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Testifying in opposition to HB 5591
AN ACT CREATING THE CONNECTICUT RETIREMENT SECURITY PROGRAM

Good afternoon Senator Gomes, Representative Tercyak, Senator Hwang, Representative Rutigliano and members of the Labor and Public Employees Committee. My name is Eric Gjede and I am assistant counsel at the Connecticut Business and Industry Association (CBIA), which represents more than 10,000 large and small companies throughout the state of Connecticut.

CBIA is opposed to HB 5591 because of the cost of this new mandate. This expenditure becomes more problematic given the ample availability of private sector alternatives that make this program unnecessary. Further, there are so many unanswered questions about the plan that it begs the question: Why are we doing this?

The state-sponsored retirement plan put forward in this bill will have a tremendous cost to taxpayers - both at implementation and on an ongoing basis. The Connecticut Retirement Security Board projected this proposal could have startup costs of at least $2 million, with continuing operational expenses thereafter. However, there are potentially many more significant financial risks once the plan goes into effect. For example, studies conducted on the proposed plan regarding its solvency presume a low participant opt out rate, and that participants will stick with the default contribution rate of 6% of their wages. Both of these presumptions are necessary in order to reach the plan's target solvency goal of $1 billion and to ensure low plan-related fees. If these assumptions are wrong, the plan may be unable to attain its solvency goal. It will likely be forced to increase fees on participants, or possibly even refuse to allow them to withdraw their contributions.

Under this proposal, the state makes many choices regarding the plan's design and product offerings. However, the state also makes it clear throughout the bill that it has no fiduciary liability for the plan. So, who does? If something goes wrong, where will participants address any legal claims for breaches of fiduciary duty? Some advocates have claimed that the quasi-public set up by this bill will be the one responsible for answering legal claims related to the plan. Of course, given that the quasi-public is funded by plan participants' contributions, a plan participant bringing a legal claim will essentially be suing themselves. Regardless of whether the state attempts to avoid liability for future claims, their decision-making over its design and ultimate responsibility for this plan make the state the fiduciary. Therefore, if this plan fails, taxpayers are financially on the hook to make claimants whole.

This plan also has significant costs to the business community. HB 5591 mandates that employers enroll their employees in a plan the business owner knows nothing about, and then transfer employee contributions to the state. These tasks require the business to incur the cost of diverting work hours to accomplish these tasks with financial penalties for failing to do so. This becomes an ongoing job each time an employee decides to make adjustments to their contribution level. The burden is even greater for businesses that have a moderate level of employee turnover. These are more reasons why more than 70 of the state's largest business organizations and chambers of commerce sent a letter to lawmakers opposing this and other new mandates.

Finally, this plan has a cost in terms of financial service-sector jobs that will be lost as a result of its implementation. There are tens of thousands of Connecticut citizens that make their livelihoods in the state working for the financial services industry. If this plan becomes the default option for any employee that does not have a retirement plan, it will push those private-sector businesses selling competing products entirely out of the market. This will result in a loss of jobs and revenue to the state.

There is absolutely no reason for the state to incur the financial risks associated with this plan. There are hundreds of low cost retirement products already available in the marketplace. We can all walk into our hometown bank and be enrolled in an IRA in a matter of minutes - with automatic deductions right from our bank account. Further, the federal government also has a voluntary IRA plan available to anyone that prefers a public-sector plan. The state adding another plan to the mix is not the answer.

Retirement planning is not a core function of state government. Instead, we urge you to partner with the business community to help educate and encourage more people to save for their retirement.