

**House Committee on Small Business**  
**“Unlocking Small Business Retirement Security”**  
**Testimony of Paul F. Davidson**  
**Paychex, Inc.**  
**March 27, 2019**

Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee, good morning and thank you for the opportunity to testify today. My name is Paul Davidson and I am the Director of Product Management at Paychex, Inc. I have worked in the small business retirement space for over 30 years and believe retirement security is a critical issue facing our country. I applaud the work that Congress and this committee are doing to try to address the challenges many small business owners and employees face when it comes to saving for retirement.

Paychex, Inc. (NASDAQ: PAYX) is a leading provider of human capital management solutions for payroll, benefits, human resources, and insurance services. Paychex began as a small business itself. It was founded in 1971 with just \$3,000 and a good idea – to make payroll outsourcing easy and affordable for small businesses. By combining technology with dedicated, personal service, Paychex empowers small- and medium-sized business owners to focus on the growth and management of their business.

Paychex serves over 650,000 small business payroll clients across more than 100 locations in the U.S. and Europe, and pays one out of every 12 American private sector employees. With an average client size below 20 employees, most of our customers are true mom and pop small businesses.

When I started at Paychex in 1994, very few small businesses were offering a retirement plan for their employees. With the belief that saving for retirement should be an employee benefit accessible to all, and not just those that work for large companies, we set out to build a 401(k) product that would be affordable and easy for small businesses to adopt. With a concentration on the micro market, we sought to simplify and minimize the administrative burden for the employer, allowing businesses to offer employees state-of-the-art retirement benefits.

Paychex now administers more than 80,000 401(k) plans for small businesses, making us one of the largest record keepers in the U.S. based on number of plans serviced. Last year alone, we worked with over 14,700 small businesses to start new retirement plans.

While we are very proud of that accomplishment, to this day, over 70 percent of Paychex’s small business payroll clients still do not offer a retirement plan benefit. As this committee well knows, while the retirement crisis impacts all types of American employers and employees, it has a disproportionate impact among small businesses. According to a Paychex Small Business Survey, more than half (53 percent) of small business owners don’t have a formal retirement savings program at their business. At the same time, 69 percent of small business owners in our research declared zero to little financial preparedness for their retirement.<sup>1</sup>

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<sup>1</sup> Paychex Small Business Survey found [here](#).

Among the general population, 28 percent of non-retired adults have no retirement savings and 35 percent private sector workers age 22 and older don't work for an employer that offers a formal retirement savings program.<sup>2</sup>

Our current policies put heavy responsibility on the small employer if they offer a qualified plan. They can either pay an extra 3% of payroll into the plan to get the assurances of safe harbor or they can leave themselves vulnerable to the ADP/ACP and top heavy testing. If they become out of compliance, which is easy with a small number of employees, they often face large unexpected and unbudgeted costs.

We believe there are a variety of policy changes that can be made that would significantly increase the number of small businesses able to offer retirement plans to their employees. Congress has begun taking action, and I believe many of the proposals are steps in the right direction.

For example, the *Retirement Enhancement and Savings Act (RESA)* that initially came out of the Senate Finance Committee makes a number of changes that would be helpful to small businesses. Provisions include an increased tax credit for small employer plan startup costs, incentives for small employers to have automatic enrollment, and favorable changes to Safe Harbor Plans. I know the House is also working on similar legislation and we believe the bill would be a good first step.

Senators Rob Portman (R-OH) and Ben Cardin (D-MD) also have been working on bipartisan legislation, the *Retirement & Security Savings Act*, which would be beneficial to small businesses and their employees. In addition to expanded tax credits and provisions around automatic enrollment, their bill provides eligibility for part-time workers, a saver's credit, and the ability for employees to receive a 401(k) match for paying their student loan.

We appreciate the strong leadership of House Ways & Means Committee Chairman Richard Neal (D-MA) on retirement issues. We support his longtime dedication to improving our retirement system and getting more Americans covered.

And, of course, we commend this committee for making retirement security a priority and for ensuring that small businesses are a critical part of the conversation and solution.

In addition to much of the good work that is going on across Congress in this space, we believe there are additional steps that could have an even more dramatic impact. When we discuss retirement plans with our small business customers, the obstacles to offering a plan really come down to three areas: complacency, complexity, and costs.

It's important that we don't segregate American workers by the size of the company they work for. Our existing policies have achieved maximum penetration in the large and midsized market. Now we need to focus on lowering the burden on the employer so all workers, even those at small companies, can save for a dignified retirement.

Small business owners are extremely busy, and offering a retirement plan is not always at the top of their priority list. We believe the tax credits discussed above can help move the needle on that issue.

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<sup>2</sup> Pew research found [here](#).

But for many small businesses, offering a retirement plan is also just too complex. It comes with a fiduciary responsibility, liability, and reporting requirements.

Finally, costs are a significant reason why small businesses don't offer a plan, whether it is the 3% match for a safe harbor plan or getting hit with an unexpected bill at the end of the year after compliance testing.

I believe you could dramatically increase the number of small businesses offering retirement plans if you address each of these head on. An ideal plan for many small businesses would include providing a safe harbor that did not require a match, while also allowing small businesses to outsource some of the fiduciary responsibility to professionals. Making all employees immediately eligible and requiring automatic enrollment for the plan is another step that could eliminate the need for top-heavy, ADP/ACP, and coverage testing. Then the business would know their costs at each payroll and would not be surprised by a cost driven from compliance failure. As a result of these changes, small businesses would be able to offer a plan that was simpler, less expensive, and more accessible to employees.

In closing, most small businesses that we meet with want to offer an employee retirement plan. However, once they consider the cost and regulatory burdens, many choose to not move forward. Making it simpler, easier, and less expensive for small businesses to offer retirement savings programs for employees is sound public policy and the right thing to do for American small businesses and workers, allowing all Americans to save for a dignified retirement.

I thank the Committee for their leadership on small business retirement issues and for the opportunity to participate in this discussion today.

**ATTACHMENT**