Senator Hansen
Testimony: SB-45 Private Pension Plan
Senate Committee on Labor and Government Reform
12/10/15

I would like to thank you Chairman Nass for the opportunity to discuss Senate Bill 45 and the looming retirement crisis that we are a facing here and across the country.

I realize that there are people here who do not support SB-45. That is what is great about our democracy. It gives us all a chance to weigh in on these important issues—and hopefully we find the best solution to these types of challenges as a result.

I want to be clear that I believe there is not only a place for, but a need for the types of products that are available in the private sector market. My intention is not to compete with those businesses or their products but to offer another alternative that might encourage those who currently do not have a retirement plan to take a more active interest in saving for the day they will no longer work.

That is why I am grateful for this opportunity to begin a discussion that I believe is long overdue—and that is how do we go about encouraging both employers and workers to have retirement plans in place so people are able to plan for the time when they will no longer be working.

If the introduction of SB-45 spurs that discussion and eventually leads to a solution to this growing crisis, then your decision to hold a hearing on this bill today will have proven to be a significant step in that process.

And in case there is any doubt as to the challenge we are facing let's consider:

- According to research done by AARP, nearly 930,000 workers in Wisconsin's private sector do not have a retirement plan.

We also know that Wisconsin's population is aging and will be significantly older 30 years from now. For example:

- The number of people 65 and older is projected to nearly double over the next 30 years.

- The number of people 85 and older will skyrocket 142% to 287,000.

- Over 3,900 people will reach the age of 100 or older, up from 1,200 in 2010.

- The number of people under 17, however, is expected to grow by only 2%, and the working age population – those between 18 and 64 - will increase by less than one-half of one percent.

What this means is that there will not be as many younger workers and taxpayers to support our aging population--many of whom will retire without having appropriate savings in place to pay for the basic necessities they will need to live after they retire.

This is a recipe for disaster.

Social Security alone cannot meet those needs. Nor do I believe it was meant to. There has always been a model called the 3-legged stool. It embraces a plan for retirement that is based on 3 components: Social Security, a private retirement fund and personal savings as a means of being properly prepared for one's retirement.

Senate Bill 45 seeks to help address one leg of that stool by creating a separate Wisconsin Private Retirement Security Board.

Like the Wisconsin Retirement System, this board, with input from the public, will make the specific decisions regarding the plan's design. This will provide the necessary flexibility and expertise needed to improve its chances of success by putting these key decisions in the hands of retirement experts and the public.

But while SB-45 creates the board and gives it the responsibility for designing the plan—such as who will be able to participate, how much they will contribute, and how much of a benefit they will receive when they retire--it does provide some ground rules for the plan itself:

- The Board will be required to hold public hearings and to consider input from those hearings in designing the plan.

- The plan, fund and board must operate separately from the Wisconsin Retirement System. This is required by federal law and is needed to protect the stability and integrity of the public pension fund.

- Although separate from the WRS, the private board will be required to design a plan as similar as possible to the WRS—considered the best and strongest pension fund in the nation.

- A key component of achieving that similarity is by requiring that the private fund be managed by the State Investment Board—the same professionals who manage the Wisconsin Retirement Fund.

- It also requires that the plan be administered by the Department of Employee Trust Funds which administers the WRS. Both the Investment Board and ETF already manage and administer lots of other retirement funds for local communities, counties and school districts. So they are very knowledgeable about how to do this.

- The plan will be voluntary and portable so changing jobs won't mean losing your retirement.

- The Board will also be required to design a plan with cost to the participants and potential risk to taxpayers in mind. The WRS is pretty much self-funded by employee contributions and I believe the same can be done with our private plan.

In closing, I would like to thank you again Mr. Chairman for holding today's hearing. I would also like to thank the members of the committee and everyone in attendance who both support and even oppose SB-45.

It is my hope that today's hearing can begin the much-needed discussion about how we can best address the retirement crisis---so people are better able to meet their personal responsibility to save for their future, so they can live a fuller, more enjoyable retirement in a way that does not require the assistance of state taxpayers.

Thank you.

ERIC GENRICH
STATE REPRESENTATIVE — 90TH DISTRICT

December 10, 2015

Testimony on Senate Bill 45

Chairman Nass and Members of the Senate Committee on Labor and Government Reform

Thank you for holding a hearing today on Senate Bill 45 (SB 45), which provides a low-cost, defined benefit retirement option to private sector employers and employees. SB 45 relies on the successful model of the Wisconsin Retirement System to provide a real opportunity for Wisconsinites to save for their retirement.

Economic prosperity is impossible without financial opportunity and security. All Wisconsinites - farmers, small-business owners, and the self-employed - deserve access to a safe, secure retirement option. This legislation offers just that, and I hope you will join us in advancing this effort.

Our state, like most in the country, is facing a retirement crisis in the years to come. According to research from the AARP, nearly 1 million Wisconsinites work for an employer that does not offer a retirement plan. This lack of secure retirement options is a recipe for disaster for individual retirees and for us as a state.

Recognizing this serious problem, SB 45 creates the Wisconsin Private Secure Retirement Board, a quasi-public board similar to but separate and distinct from the State of Wisconsin Investment Board, which oversees the Wisconsin Retirement System. The Board would be responsible for developing the specific elements of the plan, including annuity amounts and participant eligibility.

Finally, I am proud to support this legislation in its current form, but I want to assure you, Mr. Chairman and committee members, that I am committed to addressing this problem in a constructive way, regardless of who might be offering the solutions. I look forward to working with any and all members of the legislature, interested parties, and citizens to develop policy solutions that increase the economic security of middle class Wisconsinites.

Thank you Chairman Nass and committee members for your consideration of SB 45. If there are any questions, please feel free to contact me.

State Capitol: PO Box 8952, Madison, WI 53708 • (608) 266-0616 • Toll-free: (888) 534-0090 • FAX: (608) 282-3690
E-mail: rep.genrich@legis.wi.gov • Web: http://genrich.assembly.wi.gov

Senate Committee on Labor and Government Reform
December 10, 2015
411 South – State Capitol

Testimony on SB45 from Ken Specht

Good morning Senator Nass and committee members. My name is Ken Specht from Kenosha. I have been in the financial services industry over 30 years, the past 27 with New York Life. Over these years I have worked with thousands of clients and non-clients regarding their own retirement planning. The views I express are my own.

Yes, I agree, we have a retirement problem. Meaning a vast majority of people do not have or will not have enough income or assets to enjoy a comfortable retirement during their entire lifetime. In the past, our grandparents, maybe even our parents, worked for an employer who provided a pension plan that would pay an income to them during their retirement years. Sometimes even providing a payment to a widow or widower. Life expectancy was much shorter then and most of these plans were adequately funded to continue to make these payments.

Today this is not the case. Most employers do not offer these type of plans. Some of these plans that still do exist may not be adequately funded. The financial responsibility for retirement now lies on the shoulders of the individual worker.

To help meet this responsibility, many options currently exist, including:

-401-K, 403-B, IRA, SEP, defined benefit plans, Roth IRA, Roth 401-K, etc, as well as many non-qualified plans.

An individual has many product options available to choose from to help work on meeting their individual retirement needs, including:

- Bank accounts, savings, CD's
- A few thousand mutual fund options, including stock, bond, combination, real estate, commodities, precious metals, puts, calls, international, hybrid, high risk, lower risk, on and on
- Brokerage accounts of all kinds
- Annuities, including fixed, variable, guaranteed lifetime income, guaranteed future lifetime income, joint guaranteed lifetime income, joint guaranteed future lifetime income.

These are just some of the options available to Wisconsin workers.

Adding another product or option will increase the choices available to us but will not result in more people taking action or increasing what they are doing, investing more or working on solving their own retirement needs.

What does need to be done to solve this problem is educating people. Letting them know what options and products are available, how easy it is to get started or to increase what they are doing. Individuals need to have a plan and work with a professional who can help them secure a comfortable retirement for the remainder of their lifetime as well as those dependent on them. This is an ongoing educational process, requiring regular review, update and changes when and where needed.

Thank you for your time. I look forward to answering any questions you many have.

Ken Specht, LUTCF
Financial Services Professional
Agent, New York Life Insurance Company
Member FINRA/SIPC

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Wisconsin State AFL-CIO
6333 W. Bluemound Road, Milwaukee, WI 53213
Phone: 414-771-0700, Fax: 414-771-1715, wisaflcio.org
President: Phil Neuenfeldt, Secretary-Treasurer: Stephanie Bloomingdale

To: Members of the Senate Committee on Labor and Government Reform

Fr: Phil Neuenfeldt, President
Stephanie Bloomingdale, Secretary Treasurer

Date: December 9, 2015

Re: Support the Wisconsin Private Secure Retirement Act (SB 45)

Workers and our families across our state face an acute retirement crisis. Workers simply do not have enough savings to retire.

The crisis' numbers are stark:

- An estimated 1.3 million Wisconsin workers do not have access to a retirement savings plan at their place of work.
- 75% of Americans nearing retirement age have less than $30,000 in their retirement accounts.
- 33% of Americans aged 30-49 have no retirement savings at all.
- The median social security benefit is less than $15,000 per year.

If and when our growing number of older workers become too ill or frail to work, they will not have the sufficient resources saved to retire. Instead, they will be forced to accept aid via government safety nets. It is important to note that taxpayers will be forced to pay for the ballooning government aid due to this retirement crisis. A better solution for future retirees and taxpayers can be found in this bill.

The Wisconsin Private Secure Retirement Act (SB 45) will create retirement security for workers and also will prudently manage the use of taxpayer resources. It will create a mechanism for all private-sector workers, small business owners, and farmers to save for their retirement. More specifically, the bill will create an independent board charged with designing a plan modeled after our successful Wisconsin Retirement System to offer low-cost plans with strong investment returns to provide every participant with a guaranteed monthly retirement benefit.

On behalf of workers and their families across this state, the Wisconsin State AFL-CIO urges the Senate Committee on Labor and Government Reform to hold an executive session on Senate Bill 45 and pass the bill out of committee. Senate Bill 45 will allow every worker to save for retirement and will in turn allow workers the security that their savings will result in a retirement lived with independence and dignity.

AARP® Real Possibilities

The Wisconsin Private Secure Retirement Act, SB-45
Senate Committee on Labor and Government Reform
December 10, 2015

Testimony of Lisa Lamkins
AARP Wisconsin Advocacy Director for Federal Issues

Good morning Mr. Chairman and members of the committee. My name is Lisa Lamkins, Advocacy Director for Federal Issues for AARP Wisconsin. On behalf of our more than 820,000 Wisconsin AARP members, I would like to thank you for the opportunity to speak to you about Senate Bill 45, the Wisconsin Private Secure Retirement Act.

It's no secret that most Americans – and most Wisconsinites - aren't saving enough for retirement. According to the National Institute on Retirement Security, the average working-age household has only $3,000 in retirement savings, while near retirement households have only $12,000.

If this worries you, you're not alone

AARP conducted a survey earlier this year, *Building a Secure Financial Future in Wisconsin,* to get a snapshot of how Wisconsin voters age 45 and older are feeling about retirement.

Wisconsin workers have a fair amount of anxiety looking ahead to retirement.

- Only a quarter (25%) of Wisconsinites say they are very confident they'll have enough money to live comfortably in retirement;
- 60% say they are very or somewhat likely to put off retirement as long as possible;
- The vast majority of people (88%) wish they had more money saved for their retirement years.

One of the main causes of the lack of retirement savings is the fact that people have no way to save at work.

Access to a way to save at work is a big problem in Wisconsin:

- 59% of survey respondents said their employer does not offer a traditional pension;
- What's more, 42% of survey respondents said their employer didn't offer any kind of workplace savings plan such as a 401k or 403b.

Workers save substantially more when given the chance. When offered the opportunity to save for retirement at work, seven out of ten people take advantage of it. Individuals are 15 times more likely to save if they can do so via payroll deduction. People just don't go out on their own and purchase a retirement savings plan. In fact, only 5% of workers without access to a retirement plan through their employer will open up their own IRA.

This lack of personal retirement savings translates to an over-reliance on Social Security. However, the average annual Social Security benefit for a retiree in Wisconsin is $15,374. Social Security is the bedrock of retirement security, but it was never meant to be the only source of income. 30% of older Wisconsinites rely on Social Security as their only source of household income. But Social Security alone isn't enough to pay the bills in retirement.

This financial insecurity does not mean missing out on a retirement filled with leisure or travel, but rather that middle-class households will be unable to afford food, medicine and utilities. Giving workers a simple way to save for retirement now will mean that fewer Wisconsinites will need to rely on government safety net services in the future. The best way to improve retirement security is to ensure that everyone who works has access to a low-cost, professionally managed retirement plan that enables them to save automatically out of every paycheck. Ultimately, that is the goal of SB-45, the bill before you today.

The Wisconsin Private Secure Retirement Act would create a board to study the feasibility of establishing such a plan. The Board would use public input, a wide range of experts, as well as the unique expertise found in the Wisconsin Retirement System to make recommendations about the design and implementation of the plan. This approach ensures that we build on the strengths we have in the state to create a commonsense, fiscally responsible plan.

Our survey showed broad support for a plan to help people save for retirement.

- Nearly 2/3 of survey respondents agree that state elected officials should support a state run savings plan for those without access in the work place.
- There is bipartisan support with people who identify themselves as both Republicans and Democrats supporting say they strongly or somewhat support a Wisconsin retirement savings plan (Republicans 50%; Democrats 44%)

Over 2 dozen states are considering a variety of approaches to the retirement crisis. Wisconsin can be a real leader by building on the unique expertise we have in this area and passing the bill before you today. This bill is a commonsense approach that makes it easier for Wisconsinites to build their own private retirement savings. AARP supports this path to an independent retirement and we urge you to pass the Wisconsin Private Secure Retirement Act.

Thank you very much.

For more information contact: Lisa Lamkins; AARP Wisconsin; 608-286-6302; llamkins@aarp.org.

TO:	THE SENATE COMMITTEE ON LABOR AND GOVERNMENT REFORM
FROM:	JOHN GERNI; REGIONAL VICE PRESIDENT AMERICAN COUNCIL OF LIFE INSURERS
SUBJECT:	SENATE BILL 45 – CREATION OF A PRIVATE RETIREMENT SECURITY PLAN
DATE:	DECEMBER 10, 2015

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 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.

The 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 (This year, a "State of Savers" program with these elements was considered in Oregon) Examples of these initiatives 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).

Finally, a note on the recent U.S. 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.

TESTIMONY IN SUPPORT OF SB 45
December 10, 2015
Submitted by POWRS (Protect Our Wisconsin Retirement Security)

In November 2013, POWRS published a White Paper entitled "Retirement for All: A Wisconsin Solution to the Retirement Crisis". POWRS Members, Philip Anderson, Roger Springman, Patrick Murphy, and Kathleen Marsh authored the White Paper.

We have excerpted portions of the White Paper that demonstrate why SB 45 is right for Wisconsin Workers. **We strongly support Senate Bill SB 45!** This proposed legislation is essential to the future survival of those workers responsible for Wisconsin's "economic production" and "consumption" (The Engines of Wisconsin's Prosperity).

Retirement security is declining in America. Reliable experts say that a retirement crisis is developing and that many older Americans will be unable to retire, will have to work longer, or will live out their "golden years" in poverty. This decline in secure, adequate income for seniors will have a negative impact on the economy as a whole, and Wisconsin will not be immune. Direct action is needed to solve the problem.

In Wisconsin, 88% of employers offer defined contribution plans compared to just 8% that offer defined benefit plans. Research shows that individuals who save on their own using defined contribution plans get lower investment returns, pay higher management fees, and have dramatically less at retirement than those with defined benefit retirement plans. Specifically, 75% of 401(k)s have an average balance of $60,000 with the median account balance less than $20,000. This means one-third of households will end up with virtually no retirement savings and be entirely dependent on Social Security.

The potential impact of the retirement crisis on families, local communities, and the state as a whole is significant. Senior citizens made up 13 percent of the state's total population in 2000; this is expected to rise to 22 percent in 2035. A growing elderly population with greatly reduced income security will pose a serious challenge for Wisconsin. It has the potential to place overwhelming burdens on tax-supported social network programs.

Wisconsin can avoid many of the above concerns by taking lessons from its very successful Wisconsin Retirement System (WRS) for public employees, managed by the Department of Employee Trust Funds (ETF). Rated #1 in the United States, the WRS is a shared risk, defined benefit pension program serving 572,000 active public employees and retirees. The system is fully funded (meaning WRS assets are large enough to cover all expected current and future retirement payments). WRS has provided guaranteed, family-supporting retirement income since 1985.

Pensions are paid with participant contributions and investment earnings, not taxpayer dollars. WRS has never failed to meet an obligation or required a taxpayer bailout. The system is also affordable. Wisconsin state and local government spending for pension contributions were 1.26% of total government spending in 2009.

The WRS can serve as a model to create a private sector, defined benefit retirement program that, over time, could help ensure that all Wisconsin workers, not just public sector workers, have a secure retirement income. Such a program would not involve any taxpayer obligation. It would utilize the best practices of WRS and the State of Wisconsin Investment Board (SWIB) to create market-based solutions to the retirement crisis. Two program offerings are suggested. One, the Wisconsin Retirement Security Fund, would be a pension plan. The other, the Wisconsin Individual Retirement Savings Program, would be an individual deferred compensation program.

What SB 45 proposes is moderate and provides a clear starting point for providing future economic security to tens of thousands of private sector employees. It would allow a Wisconsin Private Retirement Security Board to study the feasibility of creating a plan, assessing the likely viability of a system and then proposing funding mechanisms that begin to set funds aside from employers and employees based on the WRS Model. Any WRS retiree can tell you that trying to make it on Social Security alone is a recipe for disaster. Most workers don't make nearly enough for a secure retirement and finding the time, knowledge, and extra money for personal investing is getting exceedingly difficult in our internationally-competitive economy. The very fact that Wisconsin has a sustainable model (through WRS) which provides sustainable retirement security to more than 500,000 participants each year should stimulate the Legislature to "get on with the fix". The financial contribution of the WRS alone to Wisconsin's economy is $4 to $5 billion each year . . . that is $4 to $5 billion each year!! We cannot afford to pass up this chance to thoroughly investigate the possible use of WRS policies and practices to create a private sector retirement system in Wisconsin. ALL working families deserve a secure retirement. Let's pass SB 45 and get on with the job!

Testimony of William A. Franks, Jr., Retired,
Department of Workforce Development, Madison and
Roger Springman, Retired
Wisconsin Department of Agriculture, Trade, and Consumer Protection

Advisory Board Members, POWRS

Wisconsin Alliance for Retired Americans®

Mike Pyne
President

Our Eroding Retirement Security: How Bad Is It? Take a Look!

Most of us grew up believing that our retirement years would be at least as secure as those of our parents. That day may never come. Retirement security is now under assault by political and economic forces that want to see Social Security and Medicare privatized (or at least substantially reduced) and traditional pensions converted to more risky and less stable defined contribution plans like 401 (k).

The 3-legged stool (your pension, Social Security, and personal savings) that once stood between you and poverty is breaking. Look at these facts and trends!

** Only 52% of Americans now express confidence that they will be comfortable in retirement. In 1990, 75% of Americans had confidence. *Employee Benefit Research Institute.*

** In July 2012, WI had 2.72 million jobs. Just 20% of workers who were at poverty wage jobs (under $10.97/hr) participated in employer-provided pension benefits; only 64% of workers with higher-paying jobs participated in plans. *The State of Working Wisconsin: 2012; Center on Wisconsin Strategy, UW-Madison.*

** 75% of Americans nearing retirement had less than $30,000 in their retirement account in 2010. 49% of middle class workers will be poor or near poor in retirement, spending less than $5 per day for food. *"Our Ridiculous Approach to Retirement, Teresa Ghilarducci,*

** Social Security is the **only** source of income for over 25% of Wisconsinites beyond age 65. *AARP-2012 WI Quick Facts.*

** The median value of 401 (k) accounts in 2011 was $17,686. For most working people, their 401 (k) account would pay less than $80/month for life. Since 1985, 84,350 traditional pensions have disappeared in America. *The Betrayal of the American Dream, Donald Bartlet and James Steele.*

** Medicare covers only 50-60% of health care expenses. A 65-year old couple retiring today would need around $240,000 to cover out-of-pocket expenses, (e.g. deductibles) to mid-80s. *Fidelity Investments Retirement Calculator.*

** The 2007 to 2009 Great Recession reduced wealth of the bottom 80% of households by 25% annually. The recovery has been of far greater help for wealthier Americans over average Americans. *Economic Policy Institute Briefing Paper #292, March 2011.*

America has been made strong and resilient by a stable, democratic system where we all benefit by working together for the common good. If retirement security is to be improved, we must work together again! Sitting on the sidelines and doing nothing is exactly what Wall Street and political forces want. Here are a few things you can do:

** get involved in organizations that care about retirement and middle class issues like the Wisconsin Alliance for Retired Americans (WIARA), Wisconsin Coalition for Retirement Security (WCRS), and unions,

** contact your state and federal political representatives and let them know your story and ALWAYS let them know that you support legislation that promotes retirement security for all!

WIARA can be found at www.wisconsinara.org/ and WCRS can be found by contacting pfsickel@gmail.com

This publication was developed by Protect our Wisconsin Retirement Security (POWRS). POWRS is a statewide working group of activist retirees and can be found at www.wisconsinara.org/issues/Wisconsin_Retirement_Security; contact POWRS111@gmail.com

EXECUTIVE SUMMARY

Retirement for All

A Wisconsin Solution to the Retirement Crisis

November 2013

White Paper Written and Published by POWRS*

(Protect Our Wisconsin Retirement Security)

**POWRS is a statewide group of citizens concerned about retirement-related issues. POWRS advocates for protection of the Wisconsin Retirement System (WRS) and enhancing retirement security for all Americans, including stronger and better retirement options for private sector employees and businesses. This paper was written by Philip Anderson, Roger Springman, Patrick Murphy, and Kathleen Marsh. POWRS can be reached at: powers111@gmail.co*

EXECUTIVE SUMMARY

Retirement security is declining in America. Reliable experts say that a retirement crisis is developing and that many older Americans will be unable to retire, will have to work longer, or will live out their "golden years" in poverty. This decline in secure, adequate income for seniors will have a negative impact on the economy as a whole, and Wisconsin will not be immune. Direct action is needed to solve the problem.

There are many contributing factors to the crisis: declining wages, exportation of middle class jobs, increasing healthcare costs, inadequate individual savings, and companies defaulting on pension promises. Since 1980, there has been a profound shift in the structure of retirement programs. Guaranteed, **defined benefit (DB)** company pensions have largely been replaced with individual, **defined contribution (DC)** retirement savings plans known generally as 401(k)s. The result is a perilous shift in retirement program management from companies to individual employees.

> **<u>IMPORTANT NOTE:</u>** In a *defined contribution* plan, the employer's *only* responsibility is *to make* contributions to an employee's account. Employees are responsible for saving enough, choosing investments, and "managing" their own retirement. DC plans provide no guaranteed retirement income; investment risks and fees are born by individuals. In a *defined benefit* plan, the employer is responsible for making contributions AND for managing the retirement program to ensure sufficient funds to pay promised benefits. Risks are more evenly shared, and retirement benefits are guaranteed.

In Wisconsin, 88% of employers offer defined contribution plans compared to just 8% that offer defined benefit plans.[1] But research shows that individuals who save on their own using defined contribution plans get lower investment returns, pay higher management fees, and have dramatically less at retirement than those with defined benefit retirement plans. Specifically, 75% of 401(k)s have an average balance of $60,000 with the median account balance less than $20,000. This means one-third of households will end up with virtually no retirement savings and be entirely dependent on Social Security.[2]

The potential impact of the retirement crisis on families, local communities, and the state as a whole is significant. Senior citizens made up 13 percent of the state's total population in 2000; this is expected to rise to 22 percent in 2035.[3] A growing elderly population with greatly reduced income security will pose a serious challenge for Wisconsin. It has the potential to place overwhelming burdens on tax-supported social network programs.

Wisconsin can avoid many of the above concerns by taking lessons from its very successful Wisconsin Retirement System (WRS) for public employees, managed by the Department of Employee Trust Funds (ETF). Rated #1 in the United States, the WRS is a shared risk, defined

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1 The Imbalance Between Public and Private Pensions in Wisconsin, Wisconsin Policy Research Institute, http://www.wpri.org/Reports/Volume23/Vol23No2/Vol23No2.html

2 Are 401(k) Plans a Failed Experiment?, Daily Finance web site, Sarah E. Murphy, The Motley Fool, http://www.dailyfinance.com/2012/10/15/are-401k-plans-a-failed-experiment/?source=edddlftxt0860001

3 Wisconsin Population 2035, Wisconsin Department of Administration, 2008, www.doa.state.wi.us/docview.asp?locid=9&docid=2108

benefit pension program serving 572,000 active public employees and retirees. The system is fully funded (meaning WRS assets are large enough to cover *all* expected current and future retirement payments). WRS has provided guaranteed, family-supporting retirement income since 1985. Pensions are paid with participant contributions and investment earnings, *not taxpayer dollars.* WRS has never failed to meet an obligation or required a taxpayer bailout. The system is also affordable. Wisconsin state and local government spending for pension contributions were 1.26% of total government spending in 2009.[4]

The WRS can serve as a model to create a private sector, defined benefit retirement program that, over time, could help ensure that all Wisconsin workers, not just public sector workers, have a secure retirement income. Such a program would not involve any taxpayer obligation. It would utilize the best practices of WRS and the State of Wisconsin Investment Board (SWIB) to create market-based solutions to the retirement crisis. Two program offerings are suggested. One, the Wisconsin Retirement Security Fund, would be a pension plan. The other, the Wisconsin Individual Retirement Savings Program, would be an individual deferred compensation program.

A defined benefit system for private sector workers, built on the operating principles and practices of the WRS, could greatly benefit Wisconsin and its thousands of small businesses, 80% of which have fewer than 25 employees. Businesses that are too small to afford quality retirement benefits could now offer them through a state-assisted system. This would enable them to compete more effectively for quality employees. Such an approach could attract more businesses to Wisconsin, helping to rejuvenate our economy. ***Retirement for all is a "win-win" for Wisconsin business, workers, retirees, economy, and taxpayers.***

4 Pensionomics 2009 and 2012, National Institute on Retirement Security, http://www.nirsonline.org/index.php?option=com_content&task=view&id=684&Itemid=48

Retirement For ALL

Retirement for All: A Wisconsin Solution to the Retirement Crisis

The ability to retire with dignity and financial independence was once part of the American Dream. But for many people, a secure retirement is slipping out of reach. Many experts claim we are facing a retirement crisis which will adversely affect individuals, families, communities, and the economy.

Wisconsin is not immune to the negative impact of these national trends, and there is no reason to believe that these trends are naturally self-correcting. Decisive action will be needed to make retirement security for all a reality in Wisconsin. This document examines the looming retirement crisis and proposes solutions based on the Wisconsin experience.

National and State Retirement Crisis Context

No matter where you turn, information abounds on the failing nature of retirement security in America. This "slow-moving train wreck" began in the 1980s with traditional company defined benefit pensions (DB) being replaced by defined contribution (DC) retirement savings plans, commonly called 401(k)s. This change shifted total responsibility for adequate retirement savings to the employee. Stagnant wages, inadequate individual retirement planning, and companies defaulting on existing pension obligations have contributed to the problem.

> IMPORTANT NOTE: In a *defined contribution* plan, the employer's *only* responsibility is *to make* contributions to an employee's account. Employees are responsible for saving enough, choosing investments, and "managing" their own retirement. DC plans provide no guaranteed retirement income; investment risks and fees are born by individuals. In a *defined benefit* plan, the employer is responsible for making contributions AND for managing the retirement program to ensure sufficient funds to pay promised benefits. Risks are more evenly shared, and retirement benefits are guaranteed.

On top of this, efforts are being made to reduce benefits and increase the qualifying age for Social Security. Given that many people will depend exclusively on Social Security benefits for retirement income, such changes will only increase retirement insecurity. As a result, the average American will have to work longer, or not be able to retire at all. Many people will face poverty in old age because they will have lost the ability to create and keep a diversified retirement base.

Historically, financial advisers have described retirement security with the "three-legged stool" concept. Social Security benefits, personal savings, and an employer-provided pension are seen as necessary to provide essential diversity. Unfortunately, for a majority of Americans, this "three-legged stool" is now broken. Consider these facts:

- Only 42% of private sector workers age 25 to 64 have pension coverage in their current job.
- Only half of workers have access to a 401(k) plan; about 30% take advantage of that plan.
- Three-fourths of 401(k)s have an average balance of $60,000. The median account balance is less than $20,000[5].

5 17 Frightening Facts About Retirement Savings in America, Daily Finance web site, John Reeves, The Motley Fool, Oct 15, 2012, www.dailyfinance.com/2012/10/15/17-frightening-facts-about-retirement-savings-in-/

- One-third of households end up entirely dependent on Social Security, and for low wage earners that portion is 75%[6].
- Only 21% of private employers offer a defined benefit, guaranteed retirement pension.

Let there be no doubt, a significant percentage of future seniors WILL NOT be entering their "golden" years. They will be entering poverty, largely surviving on a day-to-day basis, unable to handle medical emergencies, unexpected expenses, maintain their homes, or remain financially independent. The financial impact on families, local communities, and the state will be significant as seniors will increasingly need emergency assistance programs that taxpayers must fund.

Seniors and the Wisconsin Economy

Retirement security for all Wisconsin residents is essential to maintaining a vibrant and growing state economy. The ability of the elderly to maintain adequate income and buying power will be important to everyone. Inadequate income will have a ripple effect that will negatively impact Wisconsin and its many small businesses.

Wisconsin's population is relatively stable and growing moderately in comparison to other states; however, the "baby-boomer" generation will dictate our demographic patterns as Wisconsin's elderly population is projected to double by 2035. Senior citizens were 13 percent of the state's total population in 2000 and this is expected to rise to 22 percent in 2035.

A national economic study found that defined benefit pension benefits from both the private and public sectors have a significant economic impact, generating 6.5 million American jobs, and $1 trillion in economic output, and . They supported more than $134 billion in federal, state, local tax revenue.[7] This holds true in Wisconsin where the state's retired population provides significant support and stability to the state economy and its tax base. In 2010 Wisconsin residents received $14.2 billion dollars in Social Security benefits.[8] This amount was equivalent to 5.8 percent of the state's annual GDP. In addition, Wisconsin's public pension dollars supported more than 50,000 jobs and contributed directly or indirectly more than $6.2 billion dollars to the Wisconsin economy.

Expenditures made in Wisconsin from public and private pension benefits in 2009 had large multiplier effects. For every dollar paid out in pension benefits, $2.37 in total economic output was generated. For every taxpayer dollar contributed to state and local pensions, $6.22 in total output was supported.[9] DB pension dollars also account for more than $3 million dollars in taxes.[10]

It goes without saying that a growing elderly population with greatly reduced income security will not be good for the Wisconsin economy. It has the potential to place new and added burdens on tax-

6 Are 401(k) Plans a Failed Experiment?, Daily Finance web site, Sarah E. Murphy, The Motley Fool, http://www.dailyfinance.com/2012/10/15/are-401k-plans-a-failed-experiment/?source=edddlftxt0860001

7 Pensionomics 2012, National Institute on Retirement Security, http://www.nirsonline.org/index.php?option=com_content&task=view&id=684&Itemid=48

8 Social Security: 2012 Wisconsin Quick Facts, AARP, www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2012/Social-Security-2012-Wisconsin-Quick-Facts-AARP.pdf

9 Wisconsin Fact Sheet, Pensionomics 2012, National Institute of Retirement Security, March, 2012, http://www.nirsonline.org/storage/nirs/documents/factSheetsPreviews/Factsheet_WI.pdf

10 Pensionomics 2012, National Institute of Retirement Security, March, 2012

supported social network programs, undermine family structures, and even adversely affect the health of retirees.

Wisconsin's Unique Pension Approach: An Opportunity

The value of a predictable, adequate income at retirement has long been appreciated by policy-makers. Social Security was created in the mid-1930s as testament to the belief that everyone deserves a secure income at age 65 and beyond. Concomitantly, another tradition evolved based in large measure on the need for workers to enjoy a secure retirement. The innovation was a defined benefit (DB) pension system, managed by employers. This system successfully anchored retirement security for working Americans through the 1970s.

In Wisconsin, state and local governments realized the value of such benefits to the individual as well as the state's economy. They created a public pension program: the Wisconsin Retirement System (WRS), managed by the Department of Employee Trust Funds. Crafted as a defined benefit pension program, the WRS is the result of over 100 years of bipartisan effort to provide retirement security to public servants. The system is a model for the nation and a tremendous asset that serves both retirees and ALL of the citizens of Wisconsin. The WRS currently serves 572,000 active public employees and retirees. That number represents 12% of Wisconsin's adult population. When families are included, the number rises to about 20% of Wisconsin's population.

The Pew Center for the States says Wisconsin was the ONLY state with a "fully funded" retirement system in 2010 and one of 11 states it called "solid performers".[11] As recently as September 2013, Morningstar rated the WRS as 99.9% funded.[12] This means that its assets are large enough to cover all expected current and future retirement payments without relying on taxpayers to ever have to "bail out" the program.

In 2010, WRS paid out $3.9 billion in retirement payments to 155,000 retirees. The average annual retirement benefit was $23,800, or about $1,983 per month. Public employees nationally average $23,407 per year. Private sector defined benefit pensions average $20,298 per year.[13]

The WRS is good for Wisconsin's economy. In 2006, WRS beneficiaries (86% of whom live in Wisconsin) spent $4.5 billion, accounting for over 33,000 private sector jobs that paid $1.7 billion in wages and salaries and over $730 million in federal, state, and local taxes. In 2010, the WRS invested $13 billion in Wisconsin companies and companies with Wisconsin employees.[14]

Private Sector Pensions in Wisconsin

There are significant differences between public and private sector pensions in Wisconsin. Public employee pensions are marked by stability and provide guaranteed retirement income. This stands in stark contrast to private sector pensions where 88% of employers offer defined contribution plans

11 The Widening Gap Update Pew Center on the States, June 2012
http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Pensions_Update.pdf

12 The State of State Pension Plans 2013, Morningstar, Sept, 2013

13 Debunking Myths About the Wisconsin Retirement System, POWRS publication, May 2012, http://webiva-downton.s3.amazonaws.com/432/8a/0/501/WRS_Myths_vs_Facts.pdf

14 Wisconsin Department of Employe Trust Funds.

and just 8% offer defined benefit plans. It is worth noting that benefits provided under WRS are far more generous than those in private sector defined benefit plans. This is due to the top-notch management of WRS, its inherent efficiencies, shared risk, large numbers of participants, and economies of scale characteristic of DB pensions.

Defined contribution (DC) plans and other retirement savings accounts are good tools for *supplemental* retirement savings. When combined with Social Security and a defined benefit (DB) employer pension, they provide the third leg of a good retirement program. But DC plans do not make good, stable, retirement pensions by themselves.[15] Research shows that individuals who save on their own using DC plans get lower investment returns, pay higher management fees, and have dramatically less at retirement than defined benefit retirement plans. The median household headed by a person age 60 to 62 with a 401(k) account has less than one-quarter of what is needed to maintain a reasonable standard of living in retirement.[16]

Administrative fees for DC plans eat up savings. According to a Demos study, a two-earner household will pay an average of $155,000 in 401(k) fees and lost returns over 40 years.[17] Research also shows that DB pension plans have substantially lower administrative costs than DC plans.

Sadly, there has been a fundamental shift in retirement plan options available to American workers. Wage-earners are increasingly forced to take responsibility for their own retirement investments, and yet evidence shows voluntary retirement savings plans don't work well for many people. The simple fact is most people don't know how to invest successfully.[18] Staying the course with consistent, long term investing is the key to saving enough money for a secure retirement. Too many employees don't save enough, don't manage their accounts well, take lump sum withdrawals (with 10% tax penalties) when they change jobs, and take emergency withdrawals that never get paid back.

As if all this isn't bad enough, the income of the ordinary wage earner has stagnated. Many workers do not earn the income necessary to adequately save for retirement. Adjusting for inflation, median income for four-person families in Wisconsin has fallen $8,500 in the past decade. More than one in five Wisconsin workers, and one in four African American workers, held a poverty-wage job in 2011 (wages under $10.97 per hour). Just 20 percent of poverty-wage workers participate in their employer-provided pension benefit.[19]

A Wisconsin Retirement Solution

How do we avoid the negative impact of the retirement crisis? How do we ensure that all Wisconsin citizens can retire in dignity with adequate income? Providing employers and employees with new and better tools to achieve retirement security is the solution. These tools are modeled on the highly successful Wisconsin Retirement System. A wide body of research finds that people with DB

15 The Retirement Crisis and a Plan to Solve It. U.S Senate Committee on Health, Education, Labor, and Pensions, July 2012, www.harkin.senate.gov/documents/pdf/5011b69191eb4.pdf

16 Retirement Security 2011: National Institute on Retirement Security. www.nirsonline.org/storage/nirs/documents/Public%20Opinion/final_report.pdf

17 Fees Skim Big Bucks From 401(k)s, Consumer Reports, July 2012, Pg. 7.

18 Are 401(k) Plans a Failed Experiment?, Daily Finance web site, Sarah E. Murphy, The Motley Fool, www.dailyfinance.com/2012/10/15/are-401k-plans-a-failed-experiment/?source=edddlftxt0860001

19 The State of Working Wisconsin 2012, Center on Wisconsin Strategies, www.cows.org/_data/documents/1280.pdf

pension income are far better positioned to be self-sufficient in retirement than those without. This is because DB pensions provide a stable monthly retirement benefit that cannot be outlived; they offer optional spousal protections; they do not fluctuate with short term market results."[20] Wisconsin's public retirement program proves it can be done at low cost without placing the taxpayer at risk.

State and local government spending for pension contributions in Wisconsin amounted to just 1.26% of total government spending in 2009. Each $1 in taxpayer contributions to Wisconsin's state and local pension plans supported $6.22 in total output in the state.[21] Investment returns pay 80% of pension annuities and all operating costs. WRS receives no GPR funding for operations. WRS has NEVER failed to meet any obligation nor required any taxpayer bailout. Even when suffering large investment losses, such as during the 2007-08 economic crisis, the WRS, though its internal risk management features, successfully weathered the crisis.

WRS has specific management and oversight safeguards that account for its success. It is politically isolated with participant oversight. Investment is professionally managed by a separate agency (SWIB). It has mechanisms, such as annual actuarial reviews, to adjust contributions to maintain full funding. It adjusts retirees' annuities to reflect investment gains and losses. It uses a five-year "smoothing" procedure to handle large losses. Most important, it has a *fiduciary duty* to act in the best interests of retirees and participants. These, and other best practices, make it the best pension system in the nation.

Implementing a Sensible Fix

What has been achieved for public employees can be replicated for private sector employees *at no cost to Wisconsin taxpayers*. Although there may be some initial start-up costs, investment returns can cover administrative costs as done in the WRS. Wisconsin can have retirement security for all. Here's how, with a two-faceted approach:

1. Establish the Wisconsin Retirement Security Fund

Creation of a Wisconsin Retirement Security Fund would enable retirement security for all by establishing a voluntary defined benefit retirement program for the private sector. It would pool contributions from employers and employees and invest the funds in appropriate market securities. Similar to WRS, the fund would harness the power of sound insurance principles, self-purchasing, pooled assets, good management, and market forces to create a low cost, high quality, private sector retirement program. Such a program, along with Social Security and tax-deferred savings programs available to employers and employees, can offer the opportunity for all Wisconsin residents to retire with the peace of mind that pension security provides.

The Wisconsin Retirement Security Fund would be a benefit to Wisconsin businesses, especially those too small to afford quality programs on their own. Many businesses would be able to compete more effectively to attract and keep good employees. Because retirement funds would be held in

20 Retirement Security 2011, National Institute on Retirement Security, www.nirsonline.org/storage/nirs/documents/Public%20Opinion/final_report.pdf

21 NASRA Issue Brief. "State and Local Government Spending on Public Employee Retirement Systems". National Association of State Retirement Administrators. February 14, 2012.

non-company accounts, many risks associated with "benefit legacy costs" at the time of company bankruptcies, corporate takeovers, job losses, etc., would be minimized or perhaps eliminated.

All fund expenses would be paid by contributions and investment income. There would be NO tax support for this program. The program would be managed separately from WRS with NO co-mingling of funds.

2. Wisconsin Individual Retirement Savings Program

Personal savings are an important supplement to pensions and Social Security benefits, making up the "third leg" of the stool. As noted earlier, many people have difficulty generating significant personal savings and they lack fundamental investing skills and discipline.

For several decades, the Department of Employee Trust Funds has offered public employees access to a personal savings program that includes strong investing skills and discipline: deferred compensation or a 403 (b) program. This program allows individual employees to select from a wide range of investments (money market, mutual funds, index funds, etc.) managed by professionals with investment money automatically taken from paychecks on a tax-delayed basis.

Deferred compensation is a very popular option for public employees and there is certainly no reason why such investment services could not be offered to private sector participants and businesses on the same basis. Investment savings would be held in personal accounts and not mixed in any way with other account holders. Such a program could be extended to private sector 4services would allow private sector employees and businesses to enjoy greater security coupled with improved investment returns.

Conclusion

Creation of a Wisconsin Retirement Security Fund and Individual Retirement Savings Program offers the solution to the challenges posed by an aging population with woefully inadequate retirement prospects. Adoption of the proposal would provide future retirees with stable incomes. It could also be a huge benefit to the overall economy by keeping retirement savings in-state, increasing investment in existing state companies, and attracting new businesses to Wisconsin. *Retirement for all is a "win-win" for Wisconsin businesses, workers, retirees, and taxpayers. Do we have the vision to make it happen?*

Retirement For ALL

Additional Sources and Suggested Reading

Center of Retirement Research at Boston College, http://crr.bc.edu/

National Institute on Retirement Security at http://www.nirsonline.org/index.php

Our Ridiculous Approach to Retirement, by Professor Teresa Ghilarducci, http://www.nytimes.com/2012/07/22/opinion/sunday/our-ridiculous-approach-to-retirement.html?_r=1&

Pew Charitable Trusts research on pensions at http://www.pewstates.org/research/featured-collections/pensions-and-retiree-health-benefits-85899373138

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When I'm Sixty Four: The Plot Against Pensions and the Plan to Save Them, by Teresa Ghilarducci, Princeton University Press, 2008

Wisconsin Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, National Institute on Retirement Security, 2012, http://www.nirsonline.org/storage/nirs/documents/factSheetsPreviews/Factsheet_WI.pdf