Written Testimony on Intro 692-A
A Bill to Address New York City’s Retirement Crisis

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Introduction

Good morning. My name is Hank Kim and I am the Executive Director and Counsel of the National Conference on Public Employee Retirement Systems (NCPERS). I want to thank Chairperson Miller and the members of the City Council’s Committee on Civil Service and Labor for this opportunity to testify on such an important issue and their leadership on retirement security. I would also like to thank New York City Comptroller Scott Stringer for taking a close look at the retirement security for private sector workers who currently lack a pension and for convening a Study Group to look at the viability and technical aspects of a new pension system. The expertise and time of his staff is invaluable. I would also like to thank Public Advocate Leticia James for working to ensure that all stakeholders have a voice in the process and thinking through how to move the process forward from concept to implementation of a systems that ensures retirement security to all working New Yorkers.

NCPERS is the largest trade association for public sector pension funds representing more than 500 funds, including all five of the City’s 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 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, a $1.5 billion public employee retirement system providing pension coverage for the Fire & Rescue Department, Sheriff’s Department, and certain other sworn employees of Fairfax, Virginia. Additionally, I serve as Treasurer of the National Institute on Retirement Security, a Washington, D.C. based think tank focusing on retirement security.
I am also on the board of the Benefits Law Journal, a quarterly law journal that for over 20 years has featured the most respected and accomplished employee benefits professionals who have shared their expertise. Each quarterly issue offers in-depth analysis of new legislation, regulations, case law, and current trends governing employee benefits: pension plans, welfare benefits, executive compensation, and tax and ERISA issues. 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 around $6.6 to $14.5 trillion. This retirement savings 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. 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 an analysis of New York City employer data that NCPERS has commissioned, the New York City metropolitan area has 3.9 million private sector workers who do not have access to an employer sponsored retirement savings program. An additional 663,000 New York private sector workers do not participate in their employers’ retirement savings program. That puts the grand total of more than 4.5 million New Yorkers who are not saving adequately—if at all—for retirement.

The result is that there are generations of New Yorkers 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 New York City 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 actuarial 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 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.

Intro. 692-A

NCPERS wishes to congratulate the Public Advocate Ms. James, Council Members Miller Lancman and the bill’s other sponsors for their leadership. The objective of this bill is to ultimately establish a city-based retirement security program and fund that would be available to all private sector workers in New York City. NCPERS supports the intent of this legislation. Establishing this type of fund would have many advantages for workers, businesses, and the city as a whole. Accounts would be pooled and centrally-managed, which will help keep fees low through economies of scale. If workers are automatically enrolled it would ensure high participation rates.

Regardless of what process is used to consider different mechanisms to ensure greater retirement security we recommend the following:

- First, a serious review be made of the Secure Choice Pension proposal outlined in this testimony. The SCP is the most rigorously tested proposal and can provide New York City the tool it needs to address the retirement crisis the City faces. A copy of the SCP Whitepaper has been included with this testimony.

- Second, consideration be made of establishing an ERISA plan. Unfortunately, there is too much misunderstanding in the public sector of what ERISA is and what ERISA is not; and confusion of two related—but separate—issues of ERISA preemption and ERISA protections afforded plan participants. We believe a New York City sponsored ERISA retirement plan, like the NCPERS Secure Choice Pension proposal, has many benefits for plan participants and would avoid many of the preemption, protection, and uniformity concerns raised by other state sponsored plans.

- Lastly, to help state and local policymakers get a better handle on ERISA and other facets related to state/local sponsored plans, NCPERS will host the State Initiatives on Retirement Security (SIRS) Symposium, a half day educational program focused exclusively on these issues August 6, 2015 in Seattle, Washington in conjunction with the National Conference on State Legislatures Legislative Summit. We encourage members of this body and other
New York City policymakers involved in retirement security to attend our free symposium later this summer.

Conclusion

NCPERS wishes to thank the Committee for this opportunity to express our concerns about retirement security for all workers. We again congratulate Public Advocate. James and Council Members Miller and the bill’s other sponsors for their leadership in this area. We believe that through this hearing, the leadership of the Public Advocate and the tireless work of the City’s Comptroller that New York City is taking an important step towards addressing the retirement crisis our nation faces. NCPERS stands ready to assist state and local policymakers with facts, research, and expertise as they delve into policy discussions on retirement security. We invite this body to contact us should you need additional information.
Access to a Retirement Plan

WORKERS IN NEW YORK CITY METRO*
Does your employer offer a pension or retirement plan?
By Sector

- Private Sector (including incorporated self-employed)
  - Yes: 53% (3.9m workers)
  - No: 47% (3.5m workers)

- Public Sector (federal, state, & local)
  - Yes: 24% (273k workers)
  - No: 76% (873k workers)

Almost 4 million private sector workers in the New York City metro area do not have access to an employer-sponsored retirement plan.

*Defined as the New York-Northern NJ-Long Island, Metropolitan Area

Participation in a Retirement Plan

WORKERS IN NEW YORK CITY METRO*
Do you participate in the retirement plan?
By Sector

- Private Sector (including incorporated self-employed)
  - Yes: 19% (663k workers)
  - No: 81% (2.83m workers)

- Public Sector (federal, state, & local)
  - Yes: 8% (72.7k workers)
  - No: 92% (800k workers)

Another 663,000 private sector workers in NYC do not participate in their employer’s retirement plan.

*Defined as the New York-Northern NJ-Long Island, Metropolitan Area
Access to a Retirement Plan by Employer Size

PRIVATE SECTOR WORKERS IN NEW YORK CITY METRO*
Does your employer offer a pension or retirement plan?
By Size of Employer

<table>
<thead>
<tr>
<th>Size of Employer</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 10 employees</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>10 to 49</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>50 to 99</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>100 to 499</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>500 to 999</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>1,000+</td>
<td>66%</td>
<td>34%</td>
</tr>
</tbody>
</table>

A majority of NYC private sector employees in smaller firms (<100 employees) say their employer does not offer a pension or retirement plan (2.55m people).

*Defined as the New York-Northern NJ-Long Island, Metropolitan Area

Access to a Retirement Plan by Industry

PRIVATE SECTOR WORKERS IN NEW YORK CITY METRO*
Does your employer offer a pension or retirement plan?
By Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishing</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>Construction</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>Durable Goods Mfrs.</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>Non-Durable Goods Mfrs.</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>Transportation &amp; Warehousing</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Finance, Insurance &amp; Real Estate</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>Education/Health Services</td>
<td>53%</td>
<td>44%</td>
</tr>
<tr>
<td>Public Administration</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>28%</td>
<td>72%</td>
</tr>
</tbody>
</table>

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