills recognize that retirement plan participants need access to investment advice in order to achieve their retirement goals. We support inclusion of the investment advice provisions from both bills; the House bill in particular will be very helpful in stimulating the delivery of much needed advice. Without effective access to that advice, we fear that many Americans will retire with insufficient savings. Edward Jones fully supports carefully designed safeguards that ensure that participants can make informed decisions.

Mr. Chairman, these provisions should be part of the final conference agreement on the pension reform bill.

## **Next Generation Proposals.**

Edward Jones also is reviewing a number of next generation proposals that have been designed to enhance small business pension coverage. We understand as part of your new legislative initiative, Mr. Chairman, you are considering several measures to encourage small businesses to enter and remain in the employer retirement plan system. We understand you are looking at a tax credit for small employers for contributions to new plans, equalization of tax treatment of retirement plan contributions of the self-employed, and a proposal to allow sponsors of SIMPLE plans to make additional employer contributions of up to 10 percent of compensation to the SIMPLE plan. We believe those would be very beneficial.

We also are reviewing legislation introduced by Senator Max Baucus (S. 2431) which contains a number of important provisions that would help increase small business coverage.

Mr. Chairman, Edward Jones applauds you for having this hearing. The retirement savings crisis facing America is real, and we applaud your recognition that small businesses have unique challenges in trying to help their workers save more for their retirement. We look forward to working with you and this Subcommittee to ensure that Americans are prepared for retirement.

Thank you. I would be pleased to answer any questions you may have.