

OLYMPIA J. SNOWE, MAINE, CHAIR
JOHN F. KERRY, MASSACHUSETTS, RANKING MEMBER

CHRISTOPHER S. BOND, MISSOURI
CONRAD BURNS, MONTANA
GEORGE ALLEN, VIRGINIA
NORM COLEMAN, MINNESOTA
JOHN THUNE, SOUTH DAKOTA
JOHNNY ISAKSON, GEORGIA
DAVID VITTER, LOUISIANA
MICHAEL ENZI, WYOMING
JOHN CORNYN, TEXAS

CARL LEVIN, MICHIGAN
TOM HARKIN, IOWA
JOSEPH I. LIEBERMAN, CONNECTICUT
MARY LANDRIEU, LOUISIANA
MARIA CANTWELL, WASHINGTON
EVAN BAYH, INDIANA
MARK PRYOR, ARKANSAS

WESTON J. COULAM, REPUBLICAN STAFF DIRECTOR
NAOMI BAUM, DEMOCRATIC STAFF DIRECTOR

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

May 23, 2005

VIA FACSIMILE AND FIRST CLASS MAIL

The Honorable Hector V. Barreto
Administrator
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Dear Administrator Barreto:

We are writing to raise our concerns about the impact of President Bush's Social Security proposals on small businesses. The Small Business Administration has participated in Social Security related events with the White House, and you participated in President Bush's "60 Stops in 60 Days" tour in which the President and others in the Administration traveled across the country to garner support for the President's ideas for Social Security. During the tour, you said: "This is a significant small business issue — the majority of small businesses depend almost exclusively on Social Security for retirement" and "[i]f we do not do something it will impact the economy and small businesses are going to be the first to feel it."

We agree with you that Social Security is extremely important for small businesses. Not only will they be the "first to feel it" if we do nothing, they also will be the first to feel any harmful changes to the current Social Security system. We have concerns in general about private accounts, but we have additional concerns about their impact on small businesses. As you traveled across the country, you advocated the benefits of private accounts without discussing the administrative burden these accounts would impose on small businesses. In December 2001, the President's Commission to Strengthen Social Security acknowledged that establishing and maintaining a system of private accounts could impose new costs on small businesses. Since then, the structure of private accounts and the increased administrative, regulatory and cost requirements have not been addressed.

It is our understanding that private accounts would be mandatory for small businesses because employers would have to accommodate the wishes of employees who want to have a private account. We believe private accounts would place unnecessary burdens on small businesses. For example:

- **Administrative costs:** The Administration has claimed the costs of private accounts to be 30 basis points or 0.3 percent. We believe the costs would be much higher for businesses with less than 20 employees based on the experience of small businesses with 401(k) plans.

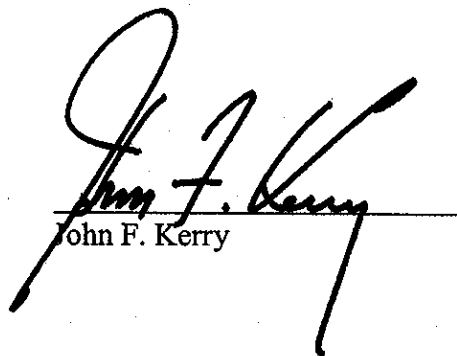
- **New tasks:** Even if the government administered private accounts, small businesses would have to perform numerous new tasks on an ongoing basis to collect and report information about account contributions. These tasks include enrolling new participants, sending contributions to accounts, calculating contributions, identifying errors, calculating losses incurred as a result of mistakes, compensating financial losses due to errors, documenting activities as proof of compliance with applicable laws and regulations, and processing benefit claims in the event of job termination, retirement, death or divorce.
- **Complicate current payroll system:** The current payroll system was designed to minimize administrative burdens on employers. Employers are responsible for reporting the wages subject to Social Security taxes annually to the Social Security Administration (SSA). The SSA receives a copy of each W-2 form that is issued to employers for tax-filing and employers must annually file form W-3 which summarizes aggregate tax withholdings with the SSA. According to the SAA in 2003, seventy-two percent of employers submitted their annual report (form W-3) to the SSA on paper and these were mostly small businesses. The President's Commission noted that the existing payroll system would cause a 15-month lag time in crediting contributions to private accounts. To eliminate this lag time, businesses would have to increase the frequency of payroll tax reporting to the SSA beyond once per year, file electronically, or both. Either way, these new costs would disproportionately affect small businesses because large employers are better equipped to deal with the proposed changes.
- **New policing functions:** According to the SSA report issued in January 2001, they expect the number of annual worker-initiated corrections in a system of private accounts to be about 975,000 per year compared to the current number of 72,000. This will result in employers spending a great deal more time and money reconciling errors with SSA than under current law. In a system of private accounts, every penny invested affects the employee's benefit amount. In addition to correcting mistakes with the SSA, small businesses may be held liable for any financial losses due to the reporting errors. The President has not made clear whether employers would take on a fiduciary responsibility with respect to handling employee account contributions, as ERISA (Employee Retirement Income Security Act) currently requires in managing employee retirement funds such as 401(k) plans.
- **Unrealistic comparison to federal Thrift Savings Plan (TSP):** President Bush has repeatedly made references to the Federal Thrift Savings Plan (TSP) as model for the operation of private accounts. The TSP is administered by just one employer — the federal government. All reporting is done electronically and the TSP is supported by personnel and payroll staff which handle tasks related to the administration of the TSP. It is unclear how a system similar to the TSP could be implemented for the 6.5 million small businesses with employees.

We all agree that small businesses are the backbone of the U.S. economy. Given their important role, we are concerned about any proposals that would place new requirements or costs on small businesses, and we would like detailed information on the administrative, regulatory, and cost requirements that private accounts will entail. We are also concerned by the SBA's activities promoting the President's plans for private accounts without addressing in any meaningful way these very real and significant issues. We believe it is important America's small businesses have accurate and complete information.

Sincerely,



Tom Harkin



John F. Kerry