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Public Hearing on Retirement Security for All
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Good morning. My name is Hank Kim and I am executive director and counsel of the National Conference on Public Employee Retirement Systems (NCPERS). I would like to thank Chairman Daneek Miller for convening this important hearing of the Committee on Civil Service and Labor. Chairman Miller and Council Member Ben Kallos deserve our thanks for putting the spotlight on the urgent need to create retirement savings programs for workers who currently lack them. Their forward-looking legislative proposals to make "Savings Access New York" a reality deserve prompt and serious consideration.

I am pleased to speak on behalf of NCPERS, the largest trade association for public sector pension funds. We represent more than 500 funds throughout the United States and Canada, including all five of New York City's pension funds.

NCPERS is a unique non-profit network of public trustees, administrators, public officials, and investment, actuarial and legal professionals. Collectively, these entities manage $3 trillion in pension assets. Through our members, we are the voice of seven million retirees and nearly 15 million active public servants — including but not limited to firefighters, law enforcement officers and teachers.

Since our founding in 1941, NCPERS has worked tirelessly to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. But our interest is not limited to public sector employees, because we recognize that retirement security for ALL workers is vital to our national well-being. Therefore, we are strong advocates of providing ALL workers with access to retirement savings opportunities, and that is what brings me here today.

For several years now, New York City has been in the vanguard of initiatives to help private-sector workers save for retirement. Several approaches and pieces of legislation have been proposed and considered over the past four years.

New York's experience is a microcosm of a trend that is playing out across the nation: Cities and states are recognizing that millions of workers are inadequately prepared for retirement. These governments know that they have an unprecedented opportunity to help private-sector workers help themselves. By helping workers prepare for retirement, cities and states can protect the economic security of their residents. State and local governments are increasingly concerned that if they fail to take up the mantle, they risk bringing added stress on social welfare programs and reducing the tax base when workers reach retirement.

The Retirement Crisis is Real

Make no mistake about it: The United States today faces a very real retirement crisis. The current shortfall in retirement savings among U.S. workers has been pegged at approximately $4 trillion by the Employee Benefits Research Institute[1] and we have seen estimates as high as $14 trillion by others. It is an understatement to say that Americans are worried about their ability to achieve financial security and make it last through retirement. The minority of hard working Americans who have pensions to look forward to may not live large in retirement, but they will enjoy a basic level of security.

An analysis of U.S. Census Bureau data reveals that the median retirement account balance among working Americans is zero.[2] That's right, zero. That's what happens when 57 percent of Americans do not own any retirement account assets in a 401(k) plan or individual retirement account. For those nearing retirement, it's also a grim outlook. Some 68% of individuals 55 to 64 only have retirement savings of less than one year's income, which they'll have to make last for decades.

A Way Forward

Employers have traditionally provided retirement benefits as a way to attract and retain the workers needed to deliver goods and services. But the past 40 years has seen dramatic change in the shape and structure of retirement savings in America. Corporate pension plans, where they existed at all, have gradually gone the way of vinyl records, Kodachrome film, and landlines. Just 13 percent of private-sector workers have a traditional pension plan, down from 38 percent in 1979. And 401(k) plans, which were held out as a superior alternative to traditional defined benefit pensions, have failed to deliver the desired benefits.[3]

Public pension plans, meanwhile, remain robust as a whole but are under constant, politically motivated attack and pressure, primarily because of the failure of state and local governments to honor their funding commitments.

Against a backdrop of rising anxiety, workplace change, and generational shifts, what has become known as the Secure Choice movement has taken shape. In the early years of the new millennium, policymakers and stakeholders from across the political spectrum considered how to give Americans greater confidence in their financial future. While millions of Americans participated in workplace plans, including public and private pensions and tax-deferred savings plans such as 401(k) s, millions did not.

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[1] "Retirement Savings Shortfalls: Evidence from EBRI's 2019 Retirement Security Projection Model," Employee Benefit Research Institute, March 2019.

[2] "Retirement in America: Out of Reach for Most Americans?" National Institute on Retirement Security, September 2018.

[3] Timothy W. Martin, "The Champions of the 401(k) Lament the Revolution They Started," *Wall Street Journal*, January 2, 2017.

And even among those participating, average savings rates were dangerously short of the amounts needed for a secure future. The debate quickly homed in on the workplace, particularly the small businesses that drive local economies and power innovation. The focus was on a new concept based on the individual retirement account (IRA) and called the auto-IRA.

Like the plans currently under consideration in New York City, the Secure Choice idea is to use the most effective savings method—payroll deduction—to help workers build a retirement nest egg, while states provide expertise and savings mechanisms in the form of pooled investment vehicles. Mayor de Blasio's office in January 2019 said that under the city's proposal, a New Yorker who makes the city's median salary of $50,850 per year and invests 5 percent annually while earning an average net return of 4 percent would save $146,274 after 30 years.

In September 2011, NCPERS laid out the rationale for a state-facilitated approach in a groundbreaking white paper, The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector. Summarizing the goal, we wrote, "American private-sector workers need a new choice that provides a secure yet flexible retirement program."[4]

Since that time, we have seen tremendous progress in the Secure Choice movement. Across the nation, Secure Choice programs are beginning to take shape. Oregon last year became the first state in the nation to implement such a program, called OregonSaves, in March 2018. In California, the CalSavers Retirement Savings Program was launched on a pilot basis in November 2018 and officially opened to all workers in July 2019. Numerous other states have launched programs or have them in the pipeline.

If New York were to adopt the pending proposals, it would become the first major city to move forward with the Secure Choice model. A 2016 study commissioned by the city's Comptroller's Office found that 1.5 million city residents, or 58 percent of private workers, were not covered by workplace retirement programs.

The Saving Access proposals you are considering today offer substantial potential benefits to workers. As Mayor de Blasio noted in his State of the City address in January 2019, a New Yorker who makes the city's median salary of $50,850 per year and invests 5 percent annually while earning an average net return of 4 percent would save $146,274 after 30 years.[5] We consider this a very promising step toward providing a secure retirement for New York City residents.

Recommendations

New York City is demonstrating leadership with its initiative to facilitate voluntary retirement savings by private-sector workers. The Secure Choice model, built on an auto-enrollment individual retirement

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[4] "The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector." (Washington, DC: National Conference on Public Employee Retirement Systems, 2011), http://www.ncpers.org/files/2011_scp_white_paper_final.pdf.

[5] "Mayor de Blasio: Delivering on Our Promise to Make New York City the Fairest Big City in America," Office of the Mayor, January 10, 2019.

account, is the most rigorously tested proposal and should provide New York City with the tools it needs to improve retirement prospects for workers.

Indeed, New York could very well be the first city in the nation to take this bold step for workers. It is noteworthy that New York's plan would provide auto-enrollment for employees who work more than 20 hours a week, as people who work less than full-time are generally ineligible for workplace retirement benefits.

Additionally, consideration should 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.

Conclusion

NCPERS thanks the Committee for the opportunity to address the pressing issue of providing retirement security for all. We congratulate Chairman Miller, Council Member Kallos, and other legislative sponsors for their leadership in this area. We believe that through this hearing New York City is helping to show the way forward in 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.