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TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
HOUSE CONCURRENT RESOLUTION NO. 53

Monday, April 18, 2016
2:30 P.M.

REQUESTING THE DEPARTMENT OF BUDGET AND FINANCE TO CONVENE A WORK AND SAVE WORKING GROUP TO INVESTIGATE THE FEASIBILITY AND IMPACT OF ESTABLISHING A RETIREMENT SAVINGS TRUST FUND FOR PRIVATE-SECTOR EMPLOYEES IN THE STATE

House Concurrent Resolution No. 53 requests that the Department of Budget and Finance (Department) convene a work and save working group to investigate the feasibility and impact of establishing a retirement savings trust fund to promote greater retirement savings for private-sector employees in the State.

The Department shares the concerns expressed by the measure and supports its intent. However, the creation of a State administered retirement savings program for private-sector employees will have staffing and cost implications to the State; and could duplicate some aspects of established retirement savings plans currently available either through a private sector employer, such as a 401(k) plan, or for employees to pursue directly, such as an Individual Retirement Account (IRA) or Roth IRA. Such established retirement savings plans currently provide private sector employees with viable retirement savings options.

Nonetheless, we support efforts to make it easier for people to save for retirement and would support the efforts of the working group to the extent permitted by the department's limited resources.

We ask that if the measure proceeds, consideration be made for the following:

1) Have the department of commerce and consumer affairs convene the working group rather than the department of budget and finance; and
2) Change the scope of work by deleting the third "be it resolved" clause because it may be premature.

Thank you for the opportunity to provide testimony on this measure.

April 18, 2016

Senator Gilbert Keith-Agaran, Chair
Senate Committee on Judiciary and Labor

Re: **HCR 53**

Chair Keith-Agaran and Members of the Committee:

My name is Bruce Bottorff, Communications Director for AARP Hawaii. I appreciate this opportunity to testify on HCR 53 on behalf of our nearly 150,000 members Hawaii. AARP serves as a trusted source on issues critical to people of the age of 50 and their families – including support for family caregivers, access to affordable health care for all generations, and providing the tools needed to save for retirement.

AARP strongly supports HCR 53.

As it stands today, one out of two households are at risk of having a financially insecure retirement. In a March 29 front-page article in the Honolulu Star-Advertiser, 48 percent of residents surveyed said they lived paycheck to paycheck. An April 14 article cited a recent report by the Hawaii Appleseed Center for Law and Economic Justice indicating that 18 percent of Hawaii residents are currently living in poverty, according to the Census Bureau's Supplemental Poverty Measure. Financial insecurity does not mean missing out on a retirement of leisure or travel. It means middle-class households will be unable to afford food, medicine and utilities.

This predicament is due in large part to a lack of access to retirement plans at work. We know that when offered the opportunity to save for retirement at work, seven out of ten people take advantage of it. Individuals are 15 times more likely to save if they can do so via payroll deduction, as only 5 percent of workers without access go out on their own to open an IRA.

Unfortunately, about 50 percent of Hawaii's private sector workers do not have a way to save out of their regular paycheck. Workers at all education levels do not have access to a retirement plan. About 73 percent of workers who do not have a high school degree lack access to an employer-provided retirement plan. Roughly two out of five workers with a bachelor's degree or higher also lack access to a retirement plan.

Access affects workers at all income levels. Unfortunately, 43 percent of Hawaii's private-sector workers that make $25,000 to $40,000 per year lack access to retirement savings plans at work.

Perhaps the most telling factor is employer size. Workers in Hawaii businesses with fewer than 100 employees are much less likely to have access to a plan (66 percent) than workers in larger businesses (34 percent). In raw numbers, about 139,000 small business employees do not have access to a retirement plan.

Taken together, these facts mean that future retirees are likely to be over-reliant on Social Security. More than a quarter of Hawaii's 65-plus residents already rely on Social Security as their only source of income. Social Security will not provide enough to pay the bills in retirement. The average monthly Social Security benefit in Hawaii is $1,237. If nothing changes, Social Security will likely be the main source of retirement income for most middle-class residents going forward.

There is widespread agreement that Hawaii's residents are not financially prepared for retirement. If the State does not act now, taxpayers will face higher social safety net program costs in the decades to come.

According to a recent Utah study, the total cost to taxpayers for new retirees in that state will top $3.7 billion over the next 15 years. The study found that 18 percent of retirees in the next 15 years will retire with more debt than savings. Even a small change will make a big difference. A 10 percent increase in the net worth of the one-third least prepared for retirement in that state will save taxpayers $194 million through 2030.

According to the National Institute on Retirement Security, the median retirement account balance is $3,000 for all working-age households and $12,000 for near-retirement households. Three out of five families headed by a person age 65-plus have no money in retirement savings accounts.

There are simple steps that can be taken to divert this trend. The best way to improve retirement security is to ensure that everyone who works has access to a low-cost, professionally managed retirement plan that enables them to save automatically out of every paycheck.

The goal of this resolution is to delve into ways to save taxpayer dollars by helping people save their own money for retirement. AARP expects more than 30 states to address the issue of private sector retirement security over the next year, and we hope that Hawaii joins this nationwide movement.

Thank you for the opportunity to testify in support of this resolution.

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN OPPOSITION TO HCR 53

April 18, 2016

Via e mail: capitol.hawaii.gov/submittestimony.aspx

Honorable Senator Gilbert S. C. Keith-Agaran, Chair
Committee on Judiciary and Labor
State Senate
Hawaii State Capitol, Conference Room 325
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Keith-Agaran and Committee Members:

Thank you for the opportunity to testify in opposition to HCR 53, Requesting the Department of Finance to Convene a Work and Save Working Group to Investigate the Feasibility and Impact of Establishing a Retirement Savings Trust Fund for Private Sector Employees in the State.

Our firm represents the American Council of Life Insurers ("ACLI"), a Washington, D.C., based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Two hundred sixteen (216) ACLI member companies currently do business in the State of Hawaii; and they represent 93% of the life insurance premiums and 88% of the annuity considerations in this State.

ACLI supports state efforts to objectively study and explore strategies for increasing employer adoption of retirement plans and individual savings.

However, as drafted HCR 53 does not call for an objective study. Instead, it calls for the study and creation of an AARP branded state run retirement plan called "Work and Save". This AARP plan has been introduced in a number of other states.

The AARP plan requires the business owner to offer the state plan and automatically enroll their workers.

The AARP plan would likely be pre-empted by federal law and subject business owners to liabilities under ERISA.

The AARP plan reinvents the wheel.

The private sector already offers a wide spectrum of low cost and affordable vehicles that facilitate worker retirement savings. These include, for example, IRAs, individual annuities and the new federal myRA which was launched by the federal government on November 4, 2015. The myRA gives the individual worker the same tax benefits as a Roth IRA, is fully portable, does not require contributions from the employer, takes minutes to establish and is provided to the worker at no cost.

The AARP Plan does nothing to enhance the already robust marketplace for retirement savings. There is no need for Hawaii to create a program that competes with the private market when the private market is already providing ample retirement savings vehicles. Indeed, the AARP State run plan will itself utilize a private market vendor for its state program. If the State itself is going to use the private market, why does the State need a plan in the first place?

The creation of a new State sponsored and run retirement plan for private sector employees would be costly.

In states that have studied the AARP plan, the estimated startup and ongoing state costs are prohibitive, ranging from $15-20 million in Illinois, to $35-$45 million in Minnesota and Connecticut and $75-$125 million in California. These costs would prevail even if the state run plan is made voluntary for employers.

While the State of Hawaii should as a matter of policy encourage all of its residents to accumulate the savings they need to secure their own retirement, the wisdom of the State's spending its scarce resources to fund the cost of a State run retirement plan may be questioned.

In place of the study and creation of the AARP "Work & Save" State run plan, ACLI suggests that HCR 53 call for an objective study of the various initiatives the State could adopt to promote worker retirement saving. A summary of initiatives this Committee should consider is attached.

Again, thank you for the opportunity to testify in opposition to HCR 53.

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State Initiatives Regarding Retirement Plans for Private Workers

ACLI is fully committed to state and national efforts that encourage additional private retirement plan coverage and individual savings. There are many initiatives a state can undertake to do so without imposing an employer mandate, undermining existing plans or entering into unfair competition with the existing marketplace of retirement plan products and services. For instance:

ACLI supports state initiatives to promote retirement savings by private sector workers through education, incentives and collaboration with the private sector (Last year, a "State of Savers" program with these elements was considered in Oregon). We also support state studies of these initiatives, which include:

- Public awareness campaigns, financial literacy education, access to online resources and partnerships with existing non-profit and government efforts;
- Financial incentives designed to spur employer plan adoption and individual savings, including plan start-up credits and low-income tax credits or grants; and
- Voluntary public/private partnerships that engage both financial services providers and employers.

ACLI also supports state-sponsored clearinghouses or marketplaces of private sector retirement plan providers with the characteristics noted below (Washington has passed such a program and a similar program has been introduced in New Jersey):

- The state-based initiative is completely voluntary for the employer and the worker.
- The program is designed to reach underserved segments of the workforce, including small employers, part-time, seasonal and low-to-moderate income workers.
- The program preserves and promotes the continued offering of plans by licensed financial services providers.
- Licensed agents and brokers maintain their roles in marketing, placing and supporting the retirement plans.
- The plans that are available to employers may include:
    - o Voluntary payroll deduction IRAs with no employer endorsement, no auto-enrollment, no default investments (an ERISA "Safe Harbor" Plan);
    - o The federal myRA retirement savings program (not subject to ERISA);
    - o A tax qualified "SIMPLE Plan" (subject to streamlined ERISA rules);
    - o A payroll deduction IRA arrangement with auto-enrollment features (subject to ERISA);
    - o A 403b, 401k, MEP, with or without auto-enrollment features (subject to ERISA).

Note on Recent DOL Draft Guidance

Recent draft guidance from the U.S. Department of Labor may encourage states to go beyond these initiatives and propose a state run retirement plan for private workers. Although the draft guidance purports to clear the way for these plans, the DOL makes clear that states will need to take on additional costs and responsibilities and that these plans could be challenged in federal court. In addition, by exempting states from worker protections that apply to private plans, the draft guidance creates an un-level playing field and the potential for unfair competition.

NAIFA
HAWAII

Senate Committee on Judiciary and Labor
April 18, 2016 Hearing at 2:30 pm
Room 325

RE: HCR 53
REQUESTING THE DEPARTMENT OF BUDGET AND FINANCE TO CONVENE A WORK AND SAVE WORKING GROUP TO INVESTIGATE THE FEASIBILITY AND IMPACT OF ESTABLISHING A RETIREMENT SAVINGS TRUST FUND FOR PRIVATE-SECTOR EMPLOYEES IN THE STATE

Chair Keith-Agaran, Vice Chair Shimabukuro, and members of the Committee, the National Association of Insurance and Financial Advisors (NAIFA) Hawaii is made up of life insurance agents and financial advisors throughout Hawaii, who primarily market life, annuities, long term care, and disability income insurance products.

HCR 53 is requesting that the Department of Budget and Finance convene a "work and save working group" to determine the feasibility and impact of establishing a retirement savings trust fund for Hawaii private sector employees. This working group will also prepare guidance or recommendation for the investment policy and risk management, an oversight plan to monitor risk levels, and that risks are prudent and properly managed.

We do **not** support HCR 53.

Both policymaker and media attention have focused on workers not saving enough for retirement. States have considered bills that would implement state run IRA type retirement plans options available to workers at small and medium companies. NAIFA understands the importance of retirement security and acknowledges that many Americans are not saving enough for retirement. However, we do not believe that a state-run plan that competes with private market plans is the answer. Availability and access to retirement savings options are not the problem— there already exists a strong, vibrant private sector retirement plan market that offers diverse, affordable options to individuals and employers.

The use of state funds for the start-up, operating costs, state responsibilities and obligations under ERISA would be better served by using scarce state resources for education and outreach efforts designed to educate our citizens about the importance of saving for retirement, rather than implementing a costly state-run plan.

On April 6, 2016, the U.S. Department of Labor issued its final fiduciary rule that will affect financial advisors and their clients' retirement plans. NAIFA is reviewing and analyzing the new rule (1000 pages) to determine its impact and how it will impact middle-market consumers. The rule goes into effect on April 10, 2017. The Department of Budget & Finance must take into account this new fiduciary standard rule, the legal term for "putting customers' interest first" and be fully aware of the compliance requirements of "investment advice fiduciaries" and how compensation will be determined. The new fiduciary standard will require new policies and procedures and like many rule promulgation, the devil is in the details.

Thank you for allowing us to share our views.

Cynthia Takenaka
Executive Director
Phone: 394-3451

From: mailinglist@capitol.hawaii.gov
Sent: Friday, April 15, 2016 8:26 PM
To: JDLTestimony
Cc:
Subject: Submitted testimony for HCR53 on Apr 18, 2016 14:30PM

HCR53
Submitted on: 4/15/2016
Testimony for JDL on Apr 18, 2016 14:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Gertrude Hara	Individual	Comments Only	No

Comments: The average Work and Save Program is a tool to facilities individuals saving privately. It is NOT a defined contribution plan, and cannot create a long-term liability for the state. The absence of a workplace savings option increases the risk that many of our residents will face a financially insecure retirement too reliant on Social Security. According to statistics the average monthly Social Security benefit for Hawaii retirees was about $1,200 in 2012. The State should try to increase personal savings in Hawaii, taxpayers will face higher safety net program costs in the decades to come-and Medicaid is already a huge budget item.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.