House Government Operations Committee
Thursday, March 23, 2017
Testimony of Todd Wulfson, CFA

- My name is Todd Wulfson and I am a principal at Rock Point Advisors, LLC, an investment management and financial planning firm in Burlington, VT. I have been advising clients on investments and financial planning matters here in Vermont for 22 years at three different Registered Investment Advisor (RIA) firms. I earned my Chartered Financial Analyst designation in 2002 and served on the board of the Vermont CFA Society from 2007 to 2013. I have a B.S. in Business Administration from the University of Vermont.

- I am here to testify regarding the Public Retirement option being considered in H. 387 - An act relating to the Public Retirement Study Committee.

- Making good financial decisions that can lead to a comfortable retirement is not easy to do and is the reason my business exists. The choices facing investors are complicated. Many investments are of questionable quality and some come with exorbitant fees. Natural human tendencies result in behavior than can sabotage a successful investment plan. Generally smaller investors have less sophistication and less access to good advice..

- In my experience most of the financial services industry is not interested in providing services to the small accounts that would be typical of the employees of the small businesses that will benefit from a public retirement program. It is a function of economics and the fact that costs associated with providing services to a client with a small account are virtually the same as the costs of providing services to a client with a large account. Small accounts just are not profitable for most responsible industry participants.
    - Minimum account sizes for RIA firms in the area generally range between $100,000 and $500,000 and fees might be 1.2% so a minimum annual fee equates to between $1,200 and $6,000.
    - The service providers willing to provide services to small accounts have generally found other ways to derive revenue from them. So in essence, the small accounts pay higher fees or give up investment return potential. Each of which is equally detrimental to a successful investment/retirement plan.

- The provision that this program is only available to businesses who do not currently offer a retirement product to their employees is an important and reasonable protection for the private sector.
    - It may turn out to beneficial in the long term for the local financial industry in that the program could create thousands of new potential customers that, without this pension plan option, would not have sufficient resources to be of interest to much of the industry.

- The proposed plan takes advantage of economies of scale that can help get fees and expenses low enough to give the small investor a real chance of success. Another critical aspect is it will provide access to well vetted, high quality investment products.

- The program also has the potential to be a great vehicle to offer some basic financial education and guidance to small business owners and their employees.

- This pension plan option could be a real service - both to the small business owners and their employees.

Supplemental:

- To understand how detrimental high fees or low returns can be to an investment account it is helpful to know the “Rule of 72.”
  - The 'Rule of 72' is a simplified way to determine how long an investment will take to double, given a fixed annual rate of interest. By dividing 72 by the annual rate of return, investors can get a rough estimate of how many years it will take for the initial investment to duplicate itself. - Investopedia

- Now let us assume that higher fees or limited investment options result in 2% lower investment returns over time for the smaller investor (6% versus 8%). Then we look at pension contributions of two 31 year olds who each contribute $1,000 to look at what that year’s contribution will be worth when they retire at age 67 (36 years later). An account earning 6% will double every 12 years while an account earning 8% takes nine years to double. At retirement one contribution would have grown to be worth $8,000 and the other would be $16,000. That 2% can mean twice as much at retirement.