Testimony in SUPPORT of SB 249 AA Promoting Retirement Savings

Submitted by Ken Floryan
Financial Services Retiree
West Hartford, CT

To the Co-Chairs Rep. Tercyak and Sen. Holder-Winfield, and the other members of the Committee on Labor and Public Employees.

Good Afternoon, and thank you for holding a hearing on this bill and the topic of retirement security. My name is Ken Floryan. I am a recently retired investment management professional. For the past 18 years I worked for a firm that managed various insurance and investment portfolios, including group pension accounts. When I retired, I left a position in investment risk management and insurance portfolio management with Babson Capital Management L.L.C, a subsidiary of Mass Mutual Life Insurance Company.

I am fortunate. I now have a comfortable retirement income where my Social Security is supplemented through systematic contributions that my employer made into a defined contribution pension, and that I and my employer made into a 401(k). I believe that all workers should have the opportunity to provide for retirement that I have enjoyed, but my situation is not universal. I know from professional experience and from the many published studies that the current retirement system will not provide for many workers in the future, and that we need a low-cost, reliable plan available to small businesses and low- and middle-income workers.

In their 2013 Retirement Confidence Survey, the Employee Benefit Research Institute reported that 34% of today's working households have no retirement savings, neither in a 401(k) nor in an IRA. In 2013, 18% of the workforce was not offered an opportunity for retirement savings through their employer. The survey further indicates that whereas 94% of households making more than $75,000 per year report savings for retirement, and 76% of households making between $35,000 and $75,000 report savings for retirement, only 24% of households making less than $35,000 per year report savings for retirement. There is a reason for this skew.

The current retirement planning marketplace does not have effective products for the individual worker and small businessman who is not classified as a "high net worth" investor. Providers of investment services feel that the individual or small business that is not classified as "high net worth" imposes a high cost of marketing and high costs of servicing. This is to say: they do not consider these customers worth their while because they cannot make a high enough margin of profit. To recover the costs of servicing individuals with average incomes or small groups, providers of investment services feel that they must impose high minimum investment amounts and high fees.

The high minimums are a barrier to entry into retirement savings for many workers and small businesses. High fees eat away at the return on investment that the small investor would otherwise realize. Fees on 401(k)s and other individual retirement accounts, can cost the median-income two-earner household over $150,000 in fees over a lifetime, according to a study by Demos. In the long run, the average mutual fund earns a 7 percent return, before fees, matching the average return of the overall stock market. However, the post-fee returns average only 4.5 percent, meaning that, on average, fees eat up over a third of the total returns earned by mutual funds. This, paired with the difficulty of regularly making the decision to contribute on one's own, makes it impossible for many workers to save enough for their retirement.

Another problem for small businesses and individual workers is diversification. The IRA structures made available to small investors are typically mutual funds, which lack the benefit of diversification across multiple asset classes. With small, individual contributions, the investor is unable to spread their risk across a range of low-yield, low-risk and higher-performing, higher-risk options. And then even if they can invest more, they do not have the expertise to invest a dynamically diversified and risk-controlled portfolio.

That lack of diversification means the individual IRA has higher risk exposure to significant market events such as the stock market downturn in 2007-2008. Workers retiring at that time, who had for a lifetime been counting on rising stock values to fund their retirement income, were unlucky. They could not convert their collapsed stock values into the annuity income stream that they had been counting on. In contrast, most professionally managed pension plans did not see that dramatic loss in value. That is because a professionally managed fund can diversify risk across certain asset classes such as private placement bonds, private bank loans, and commercial mortgage debt and equity, whose returns do not correlate closely with the broad stock market. Furthermore, an investment manager will hedge certain downside risks with insurance through strategies employing derivative contracts.

I support the plan created in SB 249 because it provides the advantages of a large pool and the routine necessary to enable people to contribute regularly to their retirement. This proposed legislation will grant access to the benefits of professional retirement investment management at lower fees for a segment of the public that right now does not have good retirement planning options.

The best way to save for many workers is to have a small, automatic deduction. It can often be difficult for people to set aside chunks of money into a plan when that financial demand is competing with others, so the routine of setting aside a small percent every pay period helps workers build savings into their personal budgets.

Please pass SB 249 to ensure that low- and middle-income workers, as well as small businesses have an option for affordable, secure retirement planning. Thank you.