



February 17, 2016

The Honorable David C. Farnsworth
Senate Committee on Financial Institutions
1700 W. Washington St., Suite S
Phoenix, AZ 85007

RE: SB 1332 – An Act Amending Title 23, Arizona Revised Statutes, By Adding Chapter 10; Relating to the Arizona Secure Choice Retirement Savings Trust Act

Dear Chair Farnsworth:

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 Arizona, 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 SB 1332, which would create the Arizona Secure Choice Retirement Savings Board to create, administer and maintain a state run IRA plan for private sector workers. 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 Arizona:

- (1) **Current Market** - The market for retirement savings products in Arizona is already robust and highly competitive. There are more than 17,000 individuals in the State working in the securities industry and nearly 141,000 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,

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>.

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 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 SB 1332, 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 before the January 19, 2016 deadline, and would encourage Arizona to wait for the final rule, which may drastically change from the initial proposal. 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.” (Emphasis added.)
- (4) **Underlying Obstacles to Saving** - 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 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 multi-year study in California estimates up to \$129 million in required up-front financing if the State chose to adopt a 3% default contribution, as proposed by SB 1332.⁴ In addition to start-up costs, Arizona would also incur costs related to managing the program. In fact, a 2016 report commissioned by the Connecticut Retirement Security 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, especially as SB 1332 proposes a costly, Board-centric structure. 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 establishes a web-portal structure to connect private sector employers with qualifying plan vendors and the myRA program.

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.

Additionally, Washington State will do mailings and outreach to eligible 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. 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.

- (7) **Employers Will Likely Drop Stronger Plans** - 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 in favor of the State alternative. The State is looking to enhance, not reduce, retirement savings. Offering options that encourage employers with strong plans to discontinue those plans in favor of 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 Arizona, 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 or my lobbyist Greg Harris at 602-262-5311 with any questions.

Sincerely,



Kim Chamberlain
Managing Director and Associate General Counsel
State Government Affairs

CC: All Committee Members
Senator Martin Quezada