PENSION RIGHTS CENTER

PROTECTING AND PROMOTING RETIREMENT SECURITY
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STATEMENT OF THE PENSION RIGHTS CENTER

IN SUPPORT OF

S.B. #54, AN ACT ESTABLISHING A RETIREMENT SAVINGS PLAN FOR LOW-INCOME PRIVATE SECTOR WORKERS

BEFORE THE COMMITTEE ON LABOR AND PUBLIC EMPLOYEES OF THE CONNECTICUT GENERAL ASSEMBLY

February 26, 2013

Senator Osten, Representative Tercyak, Members of the Committee, thank you for this opportunity to testify today on Senate Bill No. 54. My name is Karen Friedman, and I am the Executive Vice President and Policy Director of the Pension Rights Center, the only consumer organization working exclusively to protect and promote the retirement rights of workers, retirees, and their families. I also am the coordinator of Retirement USA, an initiative composed of 30 national organizations that are working together for a universal, secure and adequate pension system that, in conjunction with Social Security, will provide future generations of workers with sufficient income for retirement.

I'm so pleased to be here today. As someone who grew up in West Hartford, and whose family still lives in this great state, I'm pleased to see that my home state is taking the lead on promoting retirement reform both for the residents here – and potentially as a model for the country.

We commend you for holding this hearing on Senate Bill No. 54, exploring whether Connecticut should use the efficiencies of the state retirement system to administer a new retirement savings plan for low-income private-sector workers. From the Pension Rights Center's perspective, the answer to these questions is a resounding "yes." At a time when millions of people are struggling to keep job, and stay afloat in today's challenging economy, we want to make sure that after a lifetime of work, every future retiree has the opportunity to retire with adequate income and dignity. The state retirement system can play an important role in helping facilitate that American dream, by providing a vehicle for retirement savings for all workers.

As it is, millions of people are facing a bleak retirement. Nationally, half of all private-sector workers have no pensions or retirement savings plan to supplement Social Security – and this has been a stubborn fact for more than a quarter of a century. Too many employers who sponsor pension plans that provide lifetime, guaranteed income are freezing, terminating, and otherwise cutting back those plans and replacing them with less secure 401(k) plans. Thirty years ago, one out of two private-sector workers participated in defined benefit plans. Now that figure is closer to one in five. And 401(k) plans have left most workers with insufficient assets for retirement. According to the Federal Reserve Board's 2010 Survey of Consumer Finances half of all households had less than $44,000 in their accounts. For those approaching retirement, the median account balance was just about 100,000– not nearly enough to last throughout retirement.

Public opinion polls reflect America's mounting anxiety. According to the National Institute on Retirement Security, 84 percent of Americans are concerned that current economic conditions are impacting their ability to achieve a secure retirement, with more than half (54 percent) of Americans very concerned. In a 2011 Gallup poll, the top financial concern for most Americans was not having enough money for retirement, surpassing concerns about paying for healthcare or paying the mortgage. And in a poll conducted for the Allianz life insurance company, a majority of mid-career workers said the fear of not having enough money for retirement was greater even than their fear of death.

While state and national legislators have been focusing on budget deficits, the Pension Rights Center and our partners would urge you to address another kind of deficit: the massive and growing Retirement Income Deficit facing the nation. According to the nonpartisan Center for Retirement Research at Boston College, the Retirement Income Deficit facing Americans is an astounding $6.6 trillion. That number represents the gap between what people have saved as of today and what they should have saved to achieve a level of sufficiency in retirement.

To arrive at this number, the Center on Retirement Research used a conservative methodology based on the one it uses to calculate the National Retirement Risk Index. The Center only looked at households in their peak earning years, between 32 and 64 years old, and assumed that people would continue to earn pensions, that they would contribute to 401(k)s, and that they would continue receiving Social Security benefits under today's formula. The Center also factored in the value of home equity as a source of income for retirement.

To address this Retirement Income Deficit, the Pension Rights Center joined with a range of other labor, retiree, consumer organizations and progressive think tanks to create Retirement USA, a campaign that is working towards a new national pension system, on top of Social Security, that is secure and adequate for all workers. The organizations involved in Retirement USA include the AFL-CIO, AFSCME, Economic Policy Institute, Demos, National Women's Law Center, and SEIU.

After studying systems in other countries, and proposals and programs here in the United States, Retirement USA developed 12 principles that we believe should underlie a new system and that borrow from the best parts of defined benefit plans and 401(k) plans. As a starting point, we all believe that any new private system, either nationally or in Connecticut, should build on top of an unreduced Social Security system. Social Security must be maintained and strengthened because it is doing an unparalleled job of providing a basic foundation of income for retirees. We hope state legislators weigh in on this debate as well.

As Connecticut studies the feasibility of creating a new system for private sector workers we would urge you to weigh that new system against our principles:

(1) Universal Coverage. Every worker should be covered by a retirement plan. A new retirement system that supplements Social Security should include all workers unless they already are in plans that provide equally secure and adequate benefits.

(2) Secure Retirement. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

(3) Adequate Income. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Other principles include

- **Shared Responsibility.** Retirement should be the shared responsibility of employers, employees, and the government.

- **Required Contributions.** Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers.
- **Pooled Assets.** Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.
- **Payouts Only at Retirement.** No withdrawals or loans should be permitted before retirement, except for permanent disability.
- **Lifetime Payouts.** Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.
- **Portable Benefits.** Benefits should be portable when workers change jobs.
- **Voluntary Savings.** Additional voluntary contributions should be permitted, with reasonable limits for tax-favored contributions.
- **Efficient and Transparent Administration.** The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.
- **Effective Oversight.** Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

On a national level, Senator Tom Harkin, the Chairman of the U.S. Senate Committee on Health, Employment, Labor and Pensions Committee, just introduced an outline of a proposal that meets all of these principles. His outline for USA Retirement Funds, outlined in his report, *The Retirement Crisis and a Plan to Solve it,* calls for employers and employees to contribute into new funds which would be run by competing independently-operated financial institutions. The money would be pooled and professionally invested, the money locked in, and lifetime benefits would be paid at retirement. Another unique feature of the USA Retirement Funds is that rather than each individual bearing the investing and longevity risks on his or her own, the risks instead would be shared by employees and retirees. The blueprint requires that all employers who do not offer an employer plan now to participate in these funds. Senator Harkin has announced plans to hold hearings on his blueprint and to introduce a bill later this year.

Senator Harkin's blueprint, and similar ideas, are gaining traction on a national level –among labor unions, businesses, financial institutions, and think tanks across the political spectrum.

Also, Connecticut is part of new movement exploring how states can play an important role in expanding coverage for private sector workers. In October, California enacted the California Secure Choice Retirement Savings Trust Act, which lays the groundwork for a state-administered retirement savings plan which is based on an Automatic Enrollment IRA but has additional features which meets many of the principles I laid out earlier. The money, rather than being individually invested would be pooled and professionally invested. The money is locked in until retirement when it is paid out as an annuity. And there is a modest guarantee. All employers who don't already offer a retirement plan would be required to offer this option to employees, who have the ability to opt out. The California law requires that a feasibility study be done before the plan is implemented and my understanding is that they are working toward that goal now.

Last year, Massachusetts also enacted a new law using its retirement system to administer a new retirement savings plan for workers for employees of small non-profit organizations in the Commonwealth. The retirement plan would be a tax-qualified defined contribution arrangement with various investment options available to employees. Contributions could be made by workers, their employers, or both.

States could use their significant negotiating power and economies of scale to lower costs for employees. Because these plans would operate separately from the state's own retirement system that covers state employees, they can be structured not to add to state budget deficits or add to liabilities of state pension systems.

Just as states led the way in developing new plans for health care expansion, these models for pension expansion could become the incubator for a comprehensive national solutions.

My father and mother, Ed and Fran Friedman, owned the Friedman Floor Covering business on New Britain Avenue (formerly on Prospect Avenue) for more than 60 years (my grandfather Sam Friedman started the first carpet store in Connecticut). My dad, who is now 89 years old, saw himself as a small-business owner who always tried to do right by his employees. When I asked him about whether Connecticut should explore setting up a new pension plan that would ease administrative burdens of small businesses, and help expand secure coverage for employees, my dad said "What a great idea. If they had done it before, I would have participated."

Being a good daughter, I know my father is always right. And this is no exception. Setting up a new pension plan will be good for businesses and employees of the state, particularly low-income – and also position Connecticut to lead the nation in reform.

Thank you for giving me this opportunity to testify. It is an honor to be back in my home state of Connecticut.

CONNECTICUT WORKING FAMILIES

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February 26, 2013

To the Co-Chairs and members of the Committee on Labor and Public Employees:

Testimony in SUPPORT of SB 54: AA Establishing a Retirement Savings Plan for Low-Income Private Sector Workers.

Submitted by Lindsay Farrell, Executive Director

Good afternoon, and thank you to the co-chairs for holding a hearing on this bill for retirement savings.

Working Families fully supports this bill. Secure, reliable retirement funding is a crucial issue in the coming years and decades, and we need to take action to find sustainable solutions now. Failure to protect retirement options for seniors will result in high unemployment, low economic growth, and a huge strain on our economy.

The current retirement system is inadequate for most workers and their families. Wages are too low for meaningful personal savings, pensions are being replaced with expensive, unreliable private investment accounts or nothing at all, and Social Security benefits were never intended to be a retiree's only income. This will lead to a large number of workers who are old enough that they should be retiring, but cannot afford to do so.

Every worker of retirement-age who stays in the workforce, prevents a young worker from entering it.

This is already harming our economy; the youth unemployment rate is at record levels, at 13.4% in Connecticut in 2012 for 20-24 year olds. According to Towers Watson, 40% of workers plan to delay their retirement. Go shopping: at retail locations and supermarkets we used to see young people in the majority of positions there. A combination of retirement un-affordability, and disproportionate economic recovery in the service sector has forced seniors and middle-aged workers in to these jobs.

By contrast, every dollar pumped into the economy from a retiree's pension helps grow it. In fact for each dollar paid to retirees in Connecticut, $1.52 in total output is generated, in indirect and induced impact. Retirees spend their pension dollars on goods and services, which in turn require businesses to hire more people and produce more products, which in turn has an effect on all the industries where that money is spent.

Finding solutions for a secure retirement for all workers has an impact on all workers, not just those retiring. Please pass SB 54.