Labor and Public Employees Committee
March 8, 206
Testimony in support of Raised House Bill 5591
An Act Creating the Connecticut Retirement Security Program
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On behalf of our almost 600,000 members in Connecticut, we would like to thank you for the opportunity to speak about **House Bill 5991 An Act Creating the Connecticut Retirement Security Program**.

As it stands today, one out of two households are at risk of having a financially insecure retirement.[1] Financial insecurity does not mean missing out on a retirement of leisure or travel, but rather that middle-class households will be unable to afford food, medicine, and utilities.

According to the National Institute on Retirement Security, the median retirement account balance is $3,000 for all working-age households and $12,000 for near-retirement households.[2] Three out of five families headed by a person 65 or older have no money in retirement savings accounts.[3]

This predicament is due in large part to a lack of access to retirement plans at work. We know that when offered the opportunity to save for retirement at work; seven out of ten people take advantage of it.[4] Individuals are 15 times more likely to save if they can do so via payroll deduction, as only 5% of workers without access go out on their own to open an IRA.

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[1] Boston College Center for Retirement Research. *The National Retirement Risk Index: An update (2012)*
[2] National Institute on Retirement Security. *The Retirement Savings Crisis: Is it Worse than We Think?* (June 2013).
[3] AARP's Public Policy Institute. *The New Reality: Important Facts about America's Seniors (2011).*
[4] Pension Rights Center. *How Much is Saved in 401(k)s.*

Unfortunately, almost half of the private sector workers in Connecticut do not have a way to save out of their regular paycheck—that's nearly 600 thousand employees. Participation in employment-based plans has declined significantly in Connecticut over the last fifteen years.[5] Let's delve into these numbers a bit. Workers at all education levels do not have access to a retirement plan. About 70 percent of workers who do not have a high school degree lack access to an employer-provided retirement plan. Yet roughly one out of three workers with a bachelor's degree or higher also lack access.[6]

Access also affects workers of all income levels. Surprisingly, 45% of Connecticut's private sector workers that make over $25,000 per year lack access to a way to save at work.[7]

Perhaps the most telling factor is employer size. Workers in Connecticut businesses with fewer than 100 employees are much less likely to have access to a plan (64 percent) than workers in larger businesses (32 percent). In raw numbers, about 335 thousand small-business employees do not have access to a retirement plan.[8]

Taken together, these facts mean that future retirees are likely to be over-reliant on Social Security. One in four of Connecticut's 65+ residents rely on Social Security as their only source of income.[9]

Social Security alone will not provide enough to pay the bills during retirement. The average monthly Social Security benefit in Connecticut is $1,372.[10] If nothing changes, Social Security will likely be the main source of retirement income for most middle-class retirees going forward. There is widespread agreement that Connecticut's residents are not financially prepared for retirement. If the State does not act now, taxpayers will face higher social safety net program costs in the decades to come.

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[5] National Institute on Retirement Security. *Financial Security Scorecard: A State-by state Analysis of Economic Pressures Facing Future Retirees.* (March 2014). * Note 2012 was last year of scorecard.
[6] John, David and Gary Koneig. "Fact Sheet: Connecticut. Workplace Retirement Plans Will Help Workers Build Economic Security" (2015).
[7] *ibid*
[8] *ibid*
[9] AARP, "Social Security: 2014 Connecticut Quick Facts" (2014).
[10] *ibid*

According to a recent Utah study, the total cost to taxpayers for new retirees in that state will top $3.7 billion over the next 15 years.[11] This constitutes potential savings for taxpayers if we act now. The study also found that 18% of retirees in the next 15 years will retire with more debt than savings. Even a small change will make a big difference. A 10% increase in net worth of the one-third least prepared for retirement will save taxpayers $194 million through 2030.[12]

There are simple steps that can be taken to divert this trend. The best way to improve retirement security is to ensure that everyone who works has access to a low-cost, professionally managed retirement plan that enables them to save automatically out of every paycheck. That is the goal of the bill before you today.

As the legislature considers this measure, AARP would like to devote a little time to dispelling misconceptions.

You may hear that there is already a federal solution to this problem: myRA. While myRA is an additional tool in our retirement security toolbox, it is not a panacea. Nationwide, myRA is not broadly available to workers and its use is not automatic. Furthermore, it has a few serious limitations. Investments are limited only to bonds, preventing savers from taking full advantage of the market. Furthermore, individuals can only set aside $15,000 in their accounts before hitting a savings cap.

You may also hear that all we need is better financial education. Recall that over the last decade access to retirement plans has declined, 401(k) balances have stagnated, and healthcare costs have risen. Although education is necessary, it is certainly not sufficient to solve this problem.

Interested parties often cite ERISA concerns. These were dismissed by President Obama who noted at the White House Conference on Aging that he has directed the Department of Labor: “to clarify the path forward for state savings initiatives passed by some states and under consideration in many more.” In November, the Department released a Notice of Proposed Rulemaking, which clears the way for the legislation before you today.

[11] Goodliffe, Jay, Erik Krisle, Sterling Peterson, and Sven Wilson. *The Cost of Retiring Poor: Government outlays in utah's retiring population.* (January 2015).
[12] *Ibid.*

Further, DOL has issued the following guidance regarding myRA: "given the character of the program, including its voluntary nature, its establishment, sponsorship, and administration by the federal government, and the absence of any employer funding or role in its administration or design, the Department is of the view that an employer would not be establishing or maintaining an 'employee pension benefit plan.' "[13]

The legislation before your committee has been carefully crafted to respect the United States Department of Labor ERISA safe harbor guidance. Employers' responsibility is required by law to be minimal, consisting largely of payroll deduction procedures with which they are already familiar. Employers are prevented from giving advice, advocate for a plan, or even contribute under this model. The bill explicitly states that they can't be responsible for market gains and losses of their employees.

Despite all of this, some may argue that ERISA is still an issue. They assume that legislators will hear that acronym and run for the hills. It's vital to remember that ERISA is not something big and scary. It is a federal law aimed at *protecting* consumers!

AARP is excited about the flexibility and choice that the plan before this committee offers. The assertion that it would limit employer choices is purely a scare tactic. Employers always retain the right to use the retirement product of their choosing, and it is always voluntary for employees. This committee is voting on a plan to create a plug and play option for businesses that reduces their administrative, cost, and legal burdens.

In contrast, the Washington state plan that has been discussed by some opponents does not address the regulatory and administrative burden of operating a retirement plan. In order to use the marketplace, small businesses would still need to choose a plan, choose a provider, hire lawyers and third party administrators, potentially operate under ERISA and contribute employer dollars.

[13] Canary, John. *Department of Labor Letter to Mark Iwry, Senior Advisor to the Secretary and Deputy Assistant Secretary.* (December 2014).

The Washington model simply will not make the kind of difference that's needed toward addressing what has become a crisis facing Connecticut and roughly half of its private sector workers.

AARP expects more than 30 states to address the issue of private sector retirement security next year, including many of Connecticut’s neighbors: New Jersey, Massachusetts, New York, Maryland, Delaware, New Hampshire, Maine, Vermont and Rhode Island. In order to remain competitive to the needs of small business owners in our state and region, we urge you to support this legislation.

We encourage this committee to take a proactive step and support the passage of Connecticut’s Work & Save.