

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN OPPOSITION TO HR 20

March 14, 2016

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

Honorable Angus L. K. McKelvey, Chair
Committee on Consumer Protection and Commerce
State House of Representatives
Hawaii State Capitol, Conference Room 325
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair McKelvey and Committee Members:

Thank you for the opportunity to testify in opposition to HR 20, 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 HR 20 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 HR 20 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 HR 20.

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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.