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Creation of the Colorado Retirement Security Task Force HB15-1235

Rich Jones, Director of Policy and Research
Testimony to the Senate State, Veterans and Military Affairs Committee
April 29, 2015

Thank you for the opportunity to present this testimony to the committee today.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to making Colorado a state of opportunity for all.

The Bell Policy Center strongly supports HB15-1235 to create the Colorado Retirement Security Task Force. In our brief *Retirement at Risk*, we found that 765,000 private-sector workers in Colorado aged 25 to 64 do not have a retirement savings plan at work, and another 179,000 do not participate in one that is offered, either because they are not eligible or they chose not to join. That means that only 44 percent of Colorado's private-sector workers in their prime working years participate in some form of workplace retirement plan. It is clear from this data that far too many Coloradans lack access to a reliable and accessible method to prepare for retirement while they are working. Workers today will likely face significant economic challenges in retirement when the lack of access to workplace plans is combined with the low balances held by those households that do have retirement savings accounts.

Creating the Colorado Retirement Security Task Force is an important first step in addressing this problem. It will help us better understand the problem and draw on the knowledge and experience of a range of experts to develop practical and workable solutions for Colorado.

In *Retirement at Risk*, we also found that:

- Seventy-four percent of workers who earn less than \$21,000 annually have no workplace retirement plan, and more than half who earn between \$21,001 and \$39,000 also have no workplace plan.
- Workers in small businesses are unlikely to have plans — 81 percent of workers in businesses with 10 or fewer employees do not have workplace retirement plans. In addition, more than 140,000 self-employed Coloradans who are in unincorporated businesses have no retirement plan at work.
- More than half of workers aged 25-29 are not offered a retirement plan at work.
- Almost six out of ten Hispanics do not have a retirement plan at work, and they are also the least likely to participate in a plan, with only about one-third signed up for plans at work.¹

National studies show most people are not financially prepared for retirement

A number of national studies have pointed out that we face an impending retirement crisis as more families are not saving enough to meet their needs in retirement. The Center for Retirement Research at Boston

College determined that half of all households are not saving enough to maintain their standard of living in retirement. This number grows to six out of 10 for low-income working households and those aged 30-39.²

The Employee Benefits Research Institute (EBRI) finds that four out of 10 Gen Xers and Baby Boomers will not have enough income to meet basic expenses, health insurance and long-term care needs in retirement. They find that participation in an employer-sponsored defined-contribution plan is one of the most important factors in ensuring workers have adequate savings in retirement.³

The National Institute on Retirement Security determined that two out of three working households aged 25-64 do not meet conservative retirement savings benchmarks for their age recommended by the financial services industry, even counting their entire net wealth.⁴

Given the difficulty most people face in saving for retirement, it is no wonder that recent Gallup, Harris and Pew polls find that retirement security is a top economic concern for large majorities of Americans.⁵ In addition, a survey by the National Institute on Retirement Security found that 74 percent are concerned about their ability to achieve a secure retirement. This poll also found that 71 percent support state actions to create workplace retirement savings plans.⁶

That is why the conservative Heritage Foundation, the progressive Brookings Institution and the Center for Retirement Research at Boston College all call for creating universal workplace IRA accounts.⁷ These are similar to the accounts being pursued in California, Connecticut and Illinois. This bill directs the Retirement Security Task Force to assess the feasibility of such an account for Colorado.

Coloradans rely heavily on Social Security for retirement income

Without adequate retirement savings, families become increasingly reliant on Social Security. However, Social Security is designed to replace only about one-third of a worker's income in retirement; the rest is intended to be covered by a workplace retirement account and personal savings. Yet current middle- to lower-income Colorado retirees making \$21,757 and below depend on Social Security for 80-86 percent of their income. With the decline in workplace retirement savings plans and lack of savings, retirees could be even more dependent on Social Security in the future.⁸

When people retire without adequate savings it is likely that they will turn to government programs such as Medicaid and SNAP (food stamps) to help make ends meet. A recent study conducted in Utah by economists at BYU determined that if the one-third of that state's retirees with the lowest savings could increase their savings by just 10 percent over their working careers — or about \$14,000 — it would save \$194 million in federal and state government spending over 15 years.⁹

Other states have taken action to address this issue

Nearly 20 states are considering legislation or have taken action to study retirement security. Some such as Maryland, Oregon, Utah and Washington enacted study bills. Others such as California, Connecticut and Illinois have enacted plans to help private-sector workers save for retirement. Maryland and Oregon created study commissions similar to that proposed in HB15-1235 and are now considering legislation to create retirement savings accounts.

The Bell has long advocated for studying ways to increase access to workplace retirement plans and developing creative solutions to make them available to more Coloradans. If we want all Coloradans to experience a financially secure retirement as a just reward for a life of hard work, we need to ensure there are

appropriate mechanisms in place to help them invest for retirement. If we do not, we will face a retirement crisis.

We thank Senator Steadman and Senator Todd for bringing this bill to you today and thank the committee for the opportunity to share our thoughts with you.

If you would like more information or if I could answer any questions, please contact me at jones@thebell.org or via telephone at 303.297.0456, ext. 244.

¹ Retirement at Risk, The Bell Policy Center, April 18, 2014, <http://bellpolicy.org/sites/default/files/RetirementSecurityBellPolicyCenter.pdf>

² NRRI Update Shows Half Still Falling Short, Center for Retirement Research, Boston College, December 2014, <http://crr.bc.edu/briefs/nrri-update-shows-half-still-falling-short/>

³ What Causes EBRI Retirement Readiness Ratings™ to Vary: Results from the 2014 Retirement Security Projection Model, EBRI, February 2014, http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=5351

⁴ The Continuing Retirement Savings Crisis, National Institute on Retirement Security, March 2015, <http://www.nirsonline.org/index.php?option=content&task=view&id=882>

⁵ *Retirement Remains Americans' Top Financial Worry*, Gallup Poll, April 22, 2014, <http://www.gallup.com/poll/168626/retirement-remains-americans-top-financial-worry.aspx?version=print>
Americans Worried About Basic Financial Necessities Such as Health Care and Having Money for More Than Basic Things, Harris Poll, July 28, 2014, http://www.harrisinteractive.com/vault/Harris%20Poll%2074%20-%20July%20Economy_7.28.2014.pdf

⁶ Retirement Security 2015: Roadmap for Policy Makers, National Institute on Retirement Security, March 2015, http://www.nirsonline.org/storage/nirs/documents/2015%20Opinion%20Research/final_opinion_research_2015.pdf

⁷ Pursuing Universal Retirement Security Through Automatic IRAs and Account Simplification, The Heritage Foundations, April 17, 2012, <http://www.heritage.org/research/testimony/2012/04/pursuing-universal-retirement-security-through-automatic-iras-and-account-simplification> How Prepared are Americans for Retirement, The Brookings Institution, March 12, 2015, <http://www.brookings.edu/research/testimony/2015/03/12-preparing-americans-for-retirement-grinstein-weiss> Falling Short: The Coming Retirement Crisis and What to Do About It, Center for Retirement Research at Boston College, April 2015, http://crr.bc.edu/wp-content/uploads/2015/04/IB_15-7.pdf

⁸ Bell Policy Center analysis of IPUMS data from the U.S. Census Bureau, Current Population Survey 2014.

⁹ The Cost of Retiring Poor: Cost taxpayers of Utahans Retiring Poor, Notalys, LLC, January 2015. The study was presented at press conference covered by local media. <http://www.sltrib.com/news/2122036-155/taxpayers-save-if-retirees-set-aside>