KENDALL CAPITAL

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The State Legislature and Your Retirement

Financial Goals by Clark Kendall

In Annapolis, state Democratic legislators are at it again. In bills introduced in the 2016 legislative session, they are trying to force Maryland employers with five or more employees to automatically enroll their workers in a mandatory state-run retirement program – if they do not offer an employer-sponsored retirement plan. That means companies, mainly small businesses, would be required by state law to take at least 3 percent – the minimum required by the U.S. Department of Labor – out of every employee paycheck.

Democrats who are proposing this bill – Sen. James Rosapepe (Prince George's), Sen. Richard Madaleno (Montgomery) and Del. Tom Hucker (Montgomery) – say not enough Marylanders are planning for retirement and government needs to do something to make them save. They are right on the first point: roughly 900,000 people in the state of Maryland have no retirement plan whatsoever.

But they are dead wrong on the second point. Instead of trying to legislate retirement plan participation by Marylanders, state lawmakers should be legislating financial literacy by requiring that it be taught in our high schools. Here in Montgomery County, although high schools are teaching career tracks such as healthcare and engineering (to name just two), there is no financial literacy track.

What is the connection between financial literacy and retirement plans? People who are financially literate realize the need to take advantage of and participate in retirement plans. Here in Montgomery County, the state of financial literacy is so poor that half of county employees do not participate in the county-sponsored 403(b) plan.

Sadly, financial literacy is not just lacking in Montgomery County or Maryland. It's a problem for the nation as a whole, as demonstrated by a new survey by the S&P organization that measured financial literacy across a wide spectrum of countries around the world.

More than 150,000 randomly selected individuals in 140 countries were asked in the S&P Global FinLit Survey to answer five multiple-choice questions regarding the ability of income to stay on par with spending (or vice versa), interest payments and compounding investment returns. If individuals could correctly answer three out of the five questions, they were deemed to be financially literate.

How did the U.S. do? Only 57 percent of Americans surveyed correctly answered three of the five questions, ranking the U.S. No. 14 behind Finland (10), Australia (9), Germany (8), the Netherlands (7), the UK (6), Canada (5), Israel (4) and the three top-scoring countries: Sweden, Denmark and Norway.

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The survey found wide discrepancies between adults living in the richest 60 percent of households in each country vs. those in the poorest 40 percent. For instance, the U.S. saw a disparity of 64 percent literate (wealthiest households) vs. 47 percent (poorest). The conclusion: financial ignorance can carry an invisible lifetime cost, and burden falls most heavily on those who can least afford it.

The National Association of Personal Financial Advisors and other financial planning organizations have been pushing for financial literacy education in the nation's schools. Yet, in the Washington area, only Howard County has a financial literacy curriculum for high schoolers – and it is weak at best.

Let's step back a moment and consider the effects of this proposed legislation on the business community. By raising the cost of doing business, potential new business owners in Maryland may choose not to start a business in the first place, or decide to start the business in another state. At a certain point, fewer jobs will be created in Maryland.

Meanwhile, in the short term, the increased cost to small businesses of setting up and administering a mandatory employee retirement plan would likely increase the cost of dining out, getting a haircut, having the lawn mowed or the house painted, and so on. That's because, if this legislation passes (in last year's session, it did not make it to the floor for a vote), it will become more expensive to employ people in lower-wage, manual labor occupations. Instead of encouraging a vibrant business community, which ultimately strengthens the larger community, the proposed legislation puts a damper on business.

But the fundamental problem is not the need for businesses to force employees to save for retirement. It is the lack of financial literacy education in our county and state. Two changes in our society and workplace over the past 30 years have heightened the need for financial literacy. First, people are living longer. In our grandparents' generation, life expectancy was in the 70s. Now, for a married couple age 65, there is a 50 percent chance that one of them will live past his 90th birthday. This stretches the time horizon for retirement planning.

Second, the traditional defined-benefit pension plan is becoming a thing of the past. Now we have 401(k) programs, and the onus is on individuals to save and be responsible for their own financial future. People who are financially literate realize that making small changes can have a profound effect. Saving a little bit, starting when we're young, and being disciplined about it over time enables us to benefit from the compounding effect of interest into the future.

In sum, legislation to mandate a state-run retirement program is a bad idea for the citizens of Montgomery County. This legislation will have a chilling effect on the business community by discouraging talented individuals from starting new businesses or hiring additional local employees. It will likely raise the cost of doing business, which would in turn lead to higher prices for consumers.

Instead, Maryland should focus on educating and encouraging its citizens to save for themselves to ensure a happy and healthy retirement for all Marylanders. The way to do that is to add a financial literacy curriculum to our high schools. Given the troubling results of the S&P financial literacy survey, are state lawmakers prepared to mandate that? Don't hold your breath.

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