Testimony of AARP Connecticut
In Support of S.B. 1
An Act Concerning Economic Security for Connecticut Families
March 20, 2000

Good morning, Chairwoman Harp, Chairman Geragosian, Ranking Members Debicella and Miner, and members of the Appropriations Committee. My name is David Thomas and I am the volunteer chair of AARP's Economic Security team and I am also a small business owner. I am here today as a representative for AARP's more than 628,000 members in Connecticut and for small business owners in our state to support S.B. 1, An Act Concerning Economic Security for Connecticut Families.

A major priority for AARP is to improve access, coverage and adequacy of pensions and other retirement saving vehicles. The personal savings rates of Americans have been falling for the past two decades. Statistics show that employees who save through an employer-provided retirement plan generally fare better in retirement than those who have no such plan; yet only about 50 percent of workers have a retirement plan available at work, despite numerous efforts over the past thirty years to expand retirement plan coverage and participation.

State Assisted Savings is an innovative idea designed to make it easier for small, private-sector employers -- who do not now provide plans -- to offer their employees a way to save for retirement via voluntary payroll deductions. The strategy harnesses the state's ability to pool the interests of private employers who choose to take part in the program, thereby allowing economies of scale to lower costs.

This is an innovative and exciting idea that is just beginning to get attention in the states. And, last year when a similar bill passed through this committee and cleared the Senate chamber, Connecticut became a national leader in attempting to expand opportunities for workplace retirement savings for the many employees in the private sector who do not currently have such an opportunity. In light of an aging population, the disappearance of guaranteed pensions in the private sector, low or negative savings rates, and the drumbeat of negative news about the long-run solvency of the Social Security system, the time is right for something different.

For the past three decades or more, numerous attempts have been made to expand pension coverage for workers in the private sector, but with almost no noticeable movement; we have been more or less stuck at about 50 percent of the workforce having some kind of retirement coverage. The only area where pensions continue to be widely available—both traditional defined benefit plans that are disappearing in the private sector, and defined contribution plans such as 403(b)s and 401(k)s—is in the public sector.

These plans are exceedingly valuable to those who have them, but can be a source of friction when taxpayers who have no pension of their own perceive they are being taxed to help pay what they view as generous public employee and retiree benefits. The voluntary accounts program can help to defuse this "pension envy" while making use of the expertise, experience, and leverage with providers that the state retirement system has established over many years.

One of the best features of the State Assisted Savings Proposal is the flexibility it offers. The state can determine how ambitious to be in establishing a retirement savings program for Connecticut employers. We have the flexibility to define the shape of its program. For example, a state might elect to begin with a modest payroll deduction IRA or SIMPLE plan, possibly expanding to a 401(k) plan in the future. Since the majority of middle-earners in the U.S. do not set aside as much as the maximum amount allowed for an IRA (currently $5000; $6000 for someone who is 50+ years old), a payroll deduction IRA would fill the bill quite nicely in launching Connecticut's citizens on a path to improved retirement income security.

State Assisted Savings would allow the state to select the provider (or providers) and designate the entity to oversee the plans to achieve maximum outreach to eligible employers. While the state would serve as an aggregator and facilitator for private employers and their workers, the system of voluntary accounts is essentially market-led, not government-run. The state assumes no legal liability for the performance of the plan; there is a clear distinction between these private accounts and the plans run by the state for its own employees.

Above all, from the employer perspective, voluntary accounts are truly voluntary; there is no mandate, no matching requirement, no expectation that employers must participate, or must continue to participate once they have joined.

Connecticut can also achieve "bragging rights" with employers by making voluntary accounts a part of the state's appeal to employers to locate or expand their operations within the state. Voluntary accounts can be seen as part of the state's economic development initiatives. There is also a more crude practical reason to support State Assisted Savings—Connecticut will ultimately bear much of the burden of caring for the impoverished elderly who never had an opportunity to save at work for retirement.

For the state, the cost of setting up, operating and monitoring the pooled retirement savings plans is minimal, whereas those costs for an individual or small-business owner could be prohibitive. Plan expenses will be covered by participants' fees. Interviews with employer group representatives in Tennessee, Virginia and West Virginia find almost universal support for this concept. Even retirement plan administrators and state treasurers and budget officers are intrigued and inclined to give the idea a closer look.

You may hear opposition to or skepticism about this idea from some in the business community or perhaps the public sector unions. Those who are investment brokers, agents and bankers may object that this would take away some of their business. We would counter that they are not now serving this population, so there is no business for them to lose. But down the road, should these accounts take hold and workers build up IRA or 401(k) balances and want to roll them over when they change jobs, there will be opportunities for these brokers and agents to pick up the business. And of course, they may also compete to be the organizations selected by the state to administer the program.

As to workers and retirees in the public sector, they may fear that universal voluntary accounts are the entering wedge to the elimination of their guaranteed pensions. Nothing could be further from the truth. Voluntary accounts are for private sector workers; the state's retirement system would be involved only because it is the best choice for overseeing the defined contribution plans for people employed in the private sector. There is absolutely no connection with any anticipated changes to public plans. Indeed, AARP is committed to seeing that these traditional pension plans remain strong, and will actively advocate on their behalf.

Amidst a worldwide economic crisis, families are scared. They are worried that they haven't saved enough or aren't prepared to retire. That worry has led many to temporarily increase their savings rate at precisely the time when the economy most needs consumer spending. By setting up a proactive approach to savings, where families save a little bit from each paycheck we could ensure that CT families are better protected against economic downturn and avoid rapid contraction in consumer spending during an economic downturn when families try to make up for historically low savings rates.

Connecticut is well positioned to be a leader and a role model for improving retirement income security, please support S.B. 1.

The New Britain Herald (newbritainherald.com), Serving New Britain, Conn., and surrounding areas

Opinion

OUR VIEW: State can lend a hand in saving for retirement

Wednesday, February 18, 2009 10:31 PM EST

Many in the post-World War II generation are enjoying a perk their children will never see — the pension. That monthly check from a former employer won't be there for many in today's work force. That's why it's important that we offer younger workers opportunities to save for retirement.

No, we're not suggesting that, in the depths of this recession, they turn to hard-hit employers. But, says AARP, there is something the state Legislature can do to foster savings.

A proposed bill, S.B. 1 "An Act Concerning Economic Security for Connecticut Families," would expand opportunities for workplace retirement savings for the 75 percent of small employers and their workers who don't offer retirement savings plans.

S.B.1, or the State Assisted Savings bill, is a voluntary payroll savings deduction plan of either IRAs or 401K's for small private employers that currently cannot afford to offer a retirement plan. Under the program — which would be voluntary for both employers and employees — the state comptroller would minimize costs by helping small employers and individuals purchase retirement savings plans, arrangement, and investments through economies of scale, standardization and other measures, says AARP.

The program works because of the automatic deductions — money taken out of the paycheck before it ever reaches the employee; we are all better savers when the money doesn't reach our hands. Such a plan would benefit low- and moderate-income workers who most need help saving for retirement, according to AARP. The bill would allow up to 36 percent of the Connecticut work force, employed by a small employer with fewer than 100 workers, access to payroll deducted retirement savings accounts. There are approximately 500,000 employees of businesses with 100 or fewer employees that do not currently participate in a retirement plan in Connecticut.

Yes, the state is in no shape to undertake expensive new programs right now, but there are little or no start-up and operating costs for the state; ongoing fees are paid by account holders, as in any workplace retirement plan. "And," says AARP, "because Connecticut will ultimately be responsible for services for seniors who were not able to save for retirement, SAS will actually help lower state costs in the future."

This is a win-win plan; small employers would give their employees a chance for a secure retirement without the business bearing the burden of pension contributions. The state would provide a chance to its citizens at no cost to the taxpayers. This is a bill worth considering.

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Connecticut State Assisted Savings

Senate Bill 1
AAC Economic Security for Connecticut Families

AARP Connecticut
March 2009

What is CT State Assisted Savings?

- CT SAS is a payroll savings deduction plan whereby the state government takes on the new role of aggregator or facilitator of low-cost retirement savings plans for small private employers that do not currently offer a retirement plan.
- CT SAS is voluntary for both employers and employees.
- CT SAS would improve the financial security of low- and moderate-income workers who most need help saving for retirement.
- Research strongly indicates that employees who have automatic payroll savings deductions available to them are more likely to save than those who do not.

Pros of CT SAS

- The program can help small employers by providing economies of scale from pooling assets, thereby causing fees to be reduced below where they would be for individual small employers.
- CT SAS could help the pension industry and related providers penetrate the small business market, potentially creating new business for providers.
- As CT SAS would be open for bids for the contract, large providers would have the opportunity for this business
- CT SAS can help promote economic development in Connecticut and make the state more attractive for employers.
- CT SAS could call attention to the federal tax start-up credit for small employers establishing a new plan--up to $500 per year for up to three years.
- Because Connecticut will ultimately be responsible for services for seniors who were not able to save for retirement, CT SAS will help lower state costs in the future.

Why does AARP care?

- AARP is exploring ways to increase participation in retirement plans and foster the accumulation of retirement assets.
- We want to encourage workers to prepare for their non-working years by fostering expansion of employer-based payroll deductions for saving.
- AARP works to improve the quality of life of Americans 50+ in the areas of health and supportive services, economic security and livable communities.

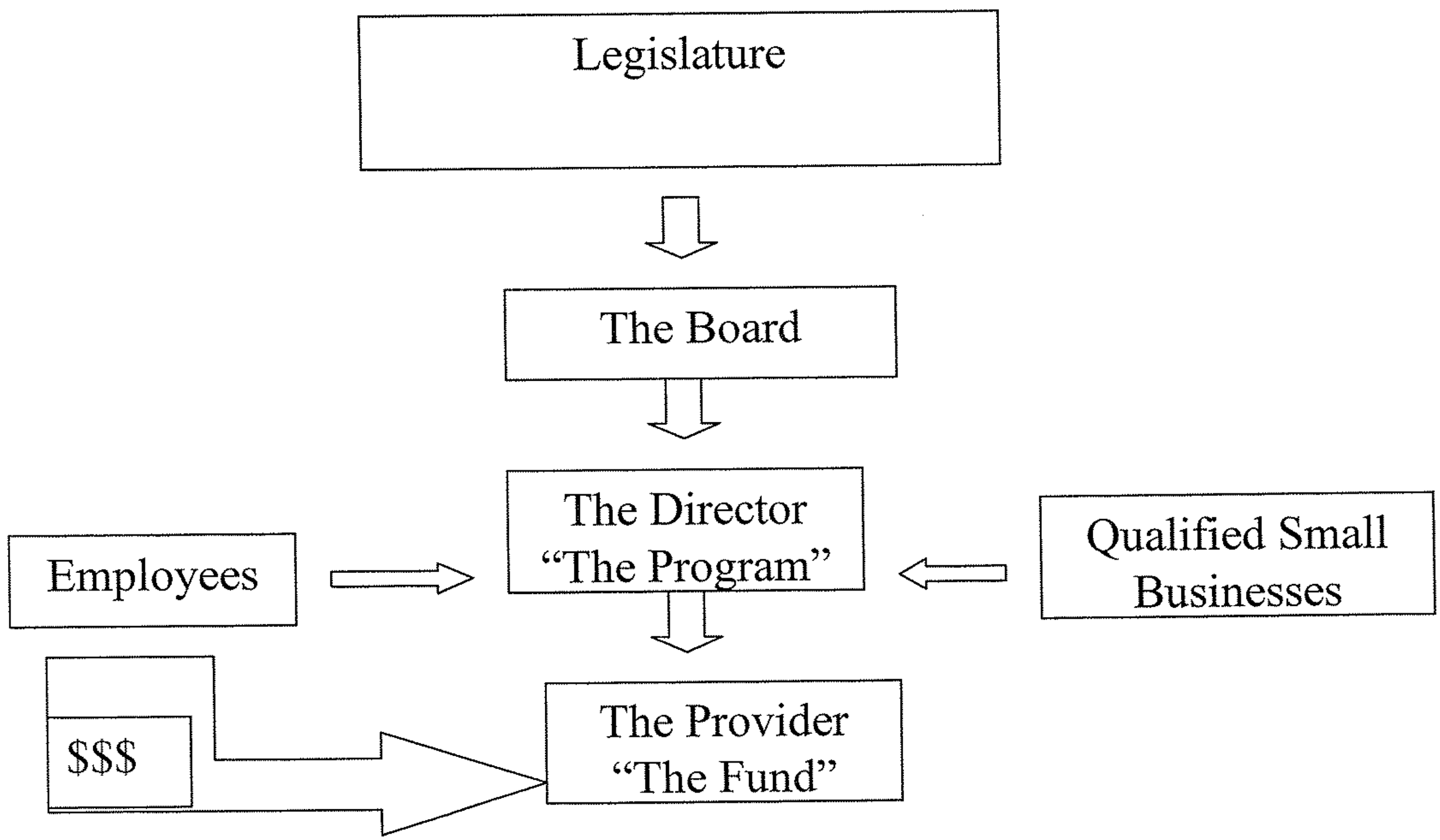
Who else is involved?

- AARP
- AARP State Advocacy Volunteers
- State Comptrollers office
- Several Small businesses in Connecticut

How will it work?

- State-approved program, analogous to the CHET (529 education savings program).
- State government promotes the plan in partnership with the business community
- General Assembly and Governor approve Program, appoint Board
- Board oversees creation of pilot or Program, chooses the Director, together submit plan to IRS
- Director contracts with one investment provider
- Small employers enroll in Program.
- Employees, through payroll deduction, deposit funds in IRA accounts.
- Provider manages IRA accounts in aggregate

Possible Structure



Why should it work?

- Connecticut has an established track record in working with plan providers.
- Connecticut state government can be expected to continue in existence on a permanent basis, whereas private sector employers tend to go in and out of business because of marketplace dynamics. So workers in the private sector can be subject to failures in their retirement plans, even **if** they have access to one.
- A model already exists in Connecticut for the state to enter into an arrangement with private financial institutions—CHET.

Why it will work

- Little or no start-up and operating costs
- Ability to recoup start-up costs over time
- Ongoing fees are paid by account holders, as in any workplace retirement plan.

Why is this important?

- We are confronting a severe savings shortfall in this country, especially a shortfall in savings for retirement.
- Boomers have done a poor job of preparing for their non-working years.
- The next generation of workers needs better financial literacy and improved savings behavior.
- Fully half of workforce lacks access to workplace savings outside of Social Security.
- 49% of workers saving for retirement have savings of less than $25,000.
- In Connecticut, only 41percent of all workers participate in an employer-sponsored retirement plan (Source: Current Population Survey)
- It is now predominately a “do-it-yourself” pension landscape, but many workers and their employers lack the tools to participate

What are the challenges?

- Brokers, insurance agents and banks may view small business pooling of funds for lower costs as a threat to their business, although a mitigating response to this concern could be to limit the program to small employers (less than 100 workers).
- Also the fact that the managing of the funds would be contracted out should be seen as an opportunity for business for them

CT SAS is a WIN-WIN-WIN

- CT SAS has enormous potential to start thousands of Connecticut workers on the path toward better financial health.
  - Employers able to offer a retirement plan to employees.
  - Employees able to save for financial security in retirement
  - State will not have to devote as many resources to caring for these people later