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Before the Joint Committee on Aging
At the Hearing on
S.B. 885, An Act Establishing a Task Force to Evaluate the Utility of Creating a Public Retirement Plan

Hartford, CT
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Thank you very much for the opportunity to testify here today. I am here on behalf of the Securities Industry and Financial Markets Association. SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. Its mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth.

We appreciate the Committee's interest in reviewing the utility of creating a public retirement plan for private sector workers. If a task force is created, we hope it will focus on ensuring that state laws support and encourage additional private sector retirement plan coverage and employer and employee awareness.

As you may know, there is already a robust and highly competitive market for retirement savings alternatives in the state. Fairly priced retirement savings options, including 401(k), 403(b), 401(a) and 457(b) plans as well as SIMPLE, SEP, and traditional and Roth IRAs are readily available. We would encourage you to explore how to enhance the existing market rather than create a program which competes against it or replaces it.

We do believe the current system could use additional support from the state and federal government to encourage more employers to offer these plans and to educate employees about the benefits of early and regular saving for retirement. SIFMA would be happy to work with the state on such efforts.

Should the legislature choose to undertake a study, we hope they will keep the benefits of the current system in mind, while also reviewing the following:

- Any study should review the number of workers covered and the level of benefits currently provided by existing private sector options, including both employer sponsored plans and IRAs.

- A study should evaluate what factors, other than access, may be preventing workers from taking advantage of existing options.

- Defined benefit plans in the private sector are complex and must navigate Federal statutory and regulatory requirements, which requires the expertise of both ERISA specialist lawyers and Enrolled Actuaries. Any task force should be required to include at least one ERISA lawyer and one Enrolled Actuary who work with private sector defined benefit plans.

- The ERISA expertise is important because any study should review whether a state plan for private sector workers creates substantial ERISA costs and liability. We strongly believe it does, and we think that two Department of Labor Advisory Opinions issued last year, one of which went to Governor Malloy, support our interpretation.

- A study must evaluate the State's ability to effectively run another defined benefit plan. The State is already facing a massive unfunded pension liability for its public sector workers. According to the Pew Center on the States, as of mid-2010, the State had $44.8 billion in total pension liability with $21.1 billion of that number currently unfunded.

- Studying the costs to the State is particularly important given that the State is currently facing a sizeable budget deficit, and the private sector already offers a number of good, low-cost options. IRAs are available at most financial institutions. SIMPLE IRAs and SEP IRAs are also very cost-effective options for small employers. We would be happy to provide the Committee with more information about these options.

- We hope the Task Force would also be required to look at studies that have already been undertaken by other states looking at this same issue. The Department of Retirement Services for Washington State conducted a study and found that, once certain service thresholds have been reached, a state-administered 401k would likely involve an administrative fee of $200-$800 per participant; private sector administered payroll deduction or individual IRA options would result in administrative fees of $20-$60 and investment fees of .02-.13%. Thus the states would, after a period of time subsidizing the program, end up offering a product to employees that costs the same as or substantially more than that currently being offered by the private sector.

- Another study, authored by the Maryland Supplemental Retirement Plans (MSRP), concluded that a Voluntary Employee Accounts Program would require a subsidy of between $300,000 and $500,000 a year for at least 5 to 7 years. After a certain threshold has been reached, the State cost per employee account would be $20 a year in addition to standard service provider fees of between .07% and 1% ($10-$25). The study noted that it is difficult to achieve economies of scale in the small employer market because the provider must deal with multiple employers with separate payroll systems, record keeping, and plan termination requirements. This situation is quite different than the economies of scale a state can achieve with its own retirement plan or a large private sector employer.

These are just a few of the factors that we hope will be considered by any Task Force created to assess the viability of a state-run retirement plan for private sector workers. We believe that Connecticut has many service providers willing and able to serve the private sector, and we hope that the legislature will not undermine those employers in their state.