Mandating Your Retirement

Do the sponsors of Maryland H.B. 421 and S.B. 312, which would create the so-called Maryland Secure Choice Retirement Savings Program and Trust, think one million Marylanders are either too lazy or too financially irresponsible to open a simple IRA retirement account at a bank?

Del. C. William Frick (D) and Sen. Jim Rosapepe (D) are trying to force Maryland businesses with five or more employees to automatically enroll their workers in a mandatory state-run retirement program if they do not offer one of their own. Companies, mainly small businesses, would be required to take at least 3 percent – the minimum required by the U.S. Department of Labor – out of every employee paycheck.

Marylanders should be encouraged to save for their own retirement. Today, Maryland employers and employees have access to retirement savings options like IRA accounts, profit sharing plans with or without Social Security integration, 401(k) plans, 403(b) plans, 457 plans, thrift savings and FERS plans for federal employees, defined benefit plans, ESOPs and stock option plans, and various non-qualified incentives.

A task force by former Gov. Martin O'Malley estimated that one million Marylanders and their employers are unable to utilize one or a combination of these options. Meanwhile, there are a wide variety of financial institutions and advisors ready, willing and able to assist both employers and employees in establishing and maintaining their accounts of choice.

The proposed bills will have the greatest impact on the small business community. It will create additional fixed and marginal operating costs that will discourage entrepreneurs from starting new businesses, and force established businesses to look for other operating efficiencies that may discourage them from hiring more Maryland residents. In fact, the new bill may encourage new business owners to establish their business in other states.

Here's another point to consider: Why would the state get into the business of managing employer-run retirement programs when the $45 billion retirement program for 143,000 state employees is underfunded by 31 percent? Should a state agency that is having difficulty managing its own retirement program be saddled with the additional responsibility of setting up new retirement planning laws and regulations for the state's small businesses? And then attempt to manage those funds?

Another pertinent question is: If legislators are really worried about Marylanders not saving enough, then why not outlaw casinos and the lottery, both of which are potentially far more damaging to the financial futures of a lot more Marylanders.

This issue is more of a Maryland civil liberties issue than a Maryland retirement issue. Marylanders should have the right to decide if they want to put money into a retirement account or not. People should have the freedom to choose their own retirement path.

A more beneficial step, that no other state has taken, could be implementing a retirement savings contribution tax credit, similar to the Federal Savers Credit for citizens who contribute to individual or employer-sponsored retirement accounts. The power of this "trickle up" incentive would be a better motivator than penalties for non-compliance. It's also the kind of progressive socioeconomic policy Maryland is known for.

These bills are bad ideas. They will discourage talented individuals from starting new businesses and/or hiring additional local employees. The state should not be in the business of managing small business retirement plans, especially given its poor track record with its own pension plan. Instead, the state should focus on educating and encouraging its citizens to save for themselves to ensure a happy and healthy retirement.

Clark Kendall, founder of Kendall Capital Management in Rockville, has over 30 years of experience in investment management and wealth management.