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TESTIMONY

TOGETHER WE CAN TAKE ON ANYTHING

State Sponsored Retirement Plans:

Sample Testimony

Chairman and members of the House Labor Committee, I am speaking on behalf of the STATE Chapter of the National Association of Insurance and Financial Advisors (NAIFA) to express our opposition to H. 205. NAIFA represents the interests of more than 20,000 licensed insurance agents and financial advisers across the country. Ninety percent of NAIFA members serve middle-income clients and/or lower-income individuals and families. The STATE Chapter has close to 100 members that serve our community.

NAIFA encourages expanding retirement savings options and making it easier for Americans to plan and save for retirement. NAIFA appreciates that states are looking for solutions and we agree this area deserves our attention. However, NAIFA does not believe that a mandatory state-run program that competes with private market plans is the answer. There is already a strong, vibrant private sector retirement plan market that offers diverse, affordable options to individuals and employers.

Auto-IRA proposals claim to be designed to address issues of availability and access. However, availability of and access to retirement savings options are not the problems—anyone can walk into my or any NAIFA member's office and walk out with a retirement plan specifically tailored to their individual circumstances and goals. Access to employer-sponsored plans naturally varies by employment status. And not all those without access to an employer-sponsored retirement plan need it. Many of my clients are couples that save for retirement jointly and many households already own and contribute to an IRA. One of the most common reasons for opting out of similar state-sponsored auto-IRA programs is "I have my own retirement plan".

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Sample Testimony Cont.

STATE is fortunate in that it can look to the existing plan's performance before making its decision about an Auto IRA plan and those plans are not living up to their promises. Opt-out rates are as high as 40%. High employee turnover has caused more than 50% of opened accounts to be inactive or is no longer receiving contributions.

Those accounts that are still accepting contributions are doing so at near half of projections, and withdrawal rates are 6X their private plan counterparts. Further, over 20% of mandated employers are reporting out-of-pocket expenses with setting up and maintaining the plans, in addition to laborious reporting requirements.

The 2021 enacted provisions of the SECURE Act addresses many of the existing retirement savings gap concerns by making it much more feasible (and less costly) for employers to adopt into multiple employer retirement plans and pooled employer plans. Further, it expanded access to part-time workers, established tax credits for businesses to get new plans up and running, and encouraged auto-enrollment.

Multiple employer plans will have all the benefits, features, and provisions of more traditional single-employer retirement plans, but with significant relief to the employers concerning cost, administrative duties, and fiduciary duties. The advantages of these plans over a state-facilitated auto-IRA program include employer matching of participant contributions, diversity of investment options, less cost to employee-participants, significantly higher annual contribution limits, and the ability (in most plans) to select either or both ROTH or the traditional tax treatment of plan assets.

With the ready availability of and access to private-sector retirement savings vehicles growing, we must look closer at the OTHER factors that significantly contribute to the retirement savings shortfall. A lack of financial education about the need to save for retirement and competing financial demands cause many to live from paycheck to paycheck with nothing left over each month to put away in a retirement account. In addition, there are significant constraints to what an auto-enrollment savings plan can achieve when provided to workers with low wages, volatile wages, and high turnover. States should first investigate these reasons behind the shortfall in retirement savings before proposing expensive solutions that do not address the actual problem.

There are many good reasons for STATE to press pause. We believe that STATE should join the 37 other states that have rejected this type of program as it would best be served by allocating resources for expanded financial literacy education and outreach efforts to promote the importance of saving for retirement.

I appreciate the opportunity to speak on this critical matter and am available for questions as needed.