



Real Possibilities

Testimony of AARP CT
Senate Bill Number 249: An Act Promoting Retirement Savings
Labor Committee
March 11, 2014

Our nation and its working families face an unprecedented crisis: a vast retirement savings deficit, estimated to be as much as \$6.6 trillion, or about \$57,000 per household.¹ According to the National Institute on Retirement Security, an overwhelming majority of Americans are anxious about their retirement prospects, with some 84 percent being concerned that current economic conditions are impacting their ability to achieve a secure retirement.²

To give you an idea of how ominous the situation is, listen to these startling statistics:

- Currently, one in ten seniors in Connecticut lives in poverty.
- More than six of ten middle-class Connecticut retirees can expect to outlive their financial assets.³
- Social Security accounts for 87% of total income for low income households, and 70% of total income for middle income households of those 65 and over.⁴

It is clear that workers are not prepared for retirement, and as baby boomers continue to retire, we will see this crisis grow unless we act now.

Social Security provides an essential baseline of income for retirees. However, Social Security alone will not provide enough to pay the bills during our retirement years. The average monthly Social Security benefit is only about \$1,300. As things stand today, Social Security will likely be the main source of retirement income for most future middle-class retirees.

¹ Retirement USA. *The Retirement Income Deficit (2011)*

² National Institute on Retirement Security. *Pensions and Retirement Security 2011: A Roadmap for Policy Makers.*

³ Americans for a Secure Retirement, *Retirement Vulnerability of New Retirees in Connecticut*

⁴ Boston College Center for Retirement Research. *The National Retirement Risk Index: An update (2012)*

As this committee knows, Social Security was never supposed to be the sole source of income for retirees. It was intended to be one leg of a three-legged approach to retirement savings. Employer sponsored retirement plans and individual savings were envisioned as the other critical components.

Research shows that our nation's current plan for retirement security is inadequate. Boston College's National Retirement Risk Index estimates that 53 percent of households are at risk of having an insecure retirement, meaning that they run the risk of being unable to afford food, medicine, or utilities.⁵

Following the Great Recession, retirement savings rates remain inadequate. According to the National Institute on Retirement Security, the typical working-age household has only \$3,000 in retirement assets, while near-retirement households only have \$12,000.⁶ What is even more alarming is that these are the people who are ahead of the game because they are actually planning ahead and saving.

Three out of five families headed by a person 65 or older have no money in retirement savings accounts.⁷

Lest you think this isn't a problem locally, in Connecticut 605,956 workers do not even have access to a retirement plan.⁸ Planning for retirement is an even greater burden for economically disadvantaged groups, people of color, young people, and part time employees because they have the lowest access rates to employer-sponsored retirement plans.

If nothing is done now the state budget will be saddled with a growing burden in the future as older adults are forced to rely more and more on public safety net programs.

There are some simple steps that we can take to avert this crisis. For instance, we know that when offered the opportunity at work to save for retirement; seven out of ten people choose to participate.⁹ One of the biggest predictors of whether an individual will save money toward a secure retirement is whether or not they have access to an employer-sponsored retirement savings plan.

AARP is taking a state-centered approach to filling the retirement savings gap. Connecticut is not alone in considering a state facilitated retirement plan. We have worked with nearly a dozen state legislatures in consideration of a wide array of approaches to this crisis, involving: Auto IRA, Secure Choice, and other savings models.

⁵ *Ibid.*

⁶ NIRS. *Facts from NIRS Research on Pensions and Retirement Security. (2013)*

⁷ AARP's Public Policy Institute. *The New Reality: Important Facts about America's Seniors (2011).*

⁸ AARP Public Policy Institute tabulation of the U.S. Census Bureau's Current Population Survey, March Supplement (2011 - 2013)

⁹ Pension Rights Center. *How Much is Saved in 401(k)s.*

Many of you may have some concerns about taking on retirement security. Common questions that we have encountered include:

Won't this cost the state a lot of money? This plan, and those considered by other states, is self-sustaining, paid for through participant fees. Furthermore, Connecticut can't afford *not* to take action. If older adults do not have enough money for secure retirement, they will more heavily rely on Medicaid, which is the most expensive program in the state. Connecticut spent millions of dollars for Medicaid services to residents over age 65. These are dollars that the state can spend on other essential services like education and public safety. By helping people plan for self-sufficiency in retirement, the state will ultimately save money.

Won't the state incur new unfunded liabilities by creating a state run retirement savings plan? Emphatically the answer to this question is no. States enacting legislation on this topic are looking at defined contribution plans, which don't create liabilities to the state. Startup costs can be borne by the participants of the plan.

Why don't people just invest on their own? Is this legislation really needed? With a majority of workers relying on Social Security for their retirement income, we know the retirement system is not working for a large portion of the population today. These folks are not courted by the industry due to small account balances and lack of access. Many are under or un-banked. We need to remove the barriers to retirement planning and financing, as well as add incentives like access to pre-tax plans, and make it easy and cost-effective to save for retirement.

Rebuilding the promise of financial security in retirement must include modern, expanded options. We need to explore new models for private sector retirement plans that allow workers to set aside wages through an easily accessible, safe, pre-tax, cost-efficient retirement savings vehicle.

AARP believes that we all have a right to live with self-reliance and dignity in retirement. If you have any questions, I'd be happy to answer them now, or you can contact AARP directly. Thank you again for the opportunity to speak with you today.

