



Labor Coalition

*Representing Over One
Million Labor Union
Members in California*

American Federation
of State, County &
Municipal Employees

California Association
of Professional Scientists

California Association of
Psychiatric Technicians

California Community
College Independents

California Correctional Peace
Officers Association

CDF Firefighters

California Faculty Association

California Federation of Teachers

California-Nevada Conference
of Operating Engineers

California Professional Firefighters

California School
Employees Association

California State
Employees Association

California State Firefighters
Association

California Teachers Association

Faculty Association of California
Community Colleges

Glendale City Employees Association

LIUNA Local 777

LIUNA Local 792

Orange County Employees
Association

Organization of SMUD Employees

Peace Officers Research
Association of California

Professional Engineers
in California Government

Public Employees Local #1

San Bernardino Public
Employees Association

San Diego County Court
Employees Association

San Luis Obispo County
Employees Association

Santa Rosa City
Employees Association

SEIU Local 1000

Service Employees International
Union, California State Council

State Coalition of Probation
Organizations

Union of American Physicians
& Dentists



March 9, 2016

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

Re: Secure Choice Position

Dear State Treasurer Chiang:

The Labor Coalition represents over one million public employees across California and includes unions representing police, firefighters, teachers, nurses, classified, city, county and special district employees. We have been, and continue to be, supporters of proposals to insure retirement security for all, and we have supported and assisted in furthering the goals of the California Secure Choice Retirement Savings Investment Board (Secure Choice Board).

In addition to supporting and lobbying for SB 1234 (De León) union leaders have served on and contributed to the Secure Choice efforts. We believe that all workers deserve to retire with dignity and have a major stake and commitment to insuring that the final product of the Secure Choice Board provides high quality options that add value to the retirement security of working class Californians who currently do not receive pensions.

Principles

From the outset of this discussion and during formulation and debate over SB 1234, the Secure Choice study, we have outlined basic principles that must be met. These include:

- The final product cannot be an off-the-shelf 401K style plan, managed by for-profit entities with little oversight, similar to the plans that anti-pension advocates propose for new public employees. These plans have proven to be inadequate as retirement vehicles, place 100% of the risk on workers, do not adequately control fees and place workers in the position of making complicated investment decisions without providing adequate investment education. Requiring low wage, private sector workers to enroll in a plan similar to those proposed by anti-pension advocates is bad public policy and morally wrong.

- The ideal options should include as many attributes of pension plans as possible, including pooling assets, controlling management and administrative long-term costs/fees, hedging against market fluctuations, maximizing returns and providing a predictable income replacement in retirement. While we understand the obstacles to providing defined benefit plans, it is important that defined contribution options contain as many of the benefits and qualities of defined benefit plans as possible. This is even more important given the fact that requiring employer matching contributions is not currently an option.
- Options should provide both security and choice. If there is more than one option, we believe a default option should minimize risk and promote the highest long-term income replacement. We also believe providing options should not be done in such a way that undermines cost-savings achieved by economies of scale.

Option One v. Option Two

The Secure Choice study outlines two choices, a dynamic asset allocation target date investment strategy and a pooled IRA with a reserve fund packaged as a retirement savings bond.

We believe that the option that most closely meets the principles outlined above is option two. Members and staff of the Secure Choice Board have expressed some concerns related to option two. These include anticipated complications related to establishing and communicating with employees on the reserve and federal regulatory constraints, which require action by the Securities and Exchange Commission (SEC).

The report itself indicates that “SB 1234 attempts to replicate the collective risk-sharing aspect of cash balance plans in the DC context with no employer or state-backed guarantee.” The *Pooled IRA with Reserve Fund* (option two) was proposed as “one way to implement collective risk pooling and return smoothing based on the Collective 401(k) concept from the Center for American Progress, developed by study team actuary Rowland Davis.”

These aspects of option two adhere to the principles outlined in bullet two, characteristics that are not included in option one.

Alternative Options

The tension between options one and two have triggered discussion over the possibility of a third option.

Our perspective is that option one does not meet enough of our principles to be acceptable. It too closely resembles the types of proposals put forward by those who are proposing to eliminate public employee pensions, it does not provide risk sharing or smoothing, and it may or may not include a proprietary investment fund capable of minimizing administrative and management costs/fees.

We are cognizant of the concerns expressed that option two may encounter difficulties related to implementation, SEC clearance and management costs.

We would point out that there are differing professional opinions and that none of these concerns have been definitively concluded. In this respect we believe that the Secure Choice Board should insure that any legislation on this matter allow for further investigation into this option or alternative options that

meet the principles outlined, and best benefit the working Californians who currently have no retirement plan at work.

With regard to a third option, we are willing to entertain options that meet certain criteria, including:

1. The option should include a proprietary pooled asset investment fund that minimizes management costs/fees.
2. The option should address risk sharing and smoothing.
3. The option could include some choices, allowing workers to choose a vehicle consistent with their risk tolerance and financial goals, and provide a default option that provides the lowest risk and highest income replacement.
4. The option should provide the maximum possible income replacement.

Public employee organizations are fully committed to the goal and premise of SB 1234 and the Secure Choice Board. We believe all employees should be entitled to retirement with dignity after a career of work. That is why we believe that it is critical that the final product meet the above minimum criteria and principles.

We look forward to working with the California Secure Choice Retirement Savings Investment Board and the Legislature to accomplish this goal.

Sincerely,



Dave Low
Chairman, Labor Coalition

cc: Members, California Secure Choice Retirement Savings Investment Board
Christina Elliott, Acting Director, California Secure Choice Retirement Savings Investment Board
The Honorable Kevin de León, Senate President Pro Tempore, California State Senate
The Honorable Anthony Rendon, Speaker, California State Assembly
The Honorable Richard Pan, M.D., Chair, Senate Public Employment and Retirement Committee
The Honorable Jim Cooper, Chair, Assembly Public Employees, Retirement and Social Security Committee

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