Testimony to the Labor and Public Employees Committee of the Connecticut General Assembly Supporting Bill 54: An Act Establishing a Retirement Savings Plan for Low Income Private Sector Workers

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Thank you to members of the Labor and Public Employees Committee for the opportunity to testify today. I am Dr. Joelle Saad-Lessler, an economist at the Bernard L. Schwartz Center for Economic Policy Analysis (SCEPA) at The New School in New York.

Today I am going to speak with you about solutions to the lack of retirement readiness in Connecticut.

We propose that the Connecticut legislature increase access to retirement savings by giving workers the option of opening up an individual, Guaranteed Retirement Account through the existing Connecticut Retirement Plans and Trust Funds (CRPTF).

This is not a new idea. Similar legislation has recently been passed in California.

Our research finds that the average person in Connecticut who is over the age of 65 and in the bottom 20% of the income distribution lives on \$7,368 per year, *including* what they get from Social Security and from public assistance programs. People in the 20-40th percentile of the income distribution live on \$14, 673 per year. The degree of inequality in Connecticut is staggering. The GINI coefficient in 2009 was 0.486, a number slightly better than Nigeria, and worse than Mexico and El Salvador. Ladies and Gentlemen, Connecticut can do better. A Connecticut GRA can do the job.

Middle income workers in Connecticut will fare worse than today's retirees. Access to any retirement plan is hard to find. Between 2000 and 2010 employer sponsorship of retirement plans dropped from 65% to 58%. As a result, over 686 thousand workers in Connecticut between the ages of 25 and 64 did not have access to a retirement plan through their employer in 2010.[1] When people do save for retirement, their savings are vulnerable to high fees and low returns. Growing numbers of Connecticut residents will find themselves *NOT READY* for retirement, and will turn to the state for help. This is a crisis that needs to be addressed now.

The Guaranteed Retirement Account – or "G.R.A." – takes advantage of existing financial infrastructure in the state to give private sector workers access to the best financial managers and the lowest fees. The accounts would be separate from public sector retirement funds and come at no cost to taxpayers -- workers would pay administrative fees. Since these are individual retirement savings accounts, there is no liability to the state. Workers take out what they *and* their employer put in, plus the returns they earn. Private capital markets offer expensive retirement accounts with high fees to lower income workers because the sums invested are low.

By pooling the money from many private sector workers, the Connecticut Retirement Plans and Trust Funds can invest in longer term opportunities with higher rates of return and charge lower fees. This is a win for workers.

In late 2012, California Governor Jerry Brown signed legislation putting into statute the California Secure Choice Retirement Savings Trust. Under this program, voluntary contributions from employees would be deposited into a professionally-managed retirement fund that leverages economies of scale and longer investment horizons to provide every California worker the chance to enroll in a retirement savings program. We recommend that Connecticut offers its workers a GRA plan that improves on the California model. For more details on the plan we envision for Connecticut please see the report entitled "State Guaranteed Retirement Accounts" that I've submitted.

**** In closing, every worker needs a safe and convenient way to save their earnings to prevent downward mobility in retirement. A Connecticut GRA would connect private sector workers to the public sector's secure and efficient pension funds to restore retirement income security for all workers. Thank you.

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[1] SCEPA's calculation from the March Current Population Survey. Data from 2010 are two year averages from 2010 and 2011. We include only workers with positive earnings between the ages of 25-64.