Council 4 AFSCME
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Testimony of Sal Luciano
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Labor and Public Employees Committee
HB 6931: AN ACT CONCERNING NEW MUNICIPAL EMPLOYEES AND THE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
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Good afternoon, Senator Gomes, Representative Tercyak, members of the Labor and Public Employees Committee. My name is Sal Luciano. I am the Executive Director of Council 4 AFSCME, a union of 32,000 Connecticut public service workers.

About half of the members of my union work for municipalities. These dedicated public employees plow our roads on days like today, educate and feed our children, answer our 911 calls, and inspect our restaurants. These are not easy jobs. Our members go to work when others stay home. For this they deserve our respect, and a paycheck that allows them to put food on their tables, health insurance that enables them to see a doctor and afford their medication, and the ability to retire one day.

HB 6931: An Act Concerning New Municipal Employees and the Municipal Employees Retirement System would make that more difficult.

It's also bad policy for the state.

If our goal is retirement security, 401(k) savings plans cost more than real pensions. We see this with the current state employee workforce. For state higher education employees who participate in the alternative retirement plan, 13% of their salary must be contributed to the program to get close and yet doesn't reach the same level of retirement security as those who participate in the state employee pension.

This is because 401(k) savings plans have a shorter time horizons, less ability to hedge investment risk, and a greater risk that the employee will outlive their savings. In fact, according to a 2008 study by the National Institute for Retirement Security, "the cost to deliver the same level of retirement income to a group of employees is 46% lower in a defined-benefit plan than it is in a 401k plan".

Taking away retirement security only defers costs to later on. Right now, nearly 25% of our elderly live in poverty in Connecticut. That number rises every day. If we take away the opportunity of residents to have adequate retirement income, that number is going to increase even faster, leading to higher costs in the form of public assistance. Let's not forget that our cities and towns are not like private companies shedding their pension plans, they will be on the hook for that bill.

It's not a coincidence then that defined-benefit pensions, like MERS, help attract and retain employees. A study by Boston College found that tenure with a single employer is longer when that employer has a defined-benefit pension plan. Other studies have found that companies without pensions have higher turnover rates than companies with defined-benefit pensions. Don't we want the best and the brightest working in our local governments?

But those are not the only problems with this bill. The other problem is that it will destabilize the fully-funded MERS plan. If cities and towns are allowed to leave the current plan for a 401(k), will lead to higher costs for those that are still in the plan.

It's for these reasons that states like Alaska, Michigan and West Virginia all moved back to a defined-benefit pension after moving to a defined-contribution plan turned out to be more costly.

Let's not make the same mistake. I urge you to reject this bill.

Thank you for the opportunity to testify. I would be happy to take any questions.