

SENATOR MARTIN M. LOONEY
PRESIDENT PRO TEMPORE

Eleventh District
New Haven, Hamden & North Haven



State of Connecticut
SENATE

State Capitol
Hartford, Connecticut 06106-1591
132 Fort Hale Road
New Haven, Connecticut 06512
Home: 203-468-8829
Capitol: 860-240-8600
Toll-free: 1-800-842-1420
www.SenatorLooney.cga.ct.gov

March 8, 2016

Good afternoon Senator Gomes, Representative Tercyak and members of the Labor and Public Employees Committee. I am here to testify in support of HB 5591, AN ACT CREATING THE CONNECTICUT RETIREMENT SECURITY PROGRAM

In 2014 the General Assembly created the Connecticut Retirement Security Board (CRSB) in PA 14-217 which required the CRSB to conduct a market feasibility study and then report back with a comprehensive proposal for the creation of a retirement plan for private sector workers. HB 5591 is the result of this report; it creates the Connecticut Retirement Security Authority (CRSA) which will administer the retirement plan.

The General Assembly created the CRSB because we realized that as our citizens approach retirement far too many of them rely solely on Social Security as retirement income. In truth, while Social Security has lifted many senior citizens out of abject poverty, it does not in fact provide a decent living for those with no other source of retirement income. This problem will become one of extraordinary urgency as more and more children of the baby boom reach retirement age. According to a 2012 op-ed in the Hartford Courant the percentage of private sector Connecticut employees whose employers offer a retirement plan has fallen from 68% in 2001 to 58% in 2012. In 2010,

only 19 percent of individuals age 50-58 whose household incomes were less than 300 percent of the poverty line participated in a pension of any kind at their current jobs, compared to 56 percent of those above 300 percent of poverty¹. Thus lower income persons are more likely to be solely dependent on social security as retirement income. The three legged stool (employer-provided pensions, Social Security and personal savings) is losing one leg.

We saw that in order to address this looming crisis, California enacted the California Retirement Investment Savings Plan to create a supplemental retirement savings plan for private sector workers who do not have access to retirement plans through their employer. It seemed evident that this issue was just as important to Connecticut as it is to California.

The plan outlined in this bill consists of voluntary contributions from employees which will be deposited into a professionally-managed retirement fund. All workers will be provided the chance to enroll in a retirement savings program; unlike employer-sponsored retirement plans such as 401(k)s, employers would not bear any fiduciary responsibility and would not be required to pay administrative fees. The program is designed to be self-sustaining and low-risk due to the modest rate of return (likely tied to the 30-year Treasury-bond rate) and long investment horizon. In addition, the state would have zero-liability due to the requirement that the Board secure private underwriting and reinsurance to protect the returns earned by program participants.

¹http://crr.bc.edu/wp-content/uploads/2014/03/wp_2014-2.pdf calculations from the 2010 *Health and Retirement Study*. Households with 300 percent of the poverty line are close to the median of the income distribution, which admittedly strains the definition of "lower income." But much of the left tail of the income distribution is not employed, so focusing on more traditional definitions of low income – e.g., 200 percent of the poverty line or less – would bias in favor of finding employment to be the sole barrier to pension coverage. Our definition includes more lower-income workers; 300 percent of the poverty line, or about \$39,000 of income (based on a weighted average between the one- and two-person households in our sample), represents only the 22nd percentile of the income distribution among households that include at least one person age 50-58 with any work during the year.

President Obama has unveiled a more limited federally administered government retirement program for private sector workers, MyRA. MyRA is a great start but without Congressional action, it is limited in scope. Under MyRA, workers can invest after tax dollars with a guaranteed return. However, once the account reaches \$15,000 it has to be rolled over into a conventional IRA. The plan does make good sense; once a person has \$15,000 to invest, there are options to invest in plans such as Roth IRAs without fees. The plan is an excellent addition to the retirement landscape, but it is not sufficient.

Many Connecticut citizens whose employers do not offer retirement plans are moderate income workers who are most in need of income beyond Social Security and, in general, workers of moderate income do not have the option of setting aside significant amounts in personal retirement savings since their earnings and ordinary expenses barely balance. Under this legislation, employees would be able to contribute to the plan via payroll deduction and receive a guaranteed return. Several studies have shown that employees are far more likely to contribute to retirement savings if payroll deduction is an option. This would be a step towards rebuilding the third leg of the stool. If we wait, we will be forced to address a retirement security crisis; the outcome will be better if we follow the recommendations and create this retirement option now.

Thank you for hearing this important legislation.

I would also like to express my support for two additional items on the agenda today.

SB 393, AN ACT CONCERNING DOMESTIC WORKERS, would offer certain legal protections and benefits to individuals performing domestic work in a private dwelling. I have long been a supporter of increasing protections for these workers who are vital to our society and have at times suffered from horrific working conditions with insufficient legal protections. This legislation is long overdue.

SB 221, AN ACT CONCERNING PAID FAMILY AND MEDICAL LEAVE would provide much needed paid family and medical leave. The United States is very much in the minority of developed nations in not offering this paid leave. Since individual states can require employers to offer this paid leave, I believe we have an obligation to do so. While I truly appreciate how comprehensive the coverage in this bill is, it may need some revisions in order to advance in these difficult economic times. There are a number of options to narrow the scope of this legislation. Among these options are moving the effective dates out by a year and perhaps offering less than 100% of the full replacement wages. The program might begin by applying the benefit to employees of large employers and then expand over time to include smaller employers.

I look forward to working with you on this important policy.