CBIA CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION

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Testifying on the proposals to create a state-administered retirement plan for the private sector

Good afternoon Comptroller Lembo, Treasurer Nappier, and members of the Retirement Security Advisory Board. My name is Eric Gjede and I am assistant counsel at the Connecticut Business and Industry Association (CBIA), which represents more than 10,000 large and small companies throughout the state of Connecticut.

CBIA is concerned about the administrative and financial burdens a state-administered retirement plan for the private sector would place on Connecticut businesses, as well as the competitive disadvantage it would render Connecticut businesses vis a vis businesses in other states. In addition, CBIA is fundamentally opposed to the state making itself a direct competitor with Connecticut's private financial services sector.

While the goal of increasing personal retirement savings is commendable, the plan you design should not place the burdens of facilitating enrollment on the backs of the state's businesses. Simply put, businesses that have the financial and technical capability of offering a retirement product to their employees, or advising them of their options, are already doing so. Those that are not offer such a plan often simply do not have the resources to do so.

While this board intends to create a retirement plan, the burden of implementation falls to businesses already struggling to compete in a state with a national reputation for being a costly, highly regulated place to do business.

What burdens are we talking about? The public act calls for businesses to be the ones to facilitate current employees' enrollment in the plan; employers must also be responsible for doing the state's job of selling the plan to each new hire. It requires businesses to transfer payments to the plan or suffer "legal enforcement of employer obligations." It also calls for businesses to make adjustments in paperwork every time an employee changes his or her contribution rate. Prior iterations of this plan also called for businesses to verify, every other year, each employee's choice not to participate in the plan.

While some have argued these obligations are minimal, in industries with a high personnel turnover rate, selling and administering the state plan to employees would become a full-time job. That's exactly why many businesses don't offer a plan in the first place.

Connecticut's business community also has concerns about this plan becoming a liability on taxpayers. The plan calls for a guaranteed rate of return and the procurement of insurance, as necessary, to guarantee that rate of return. Unfortunately, the facts haven't changed since this proposal was initially introduced during the 2014 legislative session: there is no such insurance product available that performs this function.

If the state does not meet its promised guaranteed rate of return, who would be liable to participants for the shortfall? The state should not take the risk of incurring more debt.

Placing the burden of administering this program also adds a level of burden to Connecticut businesses not faced by businesses in other states, which weakens our competitiveness. In 2014, several national rankings have conveyed a nationwide perception that Connecticut is a bad place to do business. As an example, CNBC's America's Best States For Business ranked Connecticut #46th in the nation in 2014 – down from #45 in 2013.

While several other states are studying a similar proposal, no state has implemented a state-administered retirement plan for private sector workers. Many states have outright rejected such a proposal because of the enormous costs and burdens on the private sector. We implore you to consider the competitive disadvantage of placing the burdens of this program on Connecticut businesses while businesses just across the border are free from such requirements.

Finally, Connecticut already benefits from a financial services sector in the state that provides good-paying jobs to more than 100,000 residents. These companies offer a multitude of low-cost retirement products, some with fees as low as $50 per year.

There is no evidence that the state-run plan can be administered at a lower cost than what is currently available in the private market. Making the state plan the default option will give it a decidedly unfair competitive advantage over Connecticut's private sector.

The state should not be using its resources to compete with Connecticut businesses that have invested here and continue to provide livelihoods to its citizens.

This proposal is a "supply" answer to a specious "demand" problem in that we already have ample low cost retirement products available to any Connecticut citizen. These plans are being marketed to people of all income levels. The problem is the demand is not always there.

We urge the board to keep the business community in mind when they design this plan – more specifically, we ask that if you do move forward with the plan, the state absorbs the burdens of implementation rather than shift them to the business community.

Thank you for the opportunity to submit testimony on this important matter.