Statement of the Securities Industry and Financial Markets Association

To the Government Operations Committee

HF 2419, Minnesota Secure Choice Retirement Savings Program

March 5, 2014

Thank you very much for the opportunity to speak today on behalf of the Securities Industry and Financial Markets Association (SIFMA). SIFMA represents the shared interests of hundreds of securities firms, banks and asset managers, many of whom have a presence in Minnesota. Many of our members provide various services to retirement plans, including advisory services, investment opportunities and plan recordkeeping.

We agree there is a savings challenge in this country. Individuals need to save more for retirement and need to better understand the benefits of compounding interest, diversification, and not accessing retirement savings accounts for other purposes. Additional education is part of this process, with age appropriate programs for children and adults. Enhanced federal and state programs and incentives encouraging more employers to offer these plans and more employees to utilize them would be helpful, and SIFMA would be happy to work with the State on such efforts.

We, however, believe HF 2419 is a step in the wrong direction. It would burden the State with additional costs and liability to develop, establish and administer a new program. Such a program would directly compete with the private market which today provides a wide variety of individual retirement account options for employees who are ready to contribute a percentage of their annual compensation towards retirement.

Current Provider Market in Minnesota

One of the underlying premises for this proposal is that Minnesota's businesses and private sector employers do not currently have access to reasonably priced retirement savings plans. This simply is not true. The market for retirement savings alternatives in Minnesota is robust and highly competitive, with a wide range of products and services offered by a variety of Minnesota providers, including brokers, mutual fund complexes, insurance companies, banks and credit unions.

There are currently 18,100 individuals in Minnesota working directly in the securities industry, with a total of 140,200 in the finance and insurance industries. These industries provide numerous fairly priced retirement savings options. These options include 401(k), 403(b), 401(a), and 457(b) plans as well as SIMPLE, SEP and traditional and Roth IRAs.

Moreover, in instances where an employer does not provide a plan, IRAs are readily available at most financial institutions in Minnesota and around the country, in various formats (including online) and with varied levels of support, from a one-on-one financial advisor relationship to a 'do-it-yourself' account with limited financial advisor support from a call center: indeed, there are plans to meet a wide variety of needs and preferences. There is no reason for the State to enter into direct competition with Minnesota's financial services companies that are employing thousands of workers in the State and who are already providing these services at no direct cost to the State.

The proposal infers that businesses and individuals do not know where to find a quality product and selecting between the complex selections of investment choices contributes to inaction. SIFMA would recommend the State utilize the vast array of free and readily available educational tools through government websites such as the federal Department of Labor, which offers a "Retirement Savings Toolkit[1]" and other private websites such as www.choosetosave.org. Websites such as these exist to cut through the complexity and help individuals and businesses make informed decisions about their retirement options.

SIFMA would also suggest that, before establishing a new program, the State should review the many different existing product offerings to determine if there is a gap in availability and consider what factors - other than access - may be preventing workers from taking advantage of existing options. The State may also want to consider what the costs would be to the State to try and enter the market on its own.

Two State Studies on Costs

The second premise to offering this program is that the costs to the State will be minimal or non-existent, saying the plan will be "simple and cost-effective." That is also simply not true. A few states have contemplated such legislation and chose to undertake studies instead. We have the benefit today of looking at those studies to see how this might work in Minnesota.

Washington State itself conducted a study on voluntary accounts in 2009 and the Department of Retirement Services found that, once certain service thresholds have been reached, a state-administered 401(k) plan would likely involve an administrative fee of $200-$800 per participant; private sector administered payroll deduction or IRA options would result in annual administrative fees of $20-$60 and investment fees of .02-.13%. Thus the State could, after a period of time subsidizing the program, end up offering a product to employees that costs the same as or substantially more than that currently being offered by the private sector.

In Maryland, the Maryland Supplemental Retirement Plans (MSRP) study, which was requested in a 2007 law, examined this issue and concluded that a Voluntary Employee Accounts Program would require a subsidy of between $300,000 and $500,000 a year for at least 5 to 7 years. Of particular interest is that the study noted the difficulty of achieving economies of scale in the small employer market because the provider must deal with multiple employers with separate payroll systems, record keeping, and plan termination requirements. This situation is quite different than the economies of scale a State can achieve with its own public sector retirement plan or the economies of scale that could be achieved by a large private sector employer.

MyRA

On January 29, 2014 President Obama announced "MyRA" ("My Retirement Account"), a program to be offered through employers via a Roth IRA account, backed by the U.S. government much like a savings bond, and portable at any time to a private sector retirement account.

SIFMA supports the creation of the MyRA savings bond as a tool to promote retirement savings. Given the vast numbers of baby boomers who reach retirement age every day, retirement savings

[1] http://www.dol.gov/ebsa/publications/FIToolkit.html

incentives are needed more than ever to help people ensure their retirement security. The day after his address, the President signed an Executive Order that creates this new type of retirement savings account for private sector workers.

President Obama signed an Executive Order directing the U.S. Treasury, without the need for legislation, to develop the MyRA program which will allow private sector workers to set up savings/retirement accounts with an initial investment as low as $25 and allow for ongoing contributions of $5 or more every payday. MyRA accounts would be protected and backed by the U.S. Government, meaning that no fees could be charged and account balances will never go down. Treasury expects the program to be available by late 2014.

SIFMA believes the State should focus its efforts on educating the public on the current options for retirement savings, including the MyRA program. We would be happy to work with the State on such efforts.

Positive Steps Moving Forward

SIFMA would like to work with state policymakers to expand retirement plan coverage. We believe that education about the options that currently exist for small and non-profit employers would help increase coverage. For example, many small employers are not aware that the federal government provides for a $500 per year tax credit for three years if a business starts a new plan. Some small employers may still be unfamiliar with the ability to offer a low cost IRA based retirement program. In addition, there are educational programs at the federal level about the benefits to any employer offering a retirement plan to employees that could be replicated on the state level at what we think would be a minimal cost in time and money. This could entail partnerships between small employer groups, various providers and the State, such as by holding meetings at schools or civic organizations at a local level. SIFMA would be happy to work with the State on these initiatives.