The Connecticut Retirement Security Board
Request for Public Comment

QUESTIONS

Responses are not required nor expected to include answers to all of the questions below.

Plan Design

1. What plan structure would you recommend in order to meet the statutory goals and design features (listed above)?
Meeting the State's goals for retirement security for a broad population suggests a plan design that is straightforward, easy to understand, and accessible. The plan should offer easy access to tax deferral opportunities with a compact set of broad investment choices. Pending determinations of law may drive the ultimate plan structure approach.

2. How would you recommend satisfying the requirement that the plan maintain an annually predetermined guaranteed rate of return? Would you recommend obtaining private insurance?
There is great value in providing a guaranteed rate of return, especially in that it will make the plan more appealing to employees who are not familiar with investing. We recommend offering an investment choice within the plan that guarantees principal and a stated rate of return, while also offering investments that are not guaranteed but tied to market rates of return. The funding guarantees for the guaranteed product would reside with the insurance company hired by the state to provide the product, not with the state itself. With such a design, obtaining additional private insurance would not be necessary because employees can choose whether or not they want some or all of their investments in a guaranteed product.

3. What amount would you recommend as the default contribution rate? Why?
As a voluntary savings plan for employees, we suggest the plan be open to employees at the lowest contribution rate possible. For automatic default contributions, we would suggest an initial 3% contribution to provide a reasonable starting point for future contributions toward substantial retirement security.

4. Would you recommend the plan automatically increase participants' contributions over time? If so, by how much and at what time?
Yes (with the option for employees to elect out of such increases). Increases could be made annually on a common date (the new year, when raises occur for an organization, etc.) at a pre-determined percentage (e.g., 1% increase per year).

5. Would you recommend immediate vesting of the participant's contributions? What about the employer's contributions?
Federal law currently requires that employee contributions be immediately vested. Should employer contributions also be included in this plan, delayed vesting may make the plan more attractive to employer participation, but could add complexity.

6. How would you recommend minimizing the funds that participants withdraw from their retirement accounts prior to their retirement in order to minimize fees assessed on the funds (or pre-retirement "leakage")?

The federal penalties associated with premature withdrawal of tax deferred funds (i.e., before age 59 ½) may not be a significant deterrent to leakage. However, adding plan-based "lock-ups" may deter savings rates. Therefore, we would recommend prohibiting loans and hardship withdrawals from the plan, but maintain post-termination flexibility.

7. Do you have any additional concerns about the plan design features? If so, how could those concerns be addressed?

We recommend that the plan design be focused as much as possible on providing an efficient administrative structure that minimizes the costs of providing the plan.

Investments

8. What investments would you recommend to satisfy the statutory goals of the plan, including the types of funds and underlying assets? What style of management (active vs. passive) would you recommend?

A simple compact set of options that can be easily communicated to a broad population is most appropriate for this plan. Indeed, three options may be sufficient: an option that guarantees principal and provides a stated rate of return; an equity fund that represents the broad stock market (and is largely passively managed); and a managed allocation choice that rebalances the investment mix based on employee age.

9. Would you recommend more than one investment option? If so, what would you recommend as the default option?

Yes (as noted above); the managed allocation choice would be the recommended default option.

10. Would you recommend an annuitized benefit, a lump sum payout, a lifelong stream of income, or multiple options? How would you structure each option? Would your recommendations require changes to the statutory investment policy parameters? What amendments to the statute would you recommend?

Because this plan is funded with employee savings, we recommend that participants should have a flexible set of withdrawal options. However, the plan should work to actively encourage participants to understand the value of payouts that cover them throughout retirement, such as annuities that guarantee lifetime income.

11. What recommendations would you make to ensure an effective risk management system is in place?

Three primary factors impact appropriate risk control in any plan: investment design; communication, education and advice; and asset distribution structure. Effective risk management should be a primary responsibility of the CRSB or any other state entity charged with providing oversight for the plan, with regular reviews with all providers of services to the plan.

Administrative Issues

12. How would you recommend qualified employers structure the payroll deduction process to credit the plan participant's contributions to his or her individual retirement account through payroll deposit?

13. How would you recommend managing the enrollment, receipt, and recordkeeping of employee payroll contributions and transactions?
Given the possible scope and breadth of this plan across the state—and its attempt to engage employers who do not currently offer retirement plans—these administrative processes should be as streamlined and automated as possible. Moreover, the plan should lean upon existing structures the state currently uses with employers for as many of the plan's administrative processes as possible (e.g., contribution collection through the state's tax collection system).

14. How would you recommend managing rollovers and closures of plan accounts?

15. How would you recommend identifying eligible employers and disseminating information to eligible employers and their employees?

16. Do you have any additional concerns about the administration of this plan? If so, how could those concerns be addressed?
As stated earlier, efficient administration will be key. The state is seeking to engage employers who do not already offer plans; creating confidence that the plan will not be an undue administrative burden to participating employers will be the key to success.

Legal Issues

17. How would you recommend obtaining a favorable ruling from the Department of Labor that the plan is either exempt from ERISA coverage under an exception or that ERISA does not cover the plan?
One possible approach the state could take would be to seek—perhaps with other states—legislation creating a new code section for the plan that would either exempt it from ERISA or greatly reduce ERISA's administrative requirements while preserving its core protections.

18. How would you recommend obtaining a ruling from the IRS that the plan qualifies for favorable income tax treatment as individual retirement accounts?

19. What recommendations, if any, would you have toward amending or enacting statutes and/or regulations in order to improve the legal requirements of the plan? Would you recommend any amendments to the enacting legislation of the CRSB (P.A. 14-217)?

20. Do you have any additional legal concerns surrounding this plan? If so, how could those concerns be addressed?

Costs and Fees

21. How would you recommend minimizing ongoing administrative costs and fees associated with the plan?
Given the large number of accounts the plan would generate, automating as many processes as possible will be critical, especially with respect to distribution of plan materials and remittance of contributions, processing of withdrawals, low cost investment choices, etc.

22. How would you recommend calculating the estimated startup costs of the plan? What would you estimate those costs to be? How would you recommend covering those startup costs?

23. How would you recommend minimizing any administrative costs to the employers?
One possible approach would be the utilization of existing state administrative systems, effectively building certain core plan functions (e.g., contribution collection) on procedures and structures already in use.

24. How would you recommend achieving transparency and accountability in the management of the retirement funds?
The funds utilized for this program should meet the same standards for investment funds utilized in any plans covered by ERISA.

25. Do you have any additional concerns regarding the costs of this plan?
The average account size for this plan will have a major impact on costs. Since administrative costs are relatively equal regardless of account size, and this plan is expected to generate a large number of relatively small accounts, efficient administration of a large number of accounts will be critical. If fees for the management of this plan will be assessed against assets under administration (as opposed to per account fees), the plan's expense ratio may be high, since there will not be large balance accounts to help bear the weight of these expenses.

Retirement Plan Vendors Website

26. What level of interest would vendors have in establishing a secure website to assist qualified employers in identifying vendors of retirement plans that may be implemented by qualified employers in lieu of participation in the plan? How should the Board determine that interest?
Vendors may support this effort since it could create tangible business opportunities; the Board may want to consider an industry survey to test this proposal.

27. How would you recommend establishing a process for vetting vendors to include on the website?

28. What information is most important for employers to know about vendors on the website?

29. How would you recommend operating the website effectively and efficiently, in a manner that minimizes liability?

30. Do you have any additional concerns on creating a secure website for vendors of retirement plans for the use of eligible employers?

Funding

31. How would you recommend seeking funding for the market feasibility study?

32. Would you suggest any particular types of organizations that may be willing to donate significant funding for the study?

33. Given that some organizations do not or cannot donate directly to governments, will that
make it more difficult to raise money? If so, can you suggest funding solutions or arrangements that might help to avoid this difficulty while maintaining the state's independent oversight and jurisdiction over the study?

34. Do you have any additional concerns about funding the market feasibility study?

Additional Information

35. Do you have any additional concerns about the CRSB conducting the market feasibility study?

36. Do you have any additional concerns about any aspects of the operations of the CRSB?

37. What is your personal story? How would this program benefit you? Or harm you? Why?