

## ***Statement***

### ***Insurance Association of Connecticut***

Labor and Public Employees Committee

March 8, 2012

#### **HB 5313, An Act Creating A Task Force To Study A State-Administered Pension Fund For Employees In The State**

The Insurance Association of Connecticut (IAC) would like to express the following concerns with HB 5313, An Act Creating A Task Force To Study A State-Administered Pension Fund For Employees In The State.

HB 5313 would “study the feasibility of developing a state-administered defined benefit plan for individuals employed in the state.” Such a study would seem to be of little, if any, utility.

New defined benefit plans are currently not being created, as there is simply little demand for them. The various funding uncertainties of defined benefit plans have diminished their appeal. The State’s problems with managing its own defined benefit plan for state employees are well known.

Multiple employer defined benefit plans present additional legal challenges and financial risk in today’s environment. For example, under a multiple employer plan, each employer has joint and several liability for the funding obligations of all other employers in the plan. A bankrupt employer’s obligations may need to be fulfilled by the remaining employers in the plan. ERISA currently requires an affiliation stronger than geography for multiple employer plans to properly form.

Federal tax rules often frustrate the use of multiple employer plans. For example, mandatory coverage and nondiscrimination rules apply on an employer basis, not on a plan basis. A single compliance error on the part of any one employer can expose the entire plan to disqualification.

Other states have studied the creation of state-run retirement plans and rejected them. There is no evidence that a state-run plan can be administered in a way that it is less costly than what is currently available in the private marketplace.

Connecticut has a highly competitive and functional marketplace for retirement plan products and services for private sector employers and their employees. IAC would respectfully submit that no benefit to the public would result from the state seeking ways to compete directly in that market.



**Testimony of AARP in Support of  
H.B. 5313, AN ACT CREATING A TASK FORCE TO STUDY A STATE-ADMINISTERED  
PENSION FUND FOR EMPLOYEES IN THE STATE**

**March 8, 2012**

AARP is a nonprofit, nonpartisan organization with a membership that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. On behalf of our nearly 600,000 Connecticut members, we are pleased to offer AARP's support for H.B. 5313, which would establish a task force to study creating a public retirement savings vehicle.

A major priority for AARP is to improve access, coverage and adequacy of pensions and other retirement saving vehicles. 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. 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.

AARP in Connecticut has supported the creation of a state-assisted savings program in the past. The concept of state assisted savings is a relatively new approach to broaden coverage and would make retirement plans available to small private-sector employers and their workers who now lack such plans. It could be administered through the state retirement system. Its low costs, transparent fee structure, and limited administrative burden would appeal to employers that cannot afford to offer a conventional plan. Additionally, low fees and automatic payroll deductions could make saving for retirement more attractive to low- and moderate-income workers, who are most in need of help in paying for retirement. Though no state has as yet instituted such a plan, several are actively exploring the possibilities.

The experience with recent state proposals on the introduction of state-assisted savings instruments should be carefully studied. AARP strongly encourages Connecticut to pursue state-assisted savings programs. AARP would also be happy to serve on the taskforce looking into the issue and offer our policy expertise and the shared experiences of our state offices across the country.

House Bill 5313 would provide a vehicle to thoroughly explore the creation of retirement savings opportunities for Connecticut residents.