Statement of Chris DiPietro

On Behalf of the Securities Industry and Financial Markets Association

To the Senate Pensions Subcommittee

SB 921, Maryland Secure Choice Retirement Savings Program

February 20, 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 Maryland. 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 SB 921 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.

Overview

One of the underlying premises for this proposal is that low- and middle- income workers employed by small- and medium-sized businesses do not have access to reasonably priced retirement savings plans. However, this is simply not true. The private sector already offers a variety of retirement savings options, including fairly priced 401(k) plans, 403(b) plans, 401(a) plans, 457(b) plans, SIMPLE IRAs, SEP IRAs, and traditional IRAs.

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.

Maryland Study on Costs

It is worth noting that in Maryland in 2007, the Maryland Supplemental Retirement Plans (MSRP) conducted a study which 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.

Primary Issues with Proposal

SIFMA sees three primary issues with such a plan as proposed by SB 921:

First, it would burden already fiscally-strained states with additional costs and liability to operate the programs, which are already currently available in the private market and proposed by the federal government.

Second, a state-run retirement plan would create conflicts between federal laws governing retirement plans and laws enacted by individual states. Different states would likely have different rules governing operation, accumulation and distributions, which SIFMA believes could result in confusion among employers and employees. SIFMA also has concerns that employees who save in a state plan will not have the same rights and protections that are provided under the federal regime.

Finally, state-run retirement plans would have a number of implications under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. Currently there is no direct guidance from the Department of Labor (DOL) or the courts on how a state-run plan would operate under ERISA. In the case of a state plan created for private sector employees, ERISA would apply. In order for a plan to be a “governmental plan” exempt from ERISA, it must be established or maintained by a government entity for its employees. A plan for non-governmental employees would not qualify.

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 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 <u>never</u> 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.