

## STATE RUN RETIREMENT SAVINGS PLANS FOR PRIVATE SECTOR WORKERS ARE NOT AN EFFECTIVE SOLUTION

The Securities Industry and Financial Markets Association (SIFMA), a trade association which brings together the shared interests of hundreds of securities firms, banks and asset managers, agrees that there is a retirement savings challenge in this country, but does not believe that state run plans for private sector workers are an appropriate remedy. We respectfully encourage policymakers to consider the following when reviewing such proposals:

- **Low Cost Retirement Options Already Exist.** The financial services industry already offers a wide variety of retirement savings options, including 401(k) plans, 403(b) plans, 401(a) plans, 457(b) plans, SIMPLE IRAs, SEP IRAs and traditional IRAs. Where an employer does not provide a plan, IRAs are readily available online and at most financial institutions. Rather than competing with entities that are already providing these services, states should consider working with the industry to improve awareness of existing options.
- **New Federal MyRA Program Addresses the Issue.** In November of 2015, the U.S. Treasury officially launched a new federal retirement savings program called myRA. This no cost, no fees payroll deduction program is portable, has Roth IRA tax advantages, is backed by the U.S. government, and is a simple, safe, and affordable way to save for retirement. States should fully evaluate this federal program before creating an expensive state alternative.
- **States Need to Study the Causes of Inadequate Savings.** States should also study what factors other than access may be preventing workers from participating. If, for example, competing financial needs is the primary reason people aren't saving, then a new state retirement system, however well-intentioned, might not address the problem.
- **State Run Plans Involve New Costs and Administrative Burdens.** States will likely incur substantial start-up and compliance costs in developing and implement a plan. For example:
  - As stated in the fiscal note, the new California law projected that “initial startup costs over a multi-year period could reach up to \$134 million.”
  - The fiscal note for the Illinois program was \$15-\$20 Million for the first two years.
  - A 2016 report commissioned by the Connecticut Retirement Security Board stated that a plan would require over \$1 billion in assets to become economically feasible on a long-term basis (and would likely require 252,000 accounts contributing at a 6% default rate to reach that target).

We would encourage you to understand these costs and weigh them against any measurable benefits. We would also encourage you to compare these costs and benefits to other alternatives, such as investor education, the promotion of myRA accounts, or the development of a voluntary market-based public private partnership.

- **State Run Plans Could Encourage Leakage from Existing Plans.** A state-run plan could also encourage employers with strong existing plans to drop them in favor of the state alternative. This would be counterproductive, particularly since the state alternative is subject to lower contribution levels and no matching funds.
- **No State Has Established Such a Plan.** There is a misconception that similar programs are already operating in other states. This is not true. While five states (CA, CT, IL, MD, and OR) have passed laws authorizing an IRA type plan and one state (MA) passed a law in 2012 authorizing a 401k type plan for small not-for profits, none are currently operational.
- **A More Effective Marketplace Alternative Exists.** In May 2015, Washington State enacted the “Washington Small Business Retirement Marketplace,” a voluntary, web-based program that will match small businesses with private sector retirement plans that meet certain low-cost criteria and provide financial literacy education. Because the program efficiently harnesses the robust private sector, plans in the marketplace could include ERISA plans and non-ERISA savings arrangements, and the program's fiscal estimate is 1/4 to 1/40 of the cost of its state-run counterparts. Moreover, the Washington State Marketplace was introduced, enacted, fully funded and had rules released in less than 11 months and is expected to be operational in January 2017. New Jersey adopted similar legislation in January 2016.
- We encourage states to vote against the creation of new and expensive state run retirement plans and instead choose to help educate residents about existing options, including a voluntary public-private marketplace and the myRA program.