The Establishment of a New York City Retirement Security Board

Testimony Presented to the New York City Council Committee on Civil Service and Labor

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Good morning Chairperson Miller and members of the Civil Service and Labor Committee. Thank you for the opportunity to testify today on the issue of retirement security for New York City's private sector workers.

I support Intro. No. 692-A that would establish a retirement security review board to make recommendations for the City of New York to establish a retirement security fund and program for private-sector workers.

The case can be summed up as follows: New York City's population is aging, many private sector workers do not have employer-provided retirement coverage, and our tax system rewards those who have employer-provided retirement coverage but does relatively little to help those who don't have such coverage. Since most of those without employer-provided retirement security tend to be from low- and moderate-income households and disproportionately persons of color, our existing and troubling income disparities are further intensified by retirement security disparities.

The city's population and workforce are aging. Between 2010 and 2040, the City Planning Department projects a 10 percent overall increase in the city's population. However, that breaks down into a 40 percent increase in our 65-and-older population, but only a five percent increase in our under-65 population.

States including California, Illinois and Oregon are acting to address the limitations of private employer-provided retirement coverage through government-administered retirement savings plans. New York City should carefully analyze and assess how such a plan might operate here.

Social security is the bedrock of our nation's safety net. It is universal and has a long and impressive track record. One-quarter of New York City households received social security benefits that average $15,422 per recipient household in 2012. Social security is particularly important for low-income households. It is critical to do whatever we can to protect and strengthen social security, but we must also look at the two other legs of the 3-legged retirement stool: employer-provided pensions, and retirement savings.

The share of New York City's workforce with employer-provided retirement coverage has fallen from about half for the 1999-2001 period to 43 percent for the years 2011-2013. That 43 percent share is significantly below the national average of 53 percent.[1]

While about half of whites and blacks have employer-provided retirement coverage, the shares of Latinos and Asians with such coverage is far less, 35 and 36 percent, respectively.[2]

The trend over time has been away from defined benefit retirement plans to defined contribution retirement plans. The typical defined contribution plan shifts the risks to the individual employee and is far less efficient in terms of the cost of providing benefits to retired workers.[3]

Not surprisingly, employer-provided retirement coverage is directly correlated with the size of one's employer. Over two-thirds (68 percent) of New York City workers in firms with 1000+ employees have retirement coverage, while only 20 percent of those in firms with fewer than 100 employees have retirement coverage.[4]

Our staff recently charted the three main types of retirement income for elderly New York City households for 2010-12: social security, pension benefits, and income from retirement savings.[5] We examined the trends by race and ethnicity, and by quintile ranking in the income distribution. (See Charts 1 and 2, attached)

- On average, social security is by far the most important source of income in retirement for elderly households headed by a person of color;

- While white households on average receive a higher dollar amount of social security benefits, the disparities by race and ethnicity are much less than for either retirement income (i.e., pension payments) or investment income (i.e., the earnings from accumulated savings).

- Primarily because the retirement savings of elderly white households are so much greater, they receive nearly three times the investment and retirement income as do black households, more than three times that received by Asian and other households, and more than five times the investment and retirement income received by Latino households.

- The lowest income 60 percent of elderly New York City households receive an average of only $5,444 a year in pension benefits and earnings from savings while those in the top quintile (incomes over $109,000) receive an average of $64,000 a year in pension

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[1] Joelle Sadd-Lessler and Teresa Ghilarducci, "Retirement Readiness in New York City: Trends in Plan Sponsorship, Participation and Income Security, The New School Schwartz Center for Economic Policy Analysis, 2015.
[2] Sadd-Lessler and Ghilarducci.
[3] Because account fees typically are high for defined contribution plans, their investments are less diversified and not as well-managed, and individual accounts can't provide any pooling for longevity risk, the averaged defined benefit plan costs 46 percent less than a typical 401(k) plan to provide the same dollar amount of retiree benefit. Beth Almeida and William B. Fornia, ***A Better Bank for the Buck. The Economic Efficiencies of Defined Benefit Pension Plans***, National Institute on Retirement Security, August 2008.
[4] Sadd-Lessler and Ghilarducci.
[5] Fiscal Policy Institute analysis of 2010-2012 American Community Survey microdata provided by IPUMS. Analysis done for families headed by a person 65+ years of age; race/ethnicity determined by household head.

benefits and investment earnings.

It is clear that far too many New Yorkers are heading into retirement with too-few resources to sustain themselves. Invariably, this will lead to great challenges for New York City and State government in terms of the cost of social services, Medicaid, housing and food assistance.

The New York and federal tax systems are geared to reward those who have employer-provided retirement coverage and savings. For example, employer-provided retirement savings plans such as 401(k)s or 403(b)s allow for pre-tax contributions, and New York State and City do not tax government pension benefits and allow an exclusion for the first $20,000 in annual private pension benefits. I think these tax benefits generally are appropriate, but in practice the tax benefits they provide to high-income households are far greater than what households of lesser incomes receive. The current tax arrangement also means that those without employer-provided coverage or retirement savings opportunities fall further behind in terms of retirement security.

While those without an employer-provided retirement plan can, subject to a fairly high income limit, make pre-tax contributions to an IRA, the fact is that relatively few lower-income workers are able to take advantage of this opportunity. All the more reason that the City should explore establishing a retirement savings mechanism to aid those who do not otherwise have employer-provided coverage.

Intro. No. 692-A would establish a retirement security review board to make recommendations for the City of New York to establish a retirement security fund and program for private-sector workers. I think it is entirely appropriate that the review board be charged with identifying options that maximize participation, ensure ease of enrollment, and limit risk and fees.

This is a critical step for the City to address the retirement security for the nearly 60 percent of private sector workers who currently lack any employer-provided retirement coverage. Such a step is part and parcel of addressing the dramatic disparities in income and wealth that currently exist, and it is directly bears on the future fiscal liabilities the City faces given the aging of our population.

Thank you for the opportunity to testify today.

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Chart 1

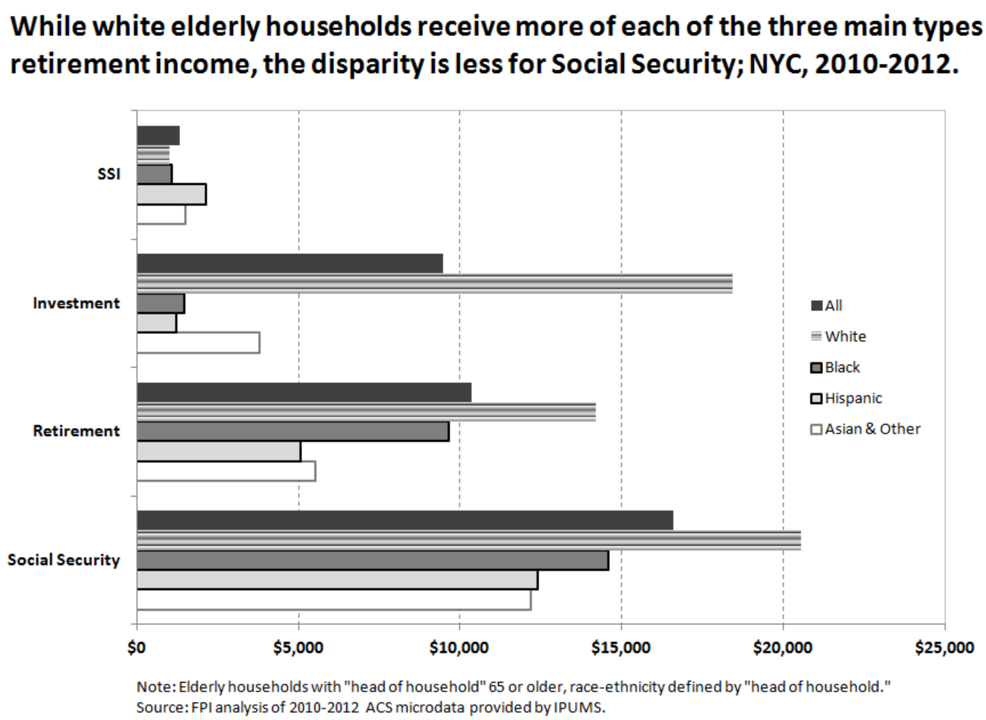

Chart 2