Governor's Task Force to Ensure Retirement Security for All Marylanders
Joint Hearing Room, Legislative Services Building
Annapolis, Maryland
December 1, 2014
1:00 p.m. – 3:00 p.m.

Task Force Meeting Notes

Attendees: Task Force Members: Kathleen Kennedy Townsend, Sarah Gill, Maryland State Treasurer Nancy Kopp, Senator Joe Getty, Senator Jim Rosapepe, Delegate Dana Stein, Delegate Sandy Rosenberg, Nailah Gobern Lee, Howard Freedlander, Donna Edwards, Leonard Howie, Ed Bernard, Gary Kleinschmidt, Diane Oakley (via phone).

Kathleen Kennedy Townsend, Chair, opened the meeting at 1:05 p.m.
DLLR Secretary Leonard Howie led introductions of task force members, speakers and guests.

Presentations on Retirement Security Solutions:

1. Kim Lamphier, representing Jim Racheff, Maryland Business (written statement): Maryland Business is the leading voice for Maryland businesses, representing more than 150 small businesses. Businesses face many obstacles when considering retirement plans for their employees: creating the program can be complex and establish unwanted fiduciary responsibilities and plan costs are much higher for small businesses. The cost can be $5.00 for five minutes of time per employee (one more deduction as part of payroll). Private sector doesn't have the solution.

   Questions:
   Ed Bernard: What happens when employee moves out of state? Response: Money remains with employee.

   Howard Freedlander: How were the businesses surveyed? Response: Maryland Business talked to businesses individually.

2. Bryson Popham, Retirement Planning Coalition: ACLI, NAIFA MD, NFIB, MAHU, IAVB, and Maryland Chamber: Small law firm plans under ABA, even if own administrator, can be hard to manage. There is more to retirement plan administration than $5.00 and five minutes. Far too many people are not saving for retirement. The next logical step is to educate our citizens to save for retirement. If you give the private sector the opportunity and identify the need, the private sector will take care of it.

   Jessica Cooper, NFIB: Maryland already offers plans. NFIB is ready to help improve the current status.

Questions:
Sarah Gill (AARP): Has the coalition addressed the issue of payroll economics? What specific steps should the task force take regarding financial education? What's new and different about your proposal?

Phyllis Burlage, NFIB: No push to savings when products first become available. Let's get the economy straight and let's use what's there before we load employers down with additional regulations. There are employee-controlled plans; employees deal directly with a financial institution. There may be an employer match but there is no fiduciary responsibility and no employer paperwork.

Dereice Pate Bennett, MD Chamber: The Chamber has a problem with a mandate. Smaller members don't offer plans because of the cost. Many are doing their "books" in-house.

Leah Walters, ACLI: Helping Americans plan for retirement is what we do. Consider life Insurance as a retirement tool. ERISA rules complicate how to protect employees and their money. Will savings be portable? We have many concerns with a state-run plan. Retirement savings need to be portable, under IRS, ERISA rules. ACLI is concerned about different plans across states and feel the Administration's myRA and Legg Mason's plans are a step in the right direction. ACLI believes that ERISA will be applicable which means more costs and regulations.

Questions:
Gill: Has NFIB conducted any studies to determine why employees are not participating?

Meinerschmidt: Employees refuse to participate even with a match. What are the effects on a Maryland worker who resides in PA? No one reads prospectuses. But the Chair reminds all that we have large employers who don't offer anything. How do we deal with that in light of the fact that other countries are doing things and we are not succeeding right now?

3. Lisa Bleier SIFMA (Power Point presentation): Why don't we have 100 percent participation? More education is needed along with behavioral adjustment. Age appropriate financial literacy is needed. Three-prong account: spend, save, long term save. There should be more education at critical points. The challenge is not having enough for retirement but hope that small amount of savings will lead to more aggressive investments that provide better return than safe Treasury bonds. There is no reason for the state to compete with the private sector. SIFMA has concerns with state-run plans. SIFMA supports small employer partnership. Many business organizations will sign up once they see myRA go live. SIFMA is against mandates (Refers to 2007 Retirement Plan Study).

   Questions:
   Delegate Rosenberg: What is the status of myRA politically? Answer: Everything is almost ready. There are technical payroll issues but it will be live by the end of this year.

Presentation on Retirement Policy in Other Countries

David John, Senior Policy Analyst, AARP

Australia: Australia has a public pension system that is means tested. It began in 1983 with a mandatory savings provision. The plan covers 90% of workers, 10% of self-employed chose not to participate. Money goes into many different types of funds and the plan is professionally managed. The level of fees is a concern (high overhead) and there is pressure to lower the fees.

New Zealand: New Zealand has a citizens' pension (started officially in 2006 or 2007). New Zealand guarantees that no one will live in poverty, but if you want more you must do more. Employer forwards money to a central clearinghouse. There are government incentives for participation. The choice of funds depends on whether the individual chooses the fund. New Zealand has a small financial market so there are high fees. One problem is that the plan allows "savings holidays" so participants can take money out to buy a house. Young people use the fund to save money for a house. Every three years a report on kiwi saver is published. Some changes in the next 18 months anticipated.

UK: UK has automatic enrollment and is a complex state pension system. It has been mismanaged. A significant number of people that earned a State basic pension were living below poverty. Under Gordon Brown, they issued an auto enroll of which NEST is an example. The NEST system is being phased in. NEST is a government-owned non-profit corporation. It operates similar to the U.S. government's Thrift Savings Plan. Participants will contribute a certain percent of income to the system (eight percent – four percent from employers, three percent from employees and one percent tax advantage). NEST is example where state-run plan and private plans compete well.

Danish: Denmark's public pension plan is means-tested. Two-thirds of the cost is paid by employers and the average contribution is 19%. There is one central fund and it is carefully managed.

The Netherlands: The Netherlands' plan is in transition. The public pension is paid by 18 percent tax on earnings and you must have lived in the Netherlands for 50 years to receive it. They also have an occupational system that is managed by private sector entities. The system is moving from defined benefit to defined contribution. There is risk sharing among the generations in that the pension benefit is reduced if the financial market is weak.

Chair: Generational equity should be talked about in the US. We haven't done it well.

John: There is a lot of micro data. Two Harvard researchers show that what really makes sense are auto features, they outweigh any form of tax advantage. Also if we look at myRA, the problem is that it is a tool. It is a way for first time savers to save money cheaply. It gets people used to the idea of saving. But it tops out at $15,000, then it must be rolled into something else. US Treasury requires it to go through an employer. The problem is that those that can't save for retirement now, won't be able to under myRA. With payroll deduction, employees will have more. It is important that one out of 20 people will participate if they must open their own account; but with payroll deduction, over 70 percent participate. If auto enrollment, the participation rate could be more than 90 percent.

Questions:
Delegate Rosenberg: Note that in three English-speaking countries, money goes into a simple retirement savings choice and costs are kept low.

Burlage: Is there also a social security tax in these countries? Response: yes, but New Zealand is specifically designed to keep people out of poverty. A government entity shouldn't bear the progressively higher cost.

Nailah Gobern Lee: When is the financial education in these countries? Response: early, but not enough. Teaching the value of savings doesn't replace retirement policy.

Howard Freedlander: Did simplicity minimize opposition? Response: It varied by country. Now, there is bipartisan support for super savers but originally contentious.

Gary Kleinschmidt (Power Point presentation):
NEST:

- They have 50 retirement funds.
- It is a trust based system, not-for-profit, outside of government.
- 50 basis points is the fee structure.
- Rule base too complicated for employer.
- May remove annuity? Variable annuity?

Questions:

Ed Bernard: What is counsel to this group with federal plan and so many other state plans? Response: New Zealand, Netherlands, Denmark, have similar populations to American states, different scale, possible to have a successful retirement system the size of our states.

Nancy Kopp: Is there anything about our culture that would prevent any of our states from being successful with plans like this? Response: No, there is nothing here that wouldn't work. Gordon Brown of NEST was inspired by the federal thrift savings plan. There are elements that everybody shares.

David John: Behavioral economics has similar results in UK or West Virginia. I see nothing to suggest that any of these systems wouldn't work. But they are also products of their own cultures. Look at the cross cultural principles. Those say that those would work regardless.

Senator Rosapepe: Are there other countries? How unique are they? Response: these countries read and speak English, so we can evaluate them. However, a Chilean system was deep transplanted into Eastern Europe; also in Argentina. Argentina took over private savings. Germany and Sweden have something worth studying (and Canada). There are guiding principles, simple, auto enrollment and the plans cover as many workers as possible.

(Chair elected to hold Sarah Mysewiecz Gill's presentation due to time constraints.)

Gary Kleinschmidt: Options are: Payroll deduction, no fee for employers, education, auto enrollment or mandatory participation. Hardest part in US is all of the testing and compliance. It's not the plans themselves, but they become fiduciary. Anything simple is what needs to be done. People need to auto deduct but people don't. You can do ACH into a myRA but people don't. It is a behavioral issue.

Gary Kleinschmidt: Many similarities with private and state mandates. The states' action has inspired the private industry to move forward more quickly and more aggressively.

Bryson Popham: There is a need for greater education.

Nancy Kopp: For the record, since everyone believes so deeply in Financial Education that we can assume there will be education and financial literacy. Also, AARP statistics are impressive.

Delegate Stein: I am skeptical about the impact of education on behavior. We need data on impact of knowledge. How does it impact behavior?

Presentation on Retirement Policy Principles
Hank Kim, Executive Director and Counsel, National Conference on Public Employee Retirement Systems (Power Point):

Assets are pooled together for investment purposes. State-wide secure choice pension could co-exist; but probably not necessary. The point is to augment the three-legged retirement stool. Workers can expect 60% replacement income from Social Security if their salary was $30,000; about 32% if salary was higher than $50,000. State-based plan is to augment not replace public/private retirement plans. A few principles to consider:

- Plan design
- How we calculate contributions
- Normal cost plus 20 year amortization, more conservative
- 35 percent of smaller number is a blend
- Plan could be overfunded due to conservative assumptions
- Effective contribution rate staying close to 6 percent
- Dividend reseller fee fund being created.
- Even with two recessions plan is still overfunded
- Secure choice is sustainable. Large number business owners interested

- This is doable with saving 6 percent of wages

Questions:
Ed Bernard: Why defined benefit as opposed to defined contribution? At what point is the benefit really defined? When a plan is underfunded who is on the hook? Response: Engage the insurance industry to create a safety net. Least favorable is that participants get a haircut. They defer 6 percent to get principal, plus 3 percent. Part of the answer is the pooling of investment. States are hesitant to assume risk.

Ed Bernard: Did you ask in the survey how small businesses feel about requirement? Response: state will design legislation and give options.

Ed Bernard: If there is a gap, then they have already paid for it, you are talking 240 basis points as opposed to 50. There is a price to certainty, there is no free lunch. It is math, a policy decision, how much certainty do you want?

Senator Rosapepe: Don't let perfect be the enemy of very good. There are trade-offs and risks. We can't define that.

Kathleen Kennedy Townsend, Chair, adjourned the meeting at 4:06 p.m.