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CFP Testimony submitted to the CT General Assembly March 2016 in regards to the proposed legislation: state run retirement plan

Worthy of note: 600,000 workers in the State of CT who do not have access to a retirement plan at work is not the same statement as 600,000 workers in the State of CT who do not have access to a retirement savings program. Worker in CT and other states for that matter, have access to a retirement program through the open market but have potentially failed to act on their own behalf. Many believe this is a lack of financial literacy rather than access to a plan.

The CRSB deserves tremendous credit for their hard work and dedication but at the heart of the matter is how to fix the retirement crisis. Reducing the dependency on Medicaid was the primary focus which is not limited to retirement years. Teaching financial literacy spans the scope of a vast majority of Medicaid recipients in the present as well as the future. However, since the Medicaid budget is made up of long term care, it is important that it be addressed in this argument.

According to the CT Health Policy Project, the per person spending in Medicaid varies significantly:

- Connecticut elderly and disabled recipients make up 24% of the population but incur 73% of costs. The elderly and people with disabilities have significantly higher per person costs than children or other adults mainly due to more intense use of acute and long term care services. Medicaid funds care for six out of ten US nursing home residents. Noteworthy is that 76% of Medicaid recipients may not have the ability to save today for their future retirement in order to alleviate future dependency on the program.
- Only 7% of US Medicaid recipients use long term care, but they account for 52% of spending.
- Medicaid spending per person for children and their parents is far lower than in private insurance, and it is growing more slowly.

The issue at hand is more of a long term care crisis if we connect the dots regarding the statement of purpose for the CRSB. For those individuals who adopt a CT Partnership LTC insurance policy, the state run retirement plan negates the effectiveness of the original Partnership agreement.

I urge the opposition of the state run retirement plan based upon the following:

1. The plan falls short as follows:
    - The retirement crisis is a function of both income and expenses. The plan does not meet the need. A 30 year old participant earning $50,000 per year with a 6% deferral rate at a moderate rate of return of 6% for a 30 year old planning to retire at age 67 with 80% income replacement will most likely run out of retirement funds at age in the 75th year. To rephrase this quantification, the plan's balance will only support the individual to for a little over 8 years.
    - Insofar as long term care costs and Medicaid are concerned, there is no guarantee that the funds accumulated will achieve the intended result due to the enormity of the cost at the time of need due to level of care and increased cost of care to deliver such services. The retirement account withdrawals are then subject to taxes, which we know further compound the complexity of taxation of other income when a participant begins taking out the sums needed to pay for long term care services.
    - If annuitization is part of the default option, then any LTC Partnership policy provisions for asset exemption under Medicaid eligibility is negated, thus undermining the States own program.
2. Providing a state run retirement plan does not guarantee an employee will retire in CT nor does it prevent a retiree moving to CT. Both of these situations contribute to negating the effectiveness of the plan as it pertains to the mission of reducing dependency on Medicaid.
3. Why have businesses not adopted a retirement program?
    i. Cost
    ii. Compliance
    iii. Exposure to ligation

Analogy: Recently a well-known consulting firm looked to make significant changes to a product on their platform. The operations, administration and management team were on the selection committee. When it came time to roll out the changes, the sales team was finally consulted. The resounding theme from sales was, "why did you not ask

what we hear from the client as to what they want?" Sales is on the front line and I would argue that they have the most accurate field strategy. Why don't we ask financial advisors who are on the front lines why people fail to achieve their goals? And why not ask the top retirement plan providers/advisors why employers do not offer plans? We know the answers to the employer question to be:

COST: Cost is an issue but there is an assumption that it is the cost of funds, third party advisors, and advisor fees. Have we actually stopped blaming the financial industry long enough to review what all of the costs are associated with an employer adopted plan? A large cost is in the matching program. In fact, the SIMPLE IRA plan is the most basic plan an employer can offer but there is a matching component. Might we consider flexibility if an employer wanted to offer merely payroll deduction to a SIMPLER SIMPLE plan which resembles an IRA without it being run by the state?

COMPLIANCE: Compliance and exposure to litigation go hand in hand. Employers are afraid of their fiduciary responsibility and the exposure which they assume by offering a plan. The state run retirement plan mandates employers to offer the plan and further opens up litigation exposure which is a large part of why employers do not offer plans in the first place. Further, what department(s) in CT has the resources to dedicate to this type of grievance process? When there is a grievance, warranted or unwarranted, who keeps the doors open for business for the small employer? Further, what is the additional cost of employer legal representation for unwarranted grievances?

4. Taxation and reconciliation. The Public Act called for minimum sophistication for participants. For one, a retirement account of any nature is not simplistic due to deductibility eligibility and the overall taxation of the account structure. Who takes responsibility when the employee goes to file their annual taxes and files them incorrectly or makes a withdrawal and doesn't pay taxes because "they didn't know." In the private sector, advisors are not only required to disclose this information but for the most part are also required to make certain the participant understands. Is the state run plan ready to take on the same responsibility?

5. Employers need a break. The Affordable Care Act mandates have employers scrambling to meet requirements and is overwhelming. While an employer is a wonderful gateway to access employees, we need to remember that the employer creates jobs, contributes to the tax base as well as the state and local economy. If CT wants to keep its employer base, might we want to consider providing incentives to help our state as a whole through this crisis?
6. Fiduciary carve out. While the country awaits the outcome of the DOL's fiduciary ruling, states have received an exemption to such ruling even though it has not yet been released. Although the recommendation is to act in a fiduciary capacity, there is no requirement to do so. This is dangerously close to double standards and I trust the CT government to make the right decision to oppose the state run retirement plan legislation in order to stand clear of political maneuvering resembling government involvement pertaining to ruling favoritism in light of the massive upheaval the final DOL ruling is certain to create. The requirements should be no different from a state level retirement plan vs. a private sector retirement plan.

Having intimately followed the findings of the Board through faithful attendance and follow-up research, I firmly oppose the state run retirement plan. Having integrated the pieces of the feasibility study into an overall financial plan, the components do not add up on any side. CT has the opportunity to solve this problem but not through the re-creation of a vehicle which already exists in the marketplace.

In contrast to supporting a state run retirement plan as proposed, I support a financial literacy program. Similar to health and wellness programs, we have learned that education and prevention is the key to controlling costs. One of the greatest impacts we have yet to embark upon is helping individuals quantify their retirement which includes income, expenses and life expectancy. Retirement is not a destination, in our context it is a financial plan which must last the entire latter portion of one's life. As tough as this sounds, behavior modification is the key component. Having another IRA option through payroll deductions might mitigate some expenditures in the far off future, but I argue the problem will not be solved to any impactful degree. True financial literacy and behavior modification has a far greater effect on outcomes near term, long term and everywhere in between.