State of Connecticut

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Testimony against HB 5591: State Takeover of Private Sector 401k Plan Proposed When its Own Pension Plan is at Risk?

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By Senator Toni Boucher

With a steady outflow of individuals and business hampering Connecticut's financial development, the state should be looking for ways to bolster its remaining successful industries. Retirement planning is one area in which there are an abundance of top notch providers, yet the state has decided create its own IRA plan for private sector workers. The plan creates a new bureaucracy with which private companies will have to contend, increasing the demands on their time. Participation is nominally voluntary, yet firms with more than five employees would be required to automatically enroll their employees, and would have to opt-out of the program, rather than opt-in.

Simply put, this is not a good time to impose further burdens on businesses that, in recent years, have been saddled with an ever expanding number of government mandated payments. The varying ability of Connecticut's business to meet these costs introduces volatility into the proposed plan that the Connecticut Retirement Security Board appears to recognize. The state IRA fund would require $1 billion in assets to be self-sustaining; the board has admitted that at an employee contribution rate of less than the top rate of 6%, the arrangement would not work as planned. In this caveat are echoes of Connecticut's inability to manage its own pension fund, which is funded at only 42%, when the standard is 85%.

Worse still, a state administered IRA plan would compete directly with private sector companies, worsening our already precarious business environment. It may also exacerbate our declining tax revenue and further the loss of high wage jobs, which is happening at an alarming rate, as Ben Barnes recently showed before the Finance Committee. Instead, my colleagues and I propose a plan that will address the desire for more private sector workers to save for retirement and build financial security for themselves. The plan is based on Washington state's plan that creates an exchange through which private sector companies can offer retirement plans to employers. A state website provides information to employers on the range of retirement programs available. Participation is voluntary, and open to employers with fewer than 100 workers. The advantage of this plan is that it harnesses the efficiencies of private sector firms to deliver a range of retirement investment services to businesses and their employees cost effectively. The state of Washington required only $100,000 in 2015 and $50,000 in 2016-18 to be budgeted for its implementation.

The state's goal should be to help grow private sector business while and to promote better informed and more proactive retirement savings among private sector workers. By acting as a clearinghouse for private retirement plans, rather than a direct provider, the state could satisfy these goals in an arrangement that is a win-win for all involved.