



MEMORANDUM IN OPPOSITION

SB 2758 (Sen. Biss)
in Executive Committee Today: March 20, 2014

Thank you for the opportunity to submit this statement regarding SB 2758 on behalf of the Securities Industry and Financial Markets Association (SIFMA)¹. SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers located throughout Illinois and across the country. Its mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth.

SB 2758 would establish an Automatic Enrollment Individual Retirement Account (IRA) Program run by the State, with the stated intent of promoting greater retirement savings for private-sector employees in a convenient, low-cost, and portable manner.

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 believe, however, that SB 2758 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 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 Illinois

The proposal suggests that Illinois businesses and private employers do not currently have convenient access to reasonably priced retirement savings plans. This simply is not true. The market for retirement savings alternatives in Illinois is robust and highly competitive, with a wide range of products and services offered by a variety of Illinois

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA has offices in New York and Washington, D.C. For more information, visit <http://www.sifma.org>.

providers, including brokers, mutual fund complexes, insurance companies, banks and credit unions.

Moreover, in instances where an employer does not provide a plan, IRAs are readily available at most financial institutions in Illinois – whether urban, suburban or rural - 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 Illinois financial services companies who are employing thousands of workers in the State and who are already providing these services at no direct cost to the State.

There are currently 48,700 individuals in Illinois working directly in the securities industry, with a total of 298,900 in the finance and insurance industries. These businesses 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.

A key role the state could play would be to use its existing resources to engage in outreach and education about the options that currently exist for small and non-profit employers to help increase coverage, rather than entering the market itself. There is a vast array of free and readily available educational tools through government websites such as the federal Department of Labor, who offers a “Retirement Savings Toolkit”² and other private websites such as www.choosetosave.org. Websites such as these exist to cut through the complexity and help businesses and individuals make informed decisions about their retirement options.

Additionally, President Obama recently announced “MyRA” (“My Retirement Account”), a program to be offered through employers via a Roth-type 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, and notes that with this plan – unlike the plan proposed by SB 2758, federal tax benefits and state-to-state portability are fully guaranteed. 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. 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.

² <http://www.dol.gov/ebsa/publications/FTToolkit.html>

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 Illinois 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 of this legislation is that the costs to the state will be minimal or non-existent. That is also simply not true. A few states 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 Illinois.

The State of Washington 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.

No Other State Runs A Plan for Non-Public Workers

It is a misconception that this is a low risk proposition as there are already similar programs operating in other states. This simply is not true. California did pass legislation in 2012 creating a Secure Choice Retirement Savings Investment Board to explore the issue. There are several hurdles before any program could be instituted: First, the State Treasurer's website makes quite clear that the Board must conduct a privately or federally funded market analysis and feasibility study "to determine whether the legal and practical conditions for implementation can be met." The program cannot proceed unless the Board concludes,

based on the analysis, that the program will be self-sustaining. That feasibility analysis has not yet begun

The yet to be constructed California plan also cannot be implemented “if it is determined that the program is an employee benefit plan under the federal Employee Retirement Income Security Act.” The Board must obtain from the federal Department of Labor an Advisory Opinion that the Employee Retirement Income Security Act (ERISA) does not apply. ERISA applicability would result in substantial additional costs and liability for both the state and participating employers, something the legislature was not interested in pursuing. We believe, as further described below, that DOL will determine that ERISA applies.

The California plan also cannot be implemented unless and until the IRS finds that the program qualifies for the same “favorable federal income tax treatment ordinarily accorded to IRAs under the Internal Revenue Code.” The Board must get this Determination Letter ruling before moving forward.

Even after these hurdles are cleared, the Board must still go back to the legislature for approval before implementing any plan. All of this suggests a fairly lengthy and expensive process. States considering following California’s lead may want to await the outcome in California before moving forward.

With respect to other jurisdictions, six states had similar legislation introduced in 2013 but none was enacted or passed their house of origin. Oregon decided to conduct a retirement savings study, for which the state has created a task force. Massachusetts passed a much narrower voluntary bill in 2012 targeted at small not-for-profits; this has not yet been implemented.

ERISA

We are also concerned about the conflicts that would undoubtedly arise between federal laws governing retirement plans and laws enacted by individual states – in effect, what ERISA was specifically designed to address when it was enacted in 1975. Different states would most likely have different rules governing operation, accumulation and distributions, which we feel could result in employee and employer confusion on how the state versus federal or another state’s plans and programs operate. We are also concerned that employees who save for retirement in a state plan will not have the same rights and protections that are provided under the federal regime. For example, a state based retirement plan may not provide spousal protections (which are provided under ERISA). Another example is that the state benefit may not be portable to a different state should the employee relocate outside the state sponsoring the program.

It is for these good reasons, among others, that ERISA was created. While ERISA does mean additional costs for anyone operating an ERISA plan, it also means additional protections for participants and a uniform set of rules and requirements governing them.

Part of the costs relate, in our view, to the federal regulations vendors already face in the retirement space, which we believe the State will also become subject to. We believe ERISA would appropriately apply in the case of a state sponsored plan run for private employees and would create substantial ERISA compliance costs and financial liability for the state. The Department of Labor issued an Advisory Opinion in 2012 to Connecticut Governor Malloy which addressed this issue as well. Advisory Opinion 2012-01A was issued in response to the Connecticut State legislature's attempt to provide health insurance coverage for private sector workers. In it the DOL advised that private sector employers are not governmental agencies or instrumentalities. Section 4 of ERISA, discussing applicability of ERISA Title I, does not differentiate between welfare benefit plans and pension benefit plans and the analysis is identical for coverage of private sector workers in a pension benefit plan. It is clear from this Advisory Opinion that ERISA would apply to this type of plan, and all of the requirements and costs associated with ERISA plans would therefore apply.

There is additional guidance from the Department of Labor that would be applicable as well, since it is only the Department of Labor who can determine whether or not ERISA would apply. There is a safe harbor for certain payroll deduction arrangements; however, there are several requirements that must be met. These requirements include limited involvement from the employer. There is guidance that implies that the inclusion of an automatic enrollment feature, as proposed in SB 2758, is sufficient to be considered employer involvement such that ERISA applies.

Once ERISA application is clear, then the State would be liable for complying with it. These liability concerns include liability for a breach of fiduciary duty under ERISA, which entails:

- Liability for failure to file the necessary IRS forms and accounting mistakes,
- Liability for any complications of complying with annual non-discrimination testing,
- Liability for a breach of fiduciary duty under ERISA, which includes liability for paying unreasonable plan expenses and monitoring all the investment options offered or utilized within the plan and making timely adjustments as determined necessary, and
- Liability for ensuring that no prohibited transactions are occurring, including monitoring for conflicts between a plan and a party in interest.

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 employers, as well as the new MyRA program expected by the end of 2014, 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 such efforts.

Thank you for your consideration of our concerns. For further information, please contact Marin Gibson of SIFMA at (212) 313-1317 or mgibson@sifma.org.