



TESTIMONY TO THE SENATE COMMITTEE ON FINANCE MAY, 29 2013

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On Behalf Of the National Tax Sheltered Accounts Association (NTSAA) and the American Society of Pension Professionals and Actuaries (ASPPA)

Thank you for the opportunity to submit testimony to this committee with regard to comprehensive pension reform proposed in Senate Bill 2 and Senate Bill 922.

NTSAA is a national organization representing more than 3,300 members that specialize in public education retirement plans. Our association has 250 members in the state of Pennsylvania. This membership is primarily comprised of and represents small financial planning and investment advisory businesses throughout the state.

ASPPA is a national organization of more than 14,000 members who provide consulting and administrative services for retirement plans covering millions of American workers. ASPPA's membership includes the members of the NTSAA who focus on the governmental plan marketplace. ASPPA and NTSAA members are retirement professionals of all disciplines, including consultants, investment professionals, administrators, actuaries, accountants, and attorneys.

Position Summary

NTSAA supports maintaining a 403(b) plan as the defined contribution plan for public school employees. Any shift of public employees from a defined benefit or pension retirement system to a defined contribution retirement system must be done in a way to promote the best outcomes for participants. In the long run, strong participant outcomes are in the best interest of the Commonwealth of Pennsylvania.

A 403(b) plan with local choice and control of investment options and local financial advisors is the sound foundation upon which a defined contribution plan for Pennsylvania public education employees must be built.

This testimony will also outline critical design elements that must be integrated into the proposed 403(b) plan to ensure public school employees have the ability to plan for a comfortable and secure retirement. Foremost among design considerations, the 403(b) plan must allow public school employees to work with a local advisor of their choice and to have the ability to choose the investment options they want.

Providing Pennsylvania Employees with the Retirement Savings Options They Need

The Pennsylvania public employee retirement system is built upon a three-legged stool philosophy. The first leg of the retirement system stool is the mandatory contribution savings

program outlined in SB 2 and SB 922. The second leg is Social Security, and the third leg is personal savings.

In Pennsylvania and throughout the country, the most effective personal retirement savings vehicle is the employer-sponsored defined contribution plan. In the private sector, everyone is familiar with the 401(k) plan. The defined contribution plan most often used for public education employees is the 403(b) plan. Although the corporate 401(k) plan is more commonly known to the public, the 403(b) plan has actually been helping public school employees save a lot longer—since the 1960s in fact.

It is commonly understood that personal savings is a critically necessary part of any employees' overall retirement goal, including Pennsylvania employees covered by the current PSERS program. The 403(b) plan is the defined contribution plan Pennsylvania public school employees already know and use.

The three-legged approach to retirement will certainly not change under SB 2 or SB 922. Employees will continue to need to save on a supplemental basis to achieve a comfortable retirement. However, employees participating in the new defined contribution program will now be responsible for investing their mandatory employee contributions in addition to any supplemental retirement contributions they are making to their 403(b) plan account. The new plan design should make it easier for public school employees to manage the investment of their mandatory and supplemental retirement contributions by utilizing the 403(b) plan model already operating in Pennsylvania public schools.

If the legislation does not provide for a consolidated 403(b) plan for public school employees, Federal law would require Pennsylvania public school employees to maintain two separate accounts—one for their mandatory employee contributions and one for their supplemental retirement savings. A Fidelity study showed that workers preferred being able to manage their retirement savings in a single account.¹

Maintaining separate accounts is a headache public school employees don't need and SB 2 and SB 922 can resolve that headache by utilizing the 403(b) plan—the defined contribution plan Pennsylvania public school employees have been using for five decades.

403(b) Plans Work Best When School Districts and Employees Have Choice

Some will argue that the best way to design a defined contribution plan is a centralized plan with a limited number of choices. NTSAA has the data to demonstrate that for public education employees, that's the worst idea.

Unlike private employers and even other governmental employers, public schools, particularly rural public schools simply do not have the resources to educate employees about the importance of supplemental savings. There is no HR department in every school. Folks are on their own when it comes to retirement savings.

That is why having the choice to work with a local advisor is so important. Times are tough all over, and that's certainly no different in Pennsylvania. It's hard to convince someone to put money away for retirement, particularly younger workers with tight budgets. Frankly, a bunch of

¹ Fidelity® Study Finds Many Investors Lack Understanding of Options for Assets in Old Workplace Savings Plans, Fidelity.com (May 17, 2011), available at <http://www.fidelity.com/inside-fidelity/individual-investing/lack-of-understanding-of-options-for-assets>.

educational materials stuffed in the teachers' school mailboxes doesn't cut it for most. I still remember as a child an advisor coming to our house and sitting down with my parents to talk about the importance of saving for retirement. To be blunt, the role of the advisor in convincing someone to start saving is just as important as the advice on where to invest the savings. And you know what, that advisor needs to get paid and in most cases the advisor is paid from investment fees, which yes will be consequently higher than investment fees on products without a personal advisor.

You will hear from some that the most important thing is to have the lowest cost retirement options. You will hear that lower cost options do have web sites and call centers and that is enough. The facts suggest otherwise. Research from the ASPPA Pension Education and Research Foundation (attached) showed that in the State of Iowa school district participation dropped by up to 50 percent when they went from multiple 403(b) plan options to lower-cost option without personal advisors.² Researchers at RAND Corporation found that participants who had the option to elect to receive advice and did so, made significantly fewer mistakes in terms of the amount of equity and with respect to the diversification of their portfolios.³

We are certainly not saying that the issue of fees is unimportant. We are only saying that teachers and other public school employees need a variety of choices with different levels of services and fees—some lower cost and some not. You wouldn't want to go to a mall that only had a dollar store. Similarly, public school employees need different kinds of retirement savings options that best suit their needs.

Of course, Pennsylvania public school employees have the right to know what services they are paying and how much they are paying for those services. That is why we partnered with the National Education Association to create a model disclosure form for 403(b) plan services and fees so that public school employees can easily make apples to apples comparisons of their retirement savings options. A copy of the USA Today article describing this new tool as well as the form itself is attached to this written testimony.⁴ A large number of school districts have already committed to requiring investment providers to comply with the disclosures. We strongly encourage you to require Pennsylvania 403(b) plan providers to comply with these national disclosure standards as well so that Pennsylvania public school employees have the best information to make the best choice for them.

Local Pennsylvania School Districts Should Have a Role in Selecting Retirement Options for Their Employees

In designing the ideal defined contribution program for Pennsylvania public school employees it is critical that local Pennsylvania school districts play a role. Practically speaking, local Pennsylvania school district officials and teachers are in a much better position to know which

² Debra Davis, GERALYN MILLER, and JUDY MILLER, *Protecting Participation: The Impact of Reduced Choice on Participation by School District Employees in 403(b) Plans*, ASPPA Pension Education and Research Foundation (2011), available at <http://savemy403b.org/wp-content/uploads/2011/10/ASPPAWhitePaper-ProtectingParticipation.pdf>.

³ Angela A. Hung & Joanne K. Yoong, *Asking for Help: Survey and Experimental Evidence on Financial Advice and Behavior Change*, RAND Working Paper Series WR-714-1 (2010), available at http://www.rand.org/pubs/working_papers/WR714-1.html.

⁴ Christine Dugas, *New tool to clearly disclose 403(b) fees*, USA Today (Feb. 1, 2012), available at <http://www.usatoday.com/money/perfi/retirement/story/2012-02-01/teachers-403b-retirement-plans/52908370/1>. The 403(b) Model Disclosure Form is available at <http://savemy403b.org/wp-content/uploads/2012/02/403b-Model-Disclosure-Form.pdf>.

advisors provide better services. With all due respect to the people in Harrisburg, the people in the Meadville School District, for example, know which advisors do a better job in Meadville.

That is why we strongly recommend that SB 2 and SB 922 be amended to incorporate 403(b) plan options selected by local Pennsylvania school districts. In other words, in addition to the 403(b) plan providers selected by PSERS, each Pennsylvania school district would select some additional 403(b) plan providers specifically for its employees. These will most likely be from the providers already operating in the school district, including local Pennsylvania advisors. From the perspective of a Pennsylvania public school employee they will now have an excellent array of retirement savings options that will include low-cost state selected options and options selected by their school district that provide access to effective local advisors. All of it coordinated by PSERS. It's the best of both worlds.

The model described is not something new and is not complicated to do. It is exactly the model being successfully used today in states like Florida and Michigan. In those states, an independent TPA, who doesn't sell 403(b) plan products and does not have a conflict of interest, was hired. The cost of the TPA is paid for by the 403(b) plan vendors, not by the state consortium. You will be hearing today from an independent TPA who will talk about how easy this is to do and how effective it is.

Conclusion

Personal advice, participant control and local choice are the key factors to designing the most effective defined contribution plan that will maximize personal retirement savings and provide a better retirement solution for participants. In the case of public school employees, there is no need to reinvent the wheel. Pennsylvania public school employees already have a defined contribution plan, the 403(b) plan, that they have been using for 40 years and includes these elements.

The good news is that SB 2 and SB 922 already incorporates the concept of allowing public education employees to invest both mandatory and voluntary contributions in the same account. All that is needed is an amendment to utilize 403(b) plans and give local school districts a role in selecting the retirement savings choices for their employees. Then Pennsylvania public school employees can have the state of the art retirement savings program that they want and deserve.