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McCourt School of Public Policy

March 11, 2016

The Honorable John Chiang, Chair  
California Secure Choice Retirement Savings Investment Board  
915 Capitol Mall, Room 110  
Sacramento, California 95814

Subject: California Secure Choice Market Analysis, Feasibility Study, and Program Design: Final Report ("Final Report") to the Secure Choice Retirement Savings Investment Board ("California Board")

Dear Treasurer Chiang:

Thank you for your leadership in developing a retirement security program for California workers who currently do not have access to a retirement savings plan. California's work serves as a model for other states and builds a strong foundation for both current and future efforts to address the retirement security crisis, especially among uncovered workers.

The Georgetown University Center for Retirement Initiatives was established to develop and promote the bipartisan adoption of innovative models, utilizing pooled and professionally managed funds, to expand the accessibility and effectiveness of retirement solutions. The Center strives to serve as a leading resource to states considering legislation to create state-sponsored retirement savings plans for private sector workers who do not have access to a plan at work.

As you know, approximately one-half of private sector workers have no access to a retirement plan at work and few find ways to save for retirement on their own if a plan is not offered by an employer. As a result, almost one-half of working age households do not have any retirement assets, whether a defined benefit pension, work-sponsored 401(k) or even an IRA. Those who do have some retirement savings do not have nearly enough. The U.S. Government Accountability Office reported recently that among those with some retirement savings, the median balance for individuals aged 55-64 was \$104,000, an amount that would create an annuity of about \$310 a month.

We are encouraged by the momentum we see in states to address the retirement security crisis. As the California Board considers the recommendations from its Market Analysis, Feasibility Study and Program Design Report dated February 9, 2016, it is important to consider investment approaches and program structures that provide the best opportunity to strengthen retirement security for workers.

An ideal retirement program would ensure that workers build a retirement income that can last a lifetime and help keep them out of poverty. There are different, innovative ways to achieve this result, such as the pooled investment model with a reserve fund packaged as a retirement savings bond that the Board report recommends as one of the two recommended default investment options at launch. The Board report also recommends, as another investment option at launch, a form of low-cost target income strategy, which also could be implemented by a pooling of funds through a centralized administrative structure overseen by the California Board. There are innovative choices available to reduce risk and incorporate a retirement income focus in such approaches, ideally providing for maximum possible income replacement, which could be considered.

A key element common to these and other approaches considered can be the benefit of pooled and professionally managed capital – much like state or university pension funds/endowments, charitable trusts and other large investment vehicles - that has the ability to both create the fully diversified portfolios available to institutional investors – instead of the more limited investment options available to individually directed portfolios -- as well as to obtain the low operating and investment costs economies of scale can provide. Research suggests that pooled and professionally managed vehicles achieve higher rates of returns and lower costs – improvements in performance that can make a significant difference in the amount of savings for an individual over a 30-year time horizon.

Regardless of the investment mechanism ultimately selected by the Board, the ideal plan would include as many attributes of pensions as possible. In addition to pooled and professional management, the Board should recommend an approach that shares risk and provides for smoothing. The goal is to protect participants against negative market fluctuations, such as those who might have the misfortune of retiring during an economic downturn as we saw during the Great Recession in 2008.

We also applaud the Final Report for recommending that the California Board have discretion to consider other models for strengthening retirement security, namely whether or not the

California Board may want to consider a Multiple-Employer Plan (MEP) in the future to permit employer contributions that will allow for greater retirement security than IRAs.

Thank you to the California Secure Choice Retirement Savings Investment Board for its leadership on retirement security. The Georgetown Center for Retirement Initiatives looks forward to continuing to serve you as a resource in your efforts to build an accessible and effective program to strengthen the retirement security of millions of Californians today and for generations to come.

Sincerely,

A handwritten signature in black ink, appearing to read "Angela M. Antonelli", with a long horizontal flourish extending to the right.

Angela M. Antonelli

Executive Director

Center for Retirement Initiatives

cc: Ms. Christina Elliott, Acting Executive Director, California Secure Choice Retirement Savings Investment Board