

February 29, 2016

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

Dear Treasurer Chiang,

The Retirement Equity Lab (ReLAB) at the New School for Social Research supports the proposed Secure Choice Savings plan for California. As some of the original researchers documenting the retirement readiness gap for California's workers, we are long-time advocates of the need for a universal pension plan for all Californians.

The do-it-yourself retirement savings experiment of the last generation has failed. In the late 1970s, it was standard for employees of large firms to have mandatory pension plans. But over the last 45 years, traditional pensions have been replaced by defined contribution plans, or 401(k)-type plans. These accounts are self-directed, commercial, and voluntary retirement accounts that place the burden and risk of managing money on individuals, leaving them vulnerable to the whims of the market. As a result, both coverage and savings have declined to dangerous levels. Forty-five percent of private sector workers across the country don't have access to a retirement plan at work and the median retirement account balance of workers nearing retirement ages 55 to 64 is \$12,000.¹

Combined, low coverage and savings rates define the oncoming retirement crisis. Without adequate retirement income, American workers are faced with losing their standard of living in old age. Specifically, without reform, those in the middle class will face downward mobility as the number of poor or near-poor retirees double in the next decade.²

Unfortunately, California's workers are among the least prepared for retirement. Only 50 percent of private sector workers have access to employer-sponsored retirement accounts.³ That leaves over seven million workers without a viable option for saving for retirement. Not surprisingly, the most vulnerable groups in the labor market are the least likely to have coverage in the workplace. Only twenty-five percent of California's small business employees have access to an employer-sponsored retirement account. Forty percent of Hispanic workers have

¹ Ghilarducci, T., Radpour, S., Fisher, B., and Saad-Lessler, J. (2015) "[Inadequate Retirement Account Balances for Workers Nearing Retirement.](#)" Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series.

² Ghilarducci, T. and Knauss, Z. (2015) "[More Middle Class Workers will be Poor Retirees.](#)" Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series.

³ Authors' calculations from CPS

access to an employer-sponsored retirement account. While unionized workers enjoy higher access rates (70 percent) than non-union workers (50 percent), unions represent on 16 percent of California's workforce.⁴

Without access to quality retirement savings vehicles, real people will face their golden years under the threat of deprivation. The real-life consequences of the retirement crisis were recently illustrated in a *Los Angeles Times* story about 79-year-old-retiree Dolores Westfall and her struggle to survive on less than \$1,400 a month.⁵ Deeply indebted and without a permanent home, Dolores drives across the country in a Winnebago, working odd jobs where she can find them and pinching pennies to survive.

Unfortunately, Dolores' experience is not an exception. In the absence of retirement reform, more Americans will be unable to retire and will have to work into their golden years. Elderly clerks and warehouse workers could become the new normal. *We need to make retirement possible again* by restoring older Americans' option to stop working when they need or want to - without losing their standard of living or facing the specter of poverty. Without effective reform, a swell of impoverished seniors will be unable to retire with dignity and will burden their families and cash-strapped state governments.

The California Secure Choice plan will provide over 4.5 million workers with access to retirement coverage. The plan will increase the share of private sector workers in California with a workplace retirement account from less than half to 80 percent.

While poised for success, the design and implementation details are important to the program's long-term viability and efficacy. Specifically, the California Secure Choice board has proposed two investment options: a target date fund and a pooled IRA with a reserve fund. The pooled IRA with the reserve fund is the best option for two reasons.

First, the pooled IRA will reduce risk in workers' retirement accounts. Pooled accounts allow for diversified investments with longer lifespans. Coupled with a reserve fund, this investment option further reduces the variability of returns by accumulating reserves when returns are high, which can in turn supplement the IRA when returns are low. This "smoothing" function mitigates the current risk workers with defined contribution plans face that their planned retirement date will coincide with a market downturn that wipes out their savings. Research has shown that retirees whose retirement savings are less vulnerable to market swings and who face less risk of outliving their savings experience less stress and anxiety than retirees.⁶

Second, the pooled IRA will generate higher returns than the target date fund. The final report prepared for the board by Overture Financial states that the pooled IRA will generate "superior outcomes in the long run." While some returns will have to go toward establishing the reserve fund at the program's onset, once it is established, the pooled IRA and reserve fund will be able to generate higher returns and replace a greater share of workers income in retirement than the target date fund.

⁴ Union Membership in California - 2014." www.bls.gov. March 5, 2015. Accessed February 23, 2016. http://www.bls.gov/regions/west/news-release/unionmembership_california.htm.

⁵ Glionna, John. "[Too Poor to Retire and Too Young to Die](#)." *LA Times* (Los Angeles), January 29, 2016. Accessed February 23, 2016.

⁶ Panis, Constantijn (2003) "[Annuities and Retirement Satisfaction](#)." Labor and Population Program Working Paper Series 03-17, Rand

All California's workers need an effective way to save money for retirement. Experience shows that automatic savings in a pooled investment with a possibility of annuities is the best and cheapest way to guarantee income for life.⁷ We strongly recommend the Board and legislature implement the Secure Choice Savings Act and use a pooled IRA with a reserve fund to invest accumulated savings.

Sincerely,

Teresa Ghilarducci
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Professor of Economics
The New School for Social Research

⁷ Aon Hewitt (2015) "[Custom DC Investments for Participant Success](#)"