National Conference on
Public Employee Retirement Systems
The Voice for Public Pensions

NCPERS Testimony for Briefing
On Private Sector Pension/Retirement Plans

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Introduction

Madam Chair Verna L. Jones-Rodwell and members of the committee, thank you for allowing my organization, the National Conference on Public Employee Retirement Systems (NCPERS), to testify before you today.

NCPERS is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials, and investment, actuarial and legal professionals who collectively manage more than $3.7 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. Further, NCPERS promotes retirement security for *all* workers – in both the public and private sectors – through access to defined benefit pension plans.

In addition to serving as Executive Director and Counsel for NCPERS, I currently serve as Vice-Chair of the Fairfax County Uniform Retirement System, $1.3 billion public employee retirement system providing pension coverage for the Fire & Rescue Department, Sheriff's Department, and certain other sworn employees of Fairfax, Virginia. I also serve as Treasurer of the National Institute on Retirement Security, a Washington, D.C. based think tank focusing on retirement security. Previously, I've served on the Morningstar Pension Endowments and Foundations Steering Committee and the City of Virginia Beach Mayor's Committee on Employee Pensions.

America's Retirement Crisis

The U.S. is facing a retirement crisis in the private sector. Today, there is a retirement savings deficit somewhere upwards of $14 trillion. This retirement saving deficit is calculated by determining what 401(k) account holders should have in their accounts to maintain their standard of living in their retirement and comparing that with what they actually do have in their accounts. Recently, the Wall Street Journal ran on its front page a story about the retirement savings crisis. Entitled "Workers Saving Too Little to Retire," the article noted that fifty-seven percent of U.S. workers surveyed reported less than $25,000 in total household savings for retirement. This is extremely troubling because as documented in our publication *The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector*, Social Security gets a typical retiree about one-third of the way towards a secure retirement. The remaining two-thirds must be made up from personal savings solely or in conjunction with an employer sponsored pension plan.

According to US Bureau of the Census data, one million working Marylanders work for employers who offer no retirement plan, while another 200,000 do not participate in their employer plans. Less than half of small Maryland employers, those with fewer than 100 workers, offer a retirement arrangement. The result is that there are generations of Marylanders moving through their working years with little or no retirement savings and will have only Social Security to rely on. This lack of retirement income will impact individuals and the communities in which they reside. Nearly 90% of retirees stay in their communities. Without adequate income, these individuals will not be able to contribute to the tax base to pay for public services and may require income-support assistance. Appended to this written testimony are charts that delve further into Maryland-specific retirement security demographics.

Most acutely, the 78 million baby-boomers who are now at or nearing retirement may not have enough time left in the workforce to earn back what they have lost in retirement assets during the Great Recession. Our ability as a nation to sustain our economy at a time when a record number of workers are entering their retirement years should be an important part of our national debate. Retirement security for *all* Americans – whether they work in the public or private sector – must become a national priority.

A New Approach

The growing national debate over retirement security has forced many thought leaders and policymakers to take a fresh look at this growing crisis.

At NCPERS, this examination began in late 2010. We knew that not only was there a need for revitalization of pensions in the private sector, but there was a keen desire by working Americans for the type of retirement security that public sector employees have earned and enjoy. So for a year we embarked upon a journey to study what the next evolution of pensions for the private sector might be. We dubbed this exercise "Pensions 2.0." We asked ourselves what a private sector pension would look like if it reflected the realities of the 21st Century. Namely, the pension plan had to be flexible to reflect economic conditions, portable so that participants can carry it from job to job, simple to administer, and most importantly sustainable for not just the next 20 years but for the next 200 years.

Our answer is the Secure Choice Pension (SCP). The SCP is envisioned as a public-private partnership to provide retirement security for American workers, particularly those who work for small businesses, and who don't currently have a defined benefit pension. The plan draws on the documented performance and efficiencies of public sector pension management, and extends it to those in the private sector who face what is becoming a national retirement crisis. The concept is that the states – individually, or possibly in groups – would enact legislation to establish a state or regional SCP plan. SCPs would be multiple-employer hybrid defined benefit pension plans. Each SCP would have a board of trustees composed of state, private employer and private employee/retiree representatives. The board would hire a chief executive officer and administrative staff to administer the SCP. The board and staff would have fiduciary duty to the SCP plan and its participants.

Participation in the SCP would be voluntary. Contributions to the SCP would come ideally from both employers and employees. In our model plan the combined contribution is set at 6% of pay and would replace approximately one-third of average career salary at retirement. For participating employers, administrative and fiduciary duties would be largely removed and placed upon the board of trustees and administrator of the plan. The only real obligation and administrative task for employers would be to make their portion of the contribution – thus making participation in the SCP affordable and simple for private sector employers, in terms of both time and financial cost. While each SCP participant would have a participant account, all contributions to the SCP would be pooled and professionally invested to achieve economies of scale and to negotiate lower fees from investment firms hired by the SCP board.

The participant accounts would grow at an interest rate that the SCP board would set annually, but the SCP plan guarantees a minimum of three percent return. At retirement, employees participating in a SCP would be guaranteed an income for life – an income immune to stock market fluctuations and sudden economic downturns.

Once we had the SCP plan design and actuarially determined funding approach, we developed rigorous modeling and stress tested the SCP concept to assess its performance. We believe that the SCP is the most detailed and most thoroughly tested public-private partnership pension concept available. It is in part for this reason that NCPERS has been asked to assist in developing and drafting state-based private sector retirement savings legislation.

It is worth noting that concerns about a lack of retirement security among their citizens – and the potential negative consequences on their economies and tax revenues – has prompted a number of states to explore public-private partnerships to provide retirement savings plans for private sector workers.

In March of 2012, the Massachusetts legislature passed, and the governor signed, a law titled "An Act to Provide Retirement Options for Nonprofit Organizations." The new law – one of the first of its kind – will allow nonprofit organizations with fewer than 20 employees to enter into a contributory retirement plan overseen by the state treasurer's office. Currently, the treasurer's office oversees a contributory plan for public sector employees with $5 billion in assets that covers approximately 300,000 workers. Adding the plan for nonprofit organizations will not have a significant impact on operations. The treasurer's office will create a trust to receive qualified contributions from nonprofit employers and employees, and will establish a non-profit defined contribution committee that will include the treasurer and four other members.

Last September, California's legislature passed, and its governor signed, a law to create a statewide retirement savings plan known as the California Secure Choice Retirement Savings Program (SCRSP). The plan is for private workers who do not participate in any other type of employer sponsored retirement savings plan. Contributions by employees will be voluntary. Before the SCRSP becomes operational, the SCRSP Board created by the law must conduct a market analysis to determine various factors concerning implementing the SCRSP and report its findings to the Legislature. Once created, administrative costs for the SCRSP will be paid for from earnings on investments into the trust – not by California taxpayers. Those administrative costs are capped at no more than 1 percent, annually, of the total program fund assets.

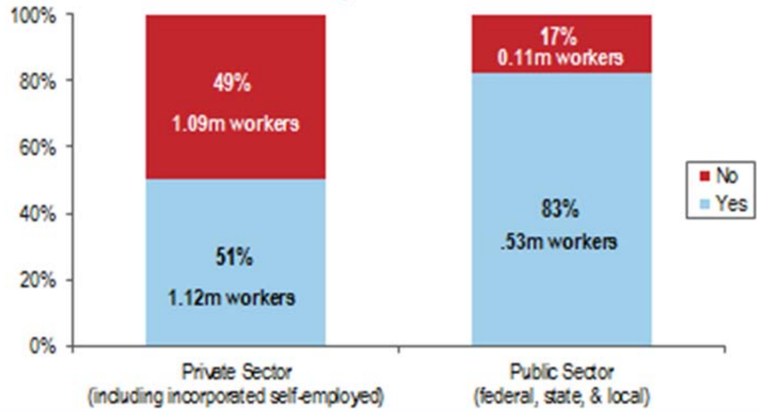
In an effort to follow in the footsteps of Massachusetts and California, Oregon's legislature passed a bill in July to form a task force to explore options for helping private sector workers who do not have access to retirement savings plans at their workplace. Roughly half of Oregon's private workers have no access to such a plan, and access is lowest among lower-income minority workers. And only 40 percent of private sector workers participate in workplace retirement plans. Among other things, the seven-member Oregon Retirement Savings Task Force will develop recommendations for increasing the percentage of Oregonians enrolled in a retirement plan and for creating tax incentives and marketing strategies to encourage businesses to offer retirement savings plans to their employees. The legislation was backed by AARP, labor groups and small businesses.

Conclusion

NCPERS wishes to thank the Committee for this opportunity to express our views and offer our insights as Maryland contemplates an important step toward addressing the private sector retirement crisis facing this state and the nation as a whole. NCPERS stands ready to assist state policymakers with facts, research, and expertise as they delve into policy discussions on retirement security. We invite this committee to contact us should you need additional information.

Access to a Retirement Plan

MARYLAND WORKERS
Does your employer offer a pension or retirement plan?
By Sector



About 1 million private sector workers in Maryland do not have access to an employer-sponsored retirement plan.

Source: Analysis of Current Population Survey, March 2012 Supplement

Participation in a Retirement Plan

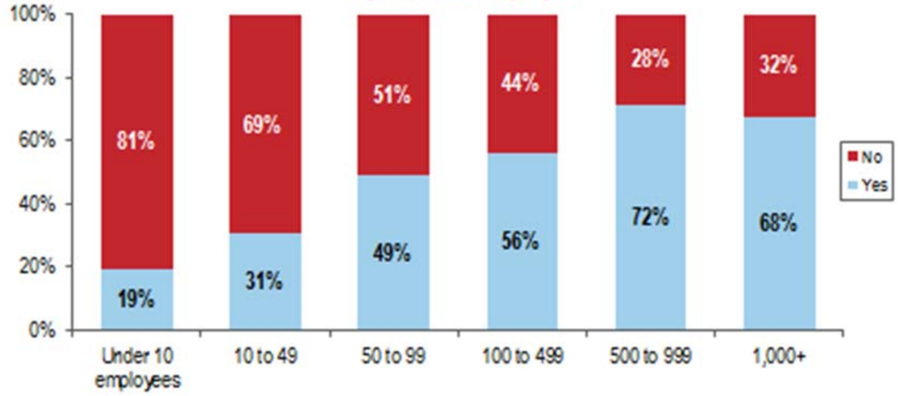
MARYLAND WORKERS
Do you participate in the retirement plan?
By Sector

Another 207,000 private sector workers in Maryland do not participate in their employer's retirement plan.

Source: Analysis of Current Population Survey, March 2012 Supplement

Access to a Retirement Plan by Employer Size

MARYLAND PRIVATE SECTOR WORKERS:
Does your employer offer a pension or retirement plan?
By Size of Employer

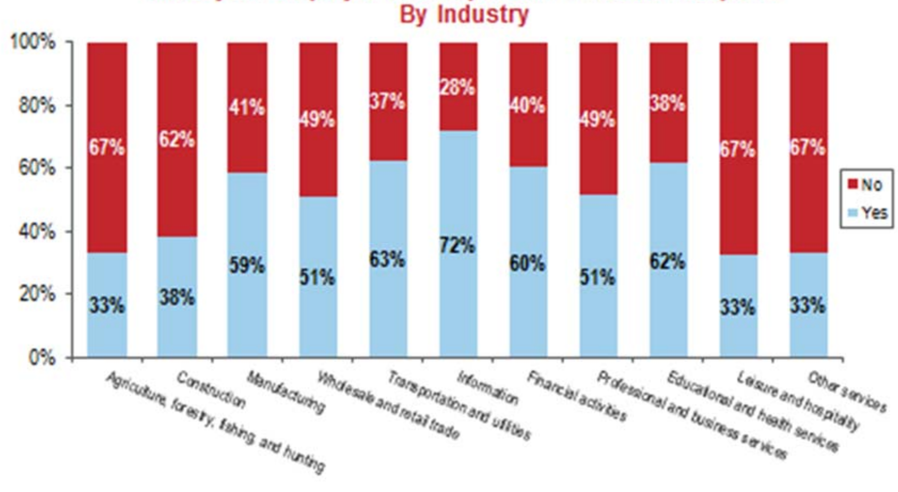


A majority of private sector employees in smaller firms (<100 employees) say that their employer does not offer a pension or retirement plan (652,000 people).

Source: Analysis of Current Population Survey, March 2012 Supplement

Access to a Retirement Plan by Industry

MARYLAND WORKERS:
Does your employer offer a pension or retirement plan?
By Industry



Source: Analysis of Current Population Survey, March 2012 Supplement