Invested in America

January 27, 2016

The Honorable Joseph Shekarchi
House Committee on Labor
State Capitol
Providence, RI 02903

RE: H. 7219 – Relating to State Affairs and Government -- Private Employer IRA Program

Dear Chair Shekarchi:

The Securities Industry and Financial Markets Association ("SIFMA")[1] is a national trade association which brings together the shared interests of hundreds of broker-dealers, banks and asset managers. Many of our members have a strong presence in Rhode Island, where they provide services to investors and retirement plans, including advisory services, investment opportunities and plan recordkeeping.

We appreciate the opportunity to provide feedback on H. 7219, which would create a state run IRA plan for private sector workers to be managed by the Department of Labor and Training. We agree that there is a retirement savings challenge in this country; however, we do not believe that the proposed state run retirement savings plan is the appropriate solution.

SIFMA strongly urges you to consider the following when contemplating the establishment of a state run retirement plan for private sector workers in the state of Rhode Island:

(1) **Current Markets** - The market for retirement savings products in Rhode Island is already robust and highly competitive. There are more than 5,000 individuals in the State working in the securities industry and more than 25,000 people employed by entities falling within the broader category of finance and insurance. These industries all provide numerous fairly priced retirement savings options, including 401(k), 403(b), 401(a), and 457(b) plans, as well as SIMPLE, SEP and traditional and Roth IRAs. Where an employer does not provide a plan, IRAs are readily available on-line and at most financial institutions in the State. Before you consider developing a state run retirement savings structure that competes with the private marketplace, we would encourage you to explore whether education about the many existing high quality, low cost options would address the issue at substantially lower cost.

(2) **New Federal MyRA** – On November 4, 2015, after an almost year-long pilot program, the federal government launched a new retirement program known as MyRA (www.MyRA.gov). It is a simple, safe, affordable, and voluntary way for employees to save for retirement. The program provides all the tax benefits of a Roth IRA, is fully portable, requires no employer contribution, takes less than ten minutes to establish, and is provided at no cost to the saver. In the words of U.S. Treasury Secretary Jacob Lew, "MyRA has no fees, no risk of losing money and no minimum

[1] SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over $2.4 trillion for businesses and municipalities in the U.S., serving retail clients with over $16 trillion in assets and managing more than $62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. For more information, visit http://www.sifma.org.

balance or contribution requirements. To make saving easier than ever, you can now put savings into MyRA directly from your bank account." SIFMA strongly supports the MyRA program. We would encourage you to consider the full potential of this no-fee, carefully developed program before considering developing an expensive state alternative.

(3) **Uncertain Regulatory Environment** – Earlier this year, recognizing that states face significant legal hurdles in trying to establish retirement plans similar to those proposed by H. 7219, President Obama ordered the U.S. Department of Labor ("DOL") to take certain measures to lower those hurdles. Subsequently, the DOL issued a proposed rule that would reportedly provide states with a limited "safe harbor" from ERISA for certain state run retirement savings plans. SIFMA submitted comments to the proposal before the January 19, 2016 deadline, and would encourage Rhode Island to wait for the final rule, which may drastically change from the initial proposal, as the proposed rule left a number of serious state concerns unaddressed. Moreover, Labor Secretary Perez himself has recognized the shortcomings of any proposal, stating publicly that "The [proposed] safe harbor is not an air-tight guarantee… The federal courts are the ultimate arbiter on the question of whether state retirement plans are legal or not."

(4) **Underlying Obstacles to Savings** - With a variety of options already available, factors other than access may be keeping people from saving. It is important that any state proposal address some of the underlying issues with retirement undersaving, including, for example, competing financial needs, as well as cost and risk, and a lack of understanding about the importance of saving over time. We would encourage the State to first determine why its residents aren't saving enough before proposing a solution.

(5) **Program Costs** - You will also want to take into account both the potential costs and benefits of such a plan. A few states have estimated the cost of establishing an IRA type program. Illinois approved a similar program in late 2014 - which has yet to be funded – with a fiscal note of $15 to $20 million in the first two years;[2] Connecticut considered but did not pass a bill in 2014 that had an estimated price tag of $7.2 -$10.4 million in start-up costs;[3] and a recent California proposal would require $129 million in financing if the State chose to adopt a 3% default contribution, as proposed by H. 7219.[4] In addition to start-up costs, Rhode Island would also incur costs related to managing the program. In fact, a 2016 report commissioned by the Connecticut Retirement Study Board has stated that a plan would require over $1 billion in assets in order 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).[5] We would encourage you to understand these costs and weigh them against any measurable benefits. We 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, similar to the law enacted in Washington State, which has been fully funded for only $526,000.

(6) **Marketplace Programs**. In May 2015, Washington State enacted and funded the first voluntary small business retirement plan "Marketplace" in the nation, which focuses on private providers and MyRA and establishes a web-portal structure to connect private sector employers with qualifying plan vendors. Additionally, Washington State will do mailings and outreach to eligible

[2] Fiscal Note, Illinois SB 2758 (2014).
[3] Fiscal Note, Connecticut SB 249 (2014).
[4] "Presentation of Top Two Investment Options," Overture Financial, LLC, Agenda Item 1 of Jan. 11, 2016 meeting of California Secure Choice Retirement Savings Investment Board, p. 48.
[5] "Report to the Legislature," Connecticut Retirement Security Board, Jan. 1, 2016, p. 5.

employers or other organizations that interact with these employers. A second-in-the-nation Marketplace was established in New Jersey shortly thereafter (January 2016) and was largely based on the Washington State law. <u>We encourage you to look at a variant of these Marketplace laws to see if their voluntary nature, strong education component, and low cost/low risk of liability approach is of potential interest before moving forward with a far more costly and comprehensive plan</u>. In fact, the drafters of H. 7219 have already recognized the benefits of establishing a Marketplace in Sec. 42-16.2-7(q) of the proposed legislation, and we firmly believe that focusing Rhode Island's efforts on this type of proposal will provide a more effective, efficient solution for the State and its private sector workers.

(7) **<u>Employers may re-evaluate</u>** - We also suggest that you consider whether the creation of a state sponsored plan would encourage employers with strong existing plans to drop their current plan as their workers would be able to enroll in the proposed State plan. The State is looking to enhance, not reduce, retirement savings, and offering options that encourage employers with strong plans to discontinue those plans in exchange for their employees enrolling in a state offering, which would likely have lower permissible contribution levels and no matching funds, would be counterproductive to that objective.

In short, there is a retirement savings problem in Rhode Island, but we believe that a state sponsored retirement plan for private sector workers is not the answer. We appreciate your willingness to consider our concerns. Please do not hesitate to contact me at 212-313-1311 with any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director and Associate General Counsel
State Government Affairs

CC: All Committee Members