



U.S. Women's Chamber of Commerce
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Testimony of
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Before the
House Small Business Committee
"Unlocking Small Business Retirement Security"

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Room 2360 of the Rayburn House Office Building

Chairman Velázquez, Ranking Member Chabot, and Members of the House Small Business Committee, thank you for the opportunity to speak today.

Small businesses – who employ more than 59 million citizens, 47.5% of all private sector employees¹ – face a myriad of challenges when it comes to offering retirement plans to their workforce. Chief among these challenges are the expense related to employer contributions, limited administrative resources, and lack of employee interest. The smaller the business, the more these challenges impact the decision to offer a retirement plan.

In a study published by The PEW Charitable Trust in January 2017², they noted that: 71% of small business owners surveyed stated it was too expensive to set up a retirement plan, 63% of the respondents stated their organization did not have the resources to administer a retirement plan, and 50% stated their employees were not interested in participating in a retirement plan.

While it is certainly true that employees of small businesses not offering formal retirement plans still have retirement options available to them in the form of IRA's, the income deferral incentives related to IRA plans pale in comparison to traditional 401(k) plans. In 2019, the maximum income deferral for an IRA is \$6,000, whereas the maximum income deferral under a 401(k) plan is \$19,000³. Furthermore, employees working for small businesses that do not offer 401(k) plans are missing out

¹ Frequently Asked Questions About Small Business, U.S. Small Business Administration Office of Advocacy, August 2018 - <https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>

² Small Business Views on Retirement Savings Plans, The PEW Charitable Trusts, January 2017 - https://www.pewtrusts.org/~media/assets/2017/01/small-business-survey-retirement-savings_f.pdf

³ IR-2018-211 - 401(k) contribution limit increases to \$19,000 for 2019; IRA limit increases to \$6,000, IRS, 11/1/2018 - <https://www.irs.gov/newsroom/401k-contribution-limit-increases-to-19000-for-2019-ira-limit-increases-to-6000>

on the employer contribution (match) to those plans, which in some cases could be 50% of the funds set aside for retirement. Additionally, participation in an IRA requires a level of self-discipline not found with employer sponsored retirement plans (whether Simple IRA's or 401(k)) in that the employee must make the conscious effort to 'manually' put funds into an IRA versus the automatic payroll deduction feature of an employer sponsored retirement plan).

Small businesses that do not (or cannot) offer a retirement plan to its employees are at a distinct disadvantage when it comes to Talent Acquisition. Prospective employees are much more likely to take positions with firms that offer retirement plans than those that do not. Consequently, the inability to attract a top-notch workforce stunts the growth opportunities for these small businesses. In an August 2017 article published by PeopleKeep, the author noted that 'due to the cost and complexity of traditional group benefits, many small businesses choose to forgo these offerings and instead raise employees' wages. While wage increases can be vital in increasing employee satisfaction – and thereby recruiting and retention rates – they cannot make up for the value businesses lose by not offering formal benefits'⁴. With respect to retirement benefits, the article stated that 'retirement benefits, such as a 401(k) or defined benefits plan, are growing increasingly important in recruiting employees. The number of workers for whom retirement programs is an important benefit is near 70 percent.'⁵

⁴ Which Benefits Have the Best Effect on Employee Retention and Recruiting?, PeopleKeep, 8/8/2017 - <https://www.peoplekeep.com/blog/which-benefits-have-the-best-effect-on-employee-retention-and-recruiting>

⁵ Ibid.

Employees of small businesses that do not offer a retirement plan are at greater risk of relying on government-sponsored programs in their golden age, as they may not have adequately provided for their own retirement.

My employer, Citizant, Inc, was founded in 1999 and for the first three years of operation it was unable to offer any form of retirement plan for its employees due to the administrative burden of establishing and managing a plan. In 2003, when the company had roughly \$4M in revenue and 50 employees, it was finally able to offer a 401(k) plan with a matching contribution.

For small businesses that have established retirement plans, the number one challenge is increasing employee participation in the plan. The most often cited reason at my company for employees not participating in the Company sponsored 401(k) plan is financial, that is they cannot absorb the reduction in household cash flow. Many of these employees are forced to prioritize the need for health insurance over retirement savings. This is especially true at the lower income levels (and due to the complex rules of 401(k) plans, the non-participation of lower income employees negatively impacts the amounts higher income employees are allowed to contribute to the plan). However, recently we have noticed a trend amongst more highly compensated employees in their 20's and 30's. Faced with large student loan debt repayments, this latter group of employees struggle to make ends meet each month and cannot service their debt and save for retirement at the same time. And since employer contributions to a 401(k) are tied to the amounts deferred by the employee, they miss out on any contributions the employer might be willing to make.

In a Private Letter Ruling (Number 201833012) issued in August 2018⁶, the Internal Revenue Services granted a Taxpayer permission to modify its 401(k) plan to allow the Taxpayer to make ‘an employer nonelective contribution on behalf of an employee conditioned on that employee making student loan prepayments. Under this ruling, employees can receive contributions to the retirement account, just as if they were making voluntary salary deferrals under their company’s 401(k) plan. This is a benefit that should be provided to all employees, of all companies, small and large.

Other recommendations mentioned by business members of the U.S. Women’s Chamber of Commerce in a recent survey to incentivize and assist small businesses to offer retirement benefits include:

- Allow multiple small businesses to more easily and affordably pool their resources to form and administrate shared multi-employer 401(k) plans which could be managed by experienced 401(k) plan providers.
- Create greater tax credits for employer matching and incentives for small businesses to mitigate the costs of setting up and administering retirement plans including increased tax credits for fees paid by employers for third-party administrators.
- Simplify the requirements along with the administrative and legal reporting burdens for plans offered by small businesses.
- Reduce the need for third-party administrators altogether.

⁶ PLR-131066-17, IRS, 5/22/18 - <https://www.irs.gov/pub/irs-wd/201833012.pdf>



- Allow self-directed investment management through vehicles like Exchange-Traded Funds and generally promote investment vehicles that do not contain additional layers of fees which reduce the retirement savings benefit.
- Incentivize employee savings and use of retirement plans by providing an easy, flexible, low cost, low fee small business sponsored investment plan.

Thank you for your support of American small businesses. I encourage you to help and incentivize small business owners to provide strong, affordable retirement benefits for small business owners and their employees.