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**Testimony Submitted by Suzanne Bates, Policy Director, Yankee Institute for Public Policy, to the Connecticut Retirement Security Board on a Public Pension Plan for Private Employees**

This board has an important goal: To make sure more Connecticut residents will have the savings they need for retirement. I hope the committee will keep an open mind about how best to achieve that goal.

Let me state outright that we at the Yankee Institute oppose any plan for the state to create a new public retirement program for employees of private businesses. This will further diminish the state's reputation among business owners – particularly small business owners – who will bear the brunt of this plan's obligations.

Connecticut has already been ranked as "hostile to business" by several organizations, including CNBC and the Tax Foundation, as well as by business owners themselves. In a recent survey conducted jointly by the Kauffman Foundation and Thumbtack.com (a small business hub), the state received an "F" from small business owners for its regulatory requirements. The number of small businesses in the state is shrinking – Connecticut lost more than 5,000 small businesses between 2006 and 2011. Forcing businesses to offer their employees access to a state-run retirement account would add another state mandate to an already long list.

In addition, given the current condition of the state's retirement accounts for public employees and teachers, it is unwise to entrust the state with another pool of retirement money. Connecticut has the second-highest unfunded pension liability in the country. Until the state proves it can manage those resources responsibly, it should not assume any additional responsibilities on behalf of other workers who could one day be let down when they are most in need.

## Other Options

However, we do agree that there are public consequences when people do not save for retirement. To minimize these consequences, we would ask the members of the Retirement Security Board to exhaust all possible legislative avenues that would create additional incentives to spur people to save for their own retirement. We also encourage the board to work with the legislature to find ways to cut taxes for middle- and lower-income state residents, so they will have more money to save for retirement.

This board could provide guidance to small businesses on how to set up a retirement savings program for employees. This guidance could include specific details on what a model retirement savings program would look like, with information on how to save time and money when setting up such a program. This template would reduce both the administrative costs and intimidating red tape that sometimes prevent businesses from giving their employees retirement options. By providing this guidance and education to small businesses, instead of imposing yet another mandate, the government would become a partner instead of a burden.

In addition, state officials should use the bully pulpit to encourage financial services companies to attract and retain lower-income investors. The state should also look for new ways it can encourage the industry to work with these investors.

The state could offer additional state-level tax incentives in the form of tax credits for individuals who save for their retirement. Also, the state should educate people about why it is so important to start saving for retirement when they are young.

One example of a way to encourage people to save money is Canada's tax-free savings account model. (See http://www.tfsa.gc.ca/) Canadian citizens can now save up to $5,500 a year tax-free. The money put in a tax-free savings account is not taxed at any point. A tax-free retirement savings account would be a great way to spur savings for Connecticut's residents. Besides being untaxed, these accounts have the added benefits of being simple to set up, simple to access, and simple to understand.

**If you must…**

If, despite the evidence that the state should not pursue this course, the board still recommends the creation of a state-run retirement program, we encourage you to consider the following points:

- Any new retirement system should be easy to use. This will be best achieved by providing investors with a small number of plans, which would be based on two factors: a person's comfort level with risk, and the age of the investor. Target-date accounts are a great example of a simple, low-cost solution.

- Control of the investment account should rest with the investor, in terms of how to invest their retirement savings and how and when they choose to access their money. This is particularly true once investors reach retirement age – they should be able to access their money at any time and in any way they'd like.

- The state should merely act as an enabling agency, not the responsible party, for these investment accounts. Responsibility for the accounts should pass to a private business, or several private businesses, rather than reside with a new public, or quasi-public, agency.

- Any investment account that is set up should be completely portable. If residents move to a new job, or another state, they should be able to move their funds to another account. That is why the state should not seek an ERISA exemption, but rather use existing tax-exempt plan designs like the 401(k).

- Businesses should not be forced to be the middleman between the state government and the individual who wants to save for her retirement.

- This should be an opt-in program, rather than an opt-out program, so the state should not automatically enroll anyone. If the state chooses an automatic enrollment program, it should not be difficult for a person to opt out of participation.

- The biggest threat that this plan poses to the financial well-being of Connecticut's residents rests with the idea that the plan will offer participants a guaranteed rate of return. Guaranteeing a rate of return will likely make this entire plan unworkable, and puts taxpayers at unreasonable risk, as set forth below.

**The problem with a guaranteed rate of return**

The state has listed as one of its goals to "increase access…without incurring debts or liabilities to the state." We wholeheartedly agree that this is an important goal, especially given the condition of the state's balance sheet, which is already overburdened by debt and liabilities. Guaranteeing rates of returns for investors will place an undue amount of risk on the state's taxpayers.

Indeed, a drastic economic downturn could have catastrophic consequences even for an insurer that might take on such risk. As such, insurance for a guaranteed rate of return will likely be costly, which could eat up much of the savings people set aside. In the short-run, the insurer would likely recognize a profit windfall, while in the long-run the insurer could face massive risk that would ultimately fall back on the state if the company were to fail.

A guarantee would have a high cost, but little benefit. Most people can afford to take reasonable risk with their retirement investments. Depending on their age, this tolerance is likely to change, but individuals should be able to take some risks – like investing in the stock market - so that they can participate in the long-term upside of these investments. The state should not assume this risk, or transfer the risk to taxpayers. Instead, anyone who invests in these accounts must be made aware up-front of the risks involved so they can determine their level of comfort with the risks versus rewards of investing.

**Clarify your expectations of employers**

At two points in your solicitation for comments you mention employer obligations in relation to these accounts that have not been otherwise clarified:

"T. Legal enforcement of employer obligations arising under the plan;"

"5. … What about the employer's contributions?"

If the state plans to require more from employers than just collection of monies, that must be made clear up front. These two points seem to suggest the state may require employers to pay something toward these accounts, or assume some other obligations. If the state insists on instituting a plan, the Yankee Institute advocates limiting employers to a strictly administrative function.

**Conclusion**

In summary, we would again like to emphasize that Connecticut should not create another public investing agency. The state has other viable options to help people save money toward their retirement without assuming the cost and potential risks of a new state-run retirement program.

However, if the state nonetheless chooses to pursue this option, we oppose any attempt to "guarantee" a rate of return for investors; we believe individuals should have the right to control their own level of investment risk. And any plan should be administered by a non-governmental third party or several parties, with a limited number of easy-to-understand investment options at no cost or risk to Connecticut's taxpayers.