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Testimony on behalf of the House Republican Caucus

before the

Connecticut Retirement Security Board

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The Connecticut Retirement Security Board has requested written comment on a state run retirement program for private sector employees and a mandate on Connecticut businesses which would require them to automatically enroll their employees if they do not offer a retirement plan of their own. For the reasons outlined below, we believe that such a plan is a bad solution to some real problems.

We believe that the more government does, the less government does well. Consequently, we believe that the State of Connecticut shouldn't be in the private retirement savings business. Our state is already in the public pension business and its record there has been abysmal, with massive unfunded liabilities to public sector workers in the *billions* of dollars. There is absolutely no evidence to suggest that the state will do any better managing retirement savings for private sector workers.

Such a plan would be full of mandates on employers as well as employees. It would require participation by employers who do not offer a retirement plan option. It would require that such employers deduct a certain amount from the paychecks of every one of their employees and forward that money to the state. It would require participation by employees, unless they opt out over and over again.

Furthermore, this policy would put government in direct competition with private providers who contribute 9% of our gross state product. Just because an employer doesn't offer a retirement plan doesn't mean that the employee can't choose to save for retirement if he/she wants to. Connecticut is blessed with a vibrant financial services market and there is no shortage of retirement plans and options available for private sector workers, above and beyond what used to be offered by employers. The market has filled any void created by the reduction of employer-sponsored pension plans, and has often done so at lower costs.

It's also not known at this time whether or not the proposed plan would be recognized under federal ERISA law (the Employee Retirement Income Security Act of 1974). Only California has attempted to impose a retirement investment mandate – and even they are not sure whether their plan is subject to ERISA. If Connecticut's plan triggers ERISA, the resulting requirements for reporting and pension insurance would likely make the plan unworkable and may also create a liability for employers.

And if there is no tax benefit to the plan, it would make more sense for low-income workers – the very population targeted by the plan - to opt out in order to pay down credit card balances and other loans first.

We believe there is a better way to address the problem than another state-run pension plan. To the extent that failure to invest in retirement is a problem, it's due to a lack of education and jobs, not the availability of retirement investment options. The proposal would do nothing employees – or anyone, whether employed or not – cannot already do themselves by setting up a simple IRA of their own and regularly contributing to it. The state should encourage financial education so that people know what retirement options are already available, many of which often cost less and produce higher returns. Such encouragement could be in the form of tax incentives, public service announcements, etc. The state should also partner with our state's private investment and retirement businesses to let people know the benefits of planning ahead for retirement.

If the state must force employers to provide retirement options for their employees, it should do so by requiring employers to have a retirement program using the private marketplace that already exists. There are already a number of options available without the state having to get into the retirement investment and management business.

But above all, the State of Connecticut ought to be doing everything it can to create as healthy and vibrant an economy as possible. To the extent that the perceived problem is a lack of jobs that provide an employer-based retirement investment opportunity, the best solution – by far – is to encourage employers to come here and grow enough to provide those opportunities.

At the end of the day, the problem is not a lack of retirement investment opportunities or even education – it is fundamentally a lack of high-paying jobs and a high-tax, high cost-of-living environment that force people to live paycheck to paycheck and not have enough money left to invest in their future.

This plan is the wrong solution. While there is some evidence that the decline in retirement savings may be the result of employers no longer offering retirement plans, there is also abundant evidence that retirement savings typically declines during lean economic times. Folks may very well need all their financial resources during those times to pay their bills and provide basic needs. And, of course, no amount of employer-sponsored retirement helps a person who is unemployed. The best thing our state government can do to address this problem is to concentrate on creating a job-friendly environment rather than put another mandate on employers.