NAIFA | Advocacy

POLICY BRIEF

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State Sponsored Retirement Plans:

A Policy and Position Overview

BACKGROUND

Many Americans do not have adequate retirement savings and find themselves relying heavily on social programs. As millions of Baby Boomers approach retirement, entitlement programs such as Social Security, Medicare, and Medicaid are facing substantial increases in expenditures, causing strains on both state and federal budgets.

> **"State-sponsored plans directly compete with existing private market programs."**

In response, some states have considered legislation to implement state-run IRA-type retirement plans, erroneously citing lack of access as the primary reason for inadequate savings. Under these proposals, employers are required to offer a payroll-deducted retirement savings plan to employees. Those who do not provide a private program such as a 401(k) must enroll in the state-run sponsored plan. Employees are automatically enrolled, and wages are withheld unless the employee actively selects to opt-out.

In 2016, the U.S. Department of Labor adopted a rule that would facilitate the enactment of state-run retirement plan legislation by exempting such plans from coverage under ERISA. However, in early 2017, Congress utilized the Congressional Review Act (CRA) to override the DOL action and nullify the rule. As a result, there were many open questions relating to state-run plans and if they will be subject to duties, responsibilities, and potential liability under the federal ERISA law. Litigation surrounding the CalSavers program (Howard Jarvis Taxpayers Association, et al., Petitioners v. The California Secure Choice Retirement Savings Program, et al.) petitioned the United States Supreme Court declined to accept the appeal.

America's Lack of Saving

Despite the rhetoric of proponents, the availability and access to retirement savings options are not the cause of low savings rates. A strong, vibrant private-sector retirement plan market offers diverse, affordable options to individuals and employers. In addition, employees can easily access low-cost IRAs through local financial advisors and financial institutions if a retirement plan is not available through an employer. State-run mandated retirement savings programs do not address Americans' core reasons for not saving for retirement. There are significant constraints to what savings plans can achieve when provided to workers in industries and firms with low or volatile wages, high turnover, and low financial literacy rates. NAIFA believes that states would be better served by using state resources for education and outreach efforts to educate their citizens about the importance of saving for retirement rather than implementing costly state-run plans.

THE ISSUE

State lawmakers continue to consider legislation establishing state-run individual retirement type savings programs for private-sector workers and requiring certain employers to auto-enroll their employees. These state-sponsored plans directly compete with existing private market programs that already offer consumers a robust variety of retirement options.

STATUS

- Nearly 40 states have considered and rejected legislation establishing a state-run retirement plan.
- Three (3) states have state-run auto-IRA programs enacted and implemented. These are California (CalSaves), Oregon (OregonSaves), and Illinois (Illinois Secure Choice).
- Connecticut, Colorado, Maryland, New Jersey, and Virginia have passed legislation establishing a state-run plan program but have not implemented it due to numerous legal and cost concerns.
- Washington State and New Jersey have enacted legislation that sets up voluntary retirement marketplaces designed to bring employers and private market plan providers together.
- There are active proposals in Delaware, Missouri, Mississippi, and Rhode Island.

Robust Private Retirement Marketplace and Multiple Employer Plans (MEP)

In addition, NAIFA encourages lawmakers to focus on private sector multiple employer plans, which are now more accessible for employers to adopt due to the recently enacted SECURE Act. Multiple employer plans will have all the benefits, features, and provisions of more traditional single-employer retirement plans, but with significant relief to employers regarding cost, administrative responsibilities, and fiduciary duties. The advantages of MEP plans over state auto-IRA plans are numerous. For example, MEP Plans include employer matching of participant contributions, a more extensive diversity of investment options, less cost to employee-participants, significantly higher annual contribution limits, the ability to select either or both ROTH or Traditional tax treatment of plan assets, and consumer protections under ERISA.

> **“Many households save for retirement jointly and 36% already own an individual IRA”**
>
> -Bureau of Labor Statistics

KEY FACTS - Access to Employer Retirement Plans

- 67% of private industry workers had access to retirement plans in 2020 and is expected to climb significantly due to the 2021 enacted provisions of the SECURE Act expanding access to part-time workers.
- Even when part-time workers have access to plans, only about 52% choose to participate compared to 80% of full-time workers.
- Access to retirement plans is lowest in the services industry (41%) and among the lowest-wage workers. (29%). Consequently, uptake rates are also the lowest amount in these groups. This reinforces that even with expanded access, there are limitations to what state-run plans can achieve when provided to workers in industries with low wages, volatile wages, and high turnover.

Underperformance of State Pilot Programs

Existing programs suffer from high employee opt-out rates, low contributions, high employee turnover, and high account withdrawal rates. Sold to states as a promising single solution, the marginal impact on eligible plan savers (employed and who previously did not have an employer-sponsored plan) is less than 30%. Initial studies of the OregonSaves Plan showed an opt-out rate of over 40%, and over 50% of the accounts had stopped contributing. Even upward estimates of participation rates are far below their private plan counterparts.

Far from saving the state's money, state-run plans have proven expensive to implement and maintain. While initially proposed to be self-sustaining, they have created ongoing expenses and liability for the state. Programs are typically implemented through loans from the general fund, but those repayments could fall back on taxpayers due to low participation rates and lower than excepted fee collection.

States promised employers that plans would be low or no cost, but over 20% have reported experiencing out-of-pocket expenses. In addition, the administrative burden can be substantial, as employers are responsible for calculating withholdings, transmitting withholdings, providing program education, and reporting employee status changes. Early indicators suggest that many employers are not keeping up. Some do not update employment status in a timely fashion or at all, and up to 25% of participants had no knowledge they were enrolled.

- CalSavers feasibility study projected 1.6m participants and $3b in assets in the second year.
- Two and a half years later, there are only 217,892 funded accounts and approximately $173m in total assets. This is only 13.6% and 5.7% of projections respectively.
- Withdrawal rates have increased over 56% during 2021, with over 30,000 (13%) accounts entirely withdrawing funds in December 2021 alone.
- The average account balance is $794, and the average contribution rate is 5.02%. (Default is 5%)
- 57% of saver assets are from the Accommodation and Food Services, Administrative and Support, and Health Care and Social Assistance industries, indicating that lack of access isn't widespread but rather a symptom of certain industry practices.
- Of the 23,203 registered employers, only 30.4% (7059)are contributing payroll deductions.
- CalSavers has announced they are beginning enforcement of $250 per employee beginning in January 2022.

OregonSaves

- The feasibility study estimated 349,000 active accounts and $730.2m in total assets in year three.
- OregonSaves has ~$150m in total assets and 112,689 funded accounts almost five years later, just 32.2% of active account projections and 11.7% of total asset projections.
- 18% (20,314) of total funded accounts had a withdrawal in December 2021.
- The average funded balance is $1331 and the average contribution rate is 5.6%9 (5% Default)
- Only 45.2% (7691) of registered employers (17,012) submit payroll deductions.
- The program could not meet asset and account thresholds resulting in the withdrawal of plan administrator Ascensus. They are currently migrating plans to a new administrator.

Illinois Secure Choice Retirement Savings

- The feasibility study estimated 883,000 participants and ~$1.45b in total assets by year three.
- After nearly four years, there are only 99,082 funded accounts and ~ $83m in total assets.12 This is just 11.2% of funded account projections and 5.7% of total asset projections.
- 20.9% (20,796) of funded accounts had withdrawals in December 2021.
- The average funded account balance is $856.58, with an average deferral rate of 5.05% (5% default)
- Only 46% (2973) of the registered employers (6408) submit payroll-deducted contributions.

Key Facts - For Employers

- 21.5% of employers reported that they had incurred out-of-pocket costs, often from higher payroll processing costs in the form of additional payments to external payroll companies, accountants, or contractors, or wages paid to in-house staff for additional time spent processing contributions.
- 55.9% reported using a payroll provider, while 44.2% said they handled payroll internally. Costs and administrative burden are significantly higher for those that handle payroll internally.
- 55.5% of employers report being dissatisfied or neutral about the OregonSaves program.

AT A GLANCE

- State-run mandated savings programs do not address Americans' core reasons for not saving for retirement. There are significant constraints to what savings plans can achieve when provided to workers in industries and firms with low or volatile wages, high turnover, and low financial literacy rates.
- Recent changes to Multiple Employer Plans (MEP) make it easier than ever for employers to offer payroll-deducted retirement savings. MEP's have all the benefits, features, and provisions of more traditional single-employer retirement plans, but with significant relief to employers regarding cost, administrative responsibilities, and fiduciary duties.
- Auto-IRA Program in California, Oregon, and Illinois are significantly underperforming expectations. These programs suffer from high employee opt-out rates, low contributions, high employee turnover, high account withdrawal rates, and implementation costs that far exceed budget projections. In addition, Connecticut, Colorado, Maryland, New Jersey, and Virginia have not implemented their program due to numerous legal and cost concerns.

Position

We understand the importance of retirement security and encourage expanding retirement savings options.

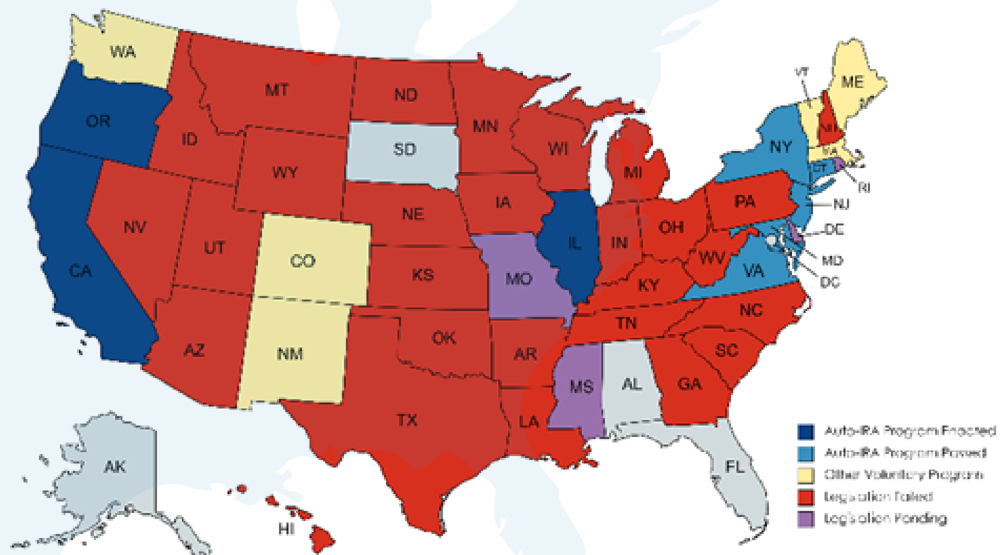
NAIFA appreciates that states are looking for solutions to encourage more retirement savings, and we agree this important issue deserves our attention.

However, NAIFA does not believe that a state-run auto-IRA program is the best solution for our members or American workers.

Status

Since 2012, 37 States have rejected legislation establishing state-run retirement plans.

Only 3 states have enacted mandatory programs



TALKING POINTS

- Lack of access to retirement savings accounts is grossly overstated as not all those without access need it. Many households save for retirement jointly or already own an IRA.
- The 2021 enacted provisions of the SECURE Act addresses many of the existing retirement saving gap concerns, including expanding access to part-time workers and encouraging auto-enrollment.
- The SECURE Act also made it much more feasible (and less costly) for employers by simplifying the adoption of multiple employer retirement plans (MEP) and pooled employer plans (PEP) and by providing businesses with tax credits to establish new plans.
- State-run programs are not addressing the core reasons Americans are not saving for retirement. There are limitations to what auto-enrollment plans can achieve when provided to workers in industries and firms with low wages, volatile wages, and high turnover.
- State-run plans are expensive to set up and implement, creating ongoing expenses and liability for the state. Every program enacted has significantly exceeded proposed start-up cost projections.
- The burden to employers is higher than promised, with many reporting out-of-pocket expenses with setting up and maintaining the plans, in addition to laborious reporting requirements.
- Current programs in California, Oregon, and Illinois are significantly underperforming self-sustaining benchmarks and suffer from low participation, low employee contributions, high participant turnover, high account withdrawals, and high opt-out rates.
- Secure Choice and other state-run auto-IRA plans seek to avoid federal consumer protections.
- Ongoing legal battles over ERISA preemption are not going away, with a likely Supreme Court hearing in 2022.

> **“State-run programs are not addressing the core reasons Americans are not saving for retirement.”**

ABOUT NAIFA

The National Association of Insurance and Financial Advisors is the preeminent membership association for the multigenerational community of financial professionals in the United States. NAIFA members subscribe to a strong Code of Ethics and represent a full spectrum of financial services practice specialties. They work with families and businesses to help Americans improve financial literacy and achieve financial security.

NAIFA provides producers a national community for advocacy, education, and networking along with awards, publications, and leadership opportunities to allow NAIFA members to differentiate themselves in the marketplace. NAIFA has 53 state and territorial chapters and 35 local metropolitan chapters. NAIFA members in every congressional district advocate on behalf of producers and consumers at the state, interstate, and federal levels.

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- Feasibility Study: Illinois Secure Choice March 2017 -

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