SIFMA
Securities Industry and Financial Markets Association
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June 19, 2008

Senator Pat Wiggins
Chair, Senate Public Employment and Retirement Committee
California State Senate
State Capitol, Room 4081
Sacramento, California 95814

RE: A.B. 2940, An Act to add Title 25 to the Government Code, relating to retirement. Position: Oppose

Dear Chairperson Wiggins:

The Securities Industry and Financial Markets Association (SIFMA)[1] must regretfully oppose A.B. 2940 as currently drafted. SIFMA agrees with the bill's objective of encouraging workers to save for retirement. The current savings rate is simply not sufficient to fund the retirement of the baby boom generation. Moreover, larger businesses are more likely than smaller businesses to offer retirement benefits. According to the March 2007 National Compensation Survey, eighty-five percent of larger establishments provided retirement benefits of at least one type while only forty-four percent of smaller establishments did. SIFMA, however, does not believe that the solution is to have CalPERS offer IRAs and SIMPLE IRAs to private and non-profit employees.

The legislation appears to be based on the premise that more employers would offer retirement savings options if the administrative costs of setting up such plans was reduced. It is certainly arguable that the real barriers for businesses are the cost of federally mandated employer contributions, tough economic and business conditions, the rising costs of health care and the lack of awareness of existing retirement savings programs.

Indeed, the private sector already offers employers a number of good, low-cost retirement options, including the SIMPLE IRA and traditional IRA options described in the legislation. The fees for the SIMPLE IRA plan can total less than $40 per year, depending on the institution chosen. At least one national firm, Charles Schwab, has no account start-up fees and no maintenance fees. Payroll deduction IRAs and SEP-IRAs also remain inexpensive options for small employers. A state sponsored retirement plan for the private sector will likely result in little or no cost savings for employers or employees.

In addition, a state-sponsored plan would be costly for the state. Significant state expenditures and additional state government staff would be necessary to oversee a program, even a program

[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

which outsourced the roles of recordkeeping and investment management. SIFMA is aware of only one study that has examined the potential for cost savings through the creation of a state-sponsored plan. The study, authored by the Maryland Supplemental Retirement Plans (MSRP), 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. (The subsidy for a state as large as California would presumably be much greater). After a certain threshold has been reached, the State cost per employee account would be $20 a year in addition to standard service provider fees of between .07% and 1% ($10-$25). <u>Thus, even after years of subsidizing the program, the state would likely end up offering a product to employees that costs the same or more as that currently being offered by the private sector</u>.

Furthermore, the creation of a retirement plan for private sector employees could expose the state to additional liability. State facilitation of savings plans would likely lead to increased liability, including liability for loss of expected tax benefits, failure to file the necessary IRS forms, accounting mistakes, and breach of fiduciary duty. While the legislation does include an indemnification provision for board members, state officers, employees and investment managers under contract with PERS, this does not eliminate the State's ultimate responsibility or liability.

While SIFMA does not support the current legislation, SIFMA would support a tax incentive for small employers who establish retirement plans such as a SIMPLE IRA, SEP, or 401k. For example, under the Internal Revenue Code section 45E, there is a $500 credit per year for the first three years for retirement plan start-up costs. California could make this credit part of California law.

SIFMA also believes that state agencies and state legislators can play a helpful role in efforts to expand coverage by increasing public awareness about the retirement plan options that are already available to small employers as well as federal tax incentives that minimize start-up costs for employers who offer retirement plans. SIFMA and its members would be pleased to assist state policymakers in developing a broad campaign that would educate employers about retirement plans and retirement savings. Such a campaign could include such things as website education, small employer outreach, and small employer partnerships.

Again, SIFMA commends the legislature for its interest in expanding the number of people who save for retirement. SIFMA, however, believes that tax credits and making people aware of existing private sectors options are both more cost-efficient and effective. We appreciate the opportunity to provide input on this legislation. Please feel free to contact me at 212-313-1311 or our lobbyist, Joanne Bettencourt, at 916-329-7935 if you have any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director & Counsel
State Government Affairs

cc: Assemblyman De Leon
Members, Senate PERS Committee
David Felderstein, Committee Consultant
Suzanne Sutton, Senate Republican Consultant