

April 4, 2023

IN RE: Opposition to SB 305

Chairman Flores and Members of the Senate Government Affairs,

On behalf of the Nevada Chapter of the National Association of Insurance and Financial Advisors (NAIFA-NV), I am writing to express our opposition to SB 305. NAIFA represents the interests of more than 20,000 licensed insurance agents and financial advisers across the country. 90% of NAIFA members serve middle-income clients and/or lower-income individuals and families. Our Nevada Chapter has approximately 180 members that serve our communities.

NAIFA encourages expanding retirement savings options to make planning and saving for retirement easier and appreciates that Nevada is looking for creative solutions. While well-intentioned, we do not believe this proposal provides a meaningful step toward solving the retirement savings gap. Secure Choice style state-facilitated retirement programs do not address the foundational reasons Americans are not saving more for retirement. Further, there is a strong, vibrant private retirement plan marketplace that already offers diverse, affordable options to individuals and employers. Nevada is fortunate that it can look at several other state programs' performances before deciding about its own Secure Choice Retirement Plan. We ask that you consider the following as you evaluate whether this program is right for the citizens of Nevada.

Overstated Lack of Access to Retirement Planning

When considering access to workplace retirement plans, there is often a misconception about the lack of retirement savings meaning there is a lack of access to workplace retirement plans savings options. This is not accurate. As might be expected, the lower the income, the less likely a worker is to have retirement savings in either an IRA or 401(k). But this does not immediately indicate that there is no workplace access. Further, while workplace access is ideal, it's not the only mechanism available to workers for retirement savings accounts or payroll deductions, both of which can be easily established by working with a professional financial or investment advisor.

In a survey conducted as part of the California Secure Choice Feasibility Study, it was found that of those without access to workplace retirement savings programs, 71% were already saving for retirement. Further, of the 29% that were not saving, only 3% indicated that it was due to the lack of a savings plan at work.

The Savings Gap is Complex

What is keeping Americans from saving more is complex and multifaceted. In the same California Survey, 81% of those who are not saving reported that they do not earn enough money at their job to do so. Further, more than 51% indicated that was their major reason.

Saving for retirement is not always a top priority, and for many, rightfully so. When placed in the larger context of financial priorities, the decision to prioritize retirement savings is based on many factors. Priorities such as savings for an emergency fund or savings for a house, or paying down debt like student loans may be more appropriate. Saving for retirement was the top financial goal for only 26% of those without access to a plan at work. 78% reported they have other debts to pay off, with 52% of respondents indicating it was their major reason for not saving more.

There is no doubt that saving for retirement is important, and there are significant benefits to saving early and often. But it is only a part of the larger objective of achieving financial security. These are decisions best made with the advice and guidance of a Financial Services Professional.

Significant Underperformance of Secure Choice Retirement Programs

Plans implemented in California, Oregon, Illinois, and most recently, Connecticut are costly and not living up to their promises. For example, CalSavers was projected to approach 4m employee accounts with over \$14.3b in savings at this point in its implementation. Instead, funded accounts sit at only 395,972 with \$373m. This means the program has performed at just 3% of its projection of savings assets and ~10% in funded accounts. Reaching only 3% of the projected assets is a staggering margin to miscalculate, but 3% is also the percentage of the population without access to workplace retirement plans that, indicated that lack of access through work was the reason they were not saving, so this figure should not be entirely unexpected. Similar performance misses can be seen in Oregon and Illinois.

The causes of the underperformance appear to be a confluence of factors, including overestimates of workforce populations, underestimation of employee opt-outs, lower savings rates, and most notably, large withdrawal rates (leakage). Each month the CalSavers program sees around 18% of all accounts totally withdrawing funds, vs. the anticipated 3.5% leakage. These accounts are not being leveraged as retirement savings accounts but rather temporary savings, which are cashed out whenever needed or employment changes. At this rate, it appears unlikely that any of these programs will reach self-sustainability and will require continuous state funding to remain operational.

The Private Sector Has the Consumer Confidence to Meet this Need

Choosing the right retirement savings and investments involves a thorough understanding of an individual's current financial situation, goals, and risk tolerance. It is just as important to have strong confidence in those managing and investing in retirement savings, and that confidence is lacking when it comes to Secure Choice Retirement Programs.

- 55% of individuals without a plan at work indicate that they believe professional financial advisors are trustworthy when managing and investing retirement savings, and another 34% are neutral.
- 45% indicated that their employer would be trustworthy when managing and investing retirement savings, but
- Only 37% agreed that the state or federal government was trustworthy when managing and investing retirement savings.

A 2017 Study by Pew found similar results among small and medium business owners, with 56% either somewhat opposed or strongly (32%) opposed the state government sponsorship and administration of a Retirement Plan. While 82% either somewhat supported or strongly supported Mutual Fund Companies, and 72% either somewhat supported or strongly supported Insurance Company sponsorship and administration of a retirement plan.

Both individuals and small businesses have the confidence in the private sector to meet this need.

SECURE (Setting Every Community Up for Retirement Enhancement) Act 2.0

The importance of expanding access and incentives for retirement savings is an important issue and is being addressed. While there is still much work to be done, the December 2022 passage of the bipartisan SECURE Act 2.0 is a huge step forward. Building upon the SECURE Act of 2019, provisions will expand retirement plan coverage, increase retirement plan savings, and simplify and clarify plan rules. Here are just a few of the highlights:

- Most new 401(k) and 403(b) plans established after the January 1, 2024 effective date must include automatic enrollment and auto-escalation;
- SECURE 2.0 increases the startup credit from 50% to 100% for employers with up to 50 employees. The \$5,000 cap remains;
- SECURE 2.0 permits employers to implement a starter 401(k) or 403(b) plan. The starter plan provision would allow employers in states that require auto-IRAs to satisfy the auto-IRA requirement via a private-sectors 401(k) or 403(b) plan.

As provisions expanded under SECURE 1.0, such as enhanced multiple employer plans (MEPS), and pooled employer plans (PEPS) are just hitting the market. With the implementation of SECURE 2.0 planned to roll out over the next few years, there are many expanded options for Americans to plan and save for retirement.

These proposals have a demonstrated history of repeatedly and rightly rejecting state-run retirement plans in approximately 35 different states. Given the recent performance in other states and the passage of SECURE 2.0, these plans are proving to be less and less viable.

We appreciate the opportunity to submit written comments. NAIFA-NV is committed to providing financial and retirement security for our communities. We are happy to answer any further questions or concerns.

Thank you for your consideration.

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NAIFA-Nevada Board of Directors
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