Testimony of TIAA
On
House Bill 5591,
"An Act Creating the Connecticut Retirement Security Program,"
March 8, 2016

Mr. Chairmen, Members of the Labor and Public Employees Committee, I am Martin Noven, Senior Director for Government Markets for TIAA. Thank you for the opportunity to offer our thoughts regarding House Bill 5591, "An Act Creating the Connecticut Retirement Security Program."

TIAA strongly supports the proposal. All workers should have the opportunity to plan and save at work for a secure retirement. The Connecticut Retirement Security Program ("Program") could help close the retirement readiness gap for hundreds of thousands of Connecticut workers. The Program is very well-designed, incorporating a number of industry best practices, including mandatory employer participation, automatic employee enrollment with the opportunity to opt-out, an appropriate default contribution rate, a focus on lifetime income, a long-term outlook, and the potential use of electronic communications.

- Employer Participation

  To change the status quo in the marketplace, requiring employers to participate in the program is essential. The vast majority of workers will fail to save for retirement unless they are offered a workplace retirement plan. While those workers could open up an IRA, studies have found that as few as 1 in 20 workers without access to a workplace retirement plan will do so.

- Default Contribution Rate

  While getting participants into the Program is a critical first step, convincing employees to contribute an amount that is likely to improve their retirement security is just as important. While automatic enrollment programs work well, employers typically adopt a relatively low default savings rate of 2% to 3%. As a result, many employees continue saving at that default rate — which is far too low to provide enough money for retirement, even considering Social Security benefits.

  It is for these reasons that we recommend that states consider a higher default contribution rate, such as the 6% established for the Program, and let participants opt out if their compensation does not permit that rate. Research indicates that higher default rates of 4% to 6% do not lead to a significant increase in opt-outs or lower participation rates.

- Lifetime Income

  With the continuing shift to greater employee responsibility for investments in defined contribution plans, products that generate income are becoming more and more common in today's plans. Helping employees establish an income floor — where there is sufficient income to meet the basic necessities of life — is critical to employee confidence and success in retirement. Research indicates that 72% of participants are interested in contributing to an investment option within their employer-sponsored retirement plan that focuses mainly on generating a guaranteed monthly income in retirement.

  The proposal recognizes the importance of lifetime income by requiring participants to invest in products that provide lifetime income once the participant reaches normal retirement age. The proposal also appears to provide the Connecticut Retirement Security Authority broad enough discretion to offer similar investments prior to retirement which is a proven way to manage investment and annuitization risks. As the financial services industry evolves, more and more target date funds are being customized to include income products in the accumulation phase. Research indicates that 64% of investors in target date funds believe that the investments will generate lifetime income. The use of income products can support the view that the purpose of the Program is to provide retirement security, and not just wealth accumulation. The proposal also provides that the Program can support that view by providing participants with an estimate of the amount of income that a participant's account will generate in retirement.

- Long-Term Outlook

  By permitting contracts of up to ten years, the Program should be able to keep fees low, spreading start-up costs and initial losses over an extended time period. While the long-term potential of these programs is great, based on the large number of initial low balance accounts, these programs are expected to operate at a loss to the state's chosen record keeper in the early years because the assets in the accounts will not generate fees that are sufficient to cover the costs of maintaining the accounts, even at a 6% default contribution rate.

- Electronic Communications

  The proposal authorizes the Board to adopt policies for the electronic dissemination of notices and information. The use of electronic communications can reduce administrative costs by as much as 60%. It is also more environmentally responsible.

About TIAA

TIAA is a national financial services organization that manages over $866 billion in total assets for more than five million clients, including more than $12 billion in assets for more than 75,000 Connecticut residents. TIAA manages over $2.2 billion in assets for over 135,400 participants in the Connecticut Higher Education Trust (CHET) College Savings Plan.