State Sponsored Retirement Savings Plans: New Approaches to Boost Retirement Plan Coverage

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Abstract

This paper describes and evaluates models and features used in emerging state-sponsored retirement saving plans such as Auto IRAs, open Multiple Employer Plans and Marketplaces. These plans have enormous potential to raise the number of Americans with access to payroll-deduction retirement saving plans. We believe that plans that boost coverage most will feature two characteristics: required provision of retirement saving plans by firms and automatic enrollment of eligible workers. However, we also note that under current legal and regulatory conditions, Secure Choice is the only model that enables states to require that employers provide a plan.

Keywords: Secure Choice, Multiple Employer Plans, marketplace, automatic enrollment, mandatory provision.

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Americans face a serious and continuing problem in enabling workers to build retirement security to supplement their Social Security benefits. The share of the workforce covered by a retirement saving plan has remained relatively flat in recent decades. In 1987, about 51 percent of private-sector workers aged 21 to 64 had access to a retirement savings or pension plan through their employer. The share rose to 59 percent by 2000, but then fell gradually back to 51 percent as of 2013 (Copeland 2014).

Recent federal policy changes have not had a significant effect on coverage rates. The Pension Protection of Act of 2006 (PPA) encouraged automatic enrollment in defined contribution plans, which raised participation rates among those workers who were already offered a plan, but did little to expand coverage rates. In 2014, an Obama Administration executive order established the MyRA, which is available nationally as a starter retirement saving account, but has generated only very limited participation. Federal legislation creating an Automatic IRA and open Multiple Employer Plans (MEPs) has been introduced but not enacted.[1]

In the wake of stagnant coverage trends, and in the absence of more comprehensive federal legislation, states have acted. Five states (California, Connecticut, Illinois, Maryland, and Oregon) have enacted Secure Choice plans based on the Automatic IRA (AARP 2017). In these plans, states sponsor a simple, low-cost payroll deduction plan managed by private-sector providers. The structure is similar to Section 529 college savings plans. With some exceptions, employers are required to participate in the plan if they do not offer workers another type of retirement plan. Eligible workers are automatically enrolled. In addition, two states (Washington and New Jersey) are developing retirement savings marketplaces, state-sponsored websites that enable small businesses to find retirement plans that are prescreened to meet certain criteria. Many other states are considering Secure Choice plans, marketplaces, or other options,

such as open Multi-Employer Plans. Although federal legislative action has been lacking, federal regulations by the Department of Labor have eased the implementation of state actions, by confirming conditions under which state-sponsored retirement savings plans are exempt from federal pension regulation (81 F.R. § 92639).[2]

Currently, however, Congress is debating using the Congressional Review Act to overturn the relevant regulations and to prohibit agencies from issuing similar rulings in the future without advance congressional approval. If these regulations are overturned, it will hamper state-sponsored plans, but it will not necessary end them.[3]

This paper evaluates models and features used in state-sponsored retirement saving plans. We believe these plans have enormous potential to raise the number of Americans with access to payroll-deduction retirement saving plans, and thus to also reduce the number of retirees with few financial resources other than Social Security benefits. They could also improve the sponsoring state's fiscal outlook, by reducing the extent to which future retirees depend on taxpayer-financed government services.[4]

Our main conclusion is that, regardless of which approach – Secure Choice, open MEP, marketplace, or other options – is taken, plans that boost coverage most will feature two characteristics: required provision of retirement saving plan by firm, and automatic enrollment of eligible workers. However, we also note that under current legal and regulatory conditions, Secure Choice is the only model that enables state to require that employers provide a plan.

This paper provides background on workers' access to retirement saving plans, describes options actions that states have taken to date and other actions they could pursue, and evaluates the importance of coverage mandates on firms and automatic enrollment of workers.

Workers' Access to Retirement Saving Plans

As stated earlier, the proportion of private sector workers who have access to an employer-sponsored payroll deduction retirement savings plan or pension has remained stagnant for several decades. Figure 1 shows the share of private sector workers who were covered by a retirement saving or pension plan between 1987 and 2013. Both coverage rates and plan participation have remained relatively constant (and proportional to each other) over the 26-year period. Despite a slight peak in the late 1990's, coverage today is the same as it was in the 1980's.

(Insert Figure 1)

Access to a retirement plan varies by workers' demographic characteristics and firm size as shown by figure 2. Coverage rates in 2012:[5]

- Rise with a worker's income, from 23 percent in the lowest quartile to 81 percent in the highest quartile.
- Rise with the worker's educational attainment. Only 27 percent of workers with less education than a high school degree were covered, compared to 69 percent of those with a bachelor's degree or more education.
- Are fairly constant with respect to age, once workers reach age 25. Coverage rates vary from 54 percent to 64 percent for workers between the ages of 25 and 64.
- Are higher for full-time workers than part-time workers.
- Are higher for whites than for other groups.
- Rise with firm size. Among firms with 50 or fewer or workers, only 28 percent of workers have access to a retirement saving plan. Among firms with more than 1000 employees, 70 percent have access to a plan.

(Insert Figure 2)

Participation rates, given coverage, are fairly high as shown in figure 3. Conditional participation rates exceed 72 percent for all worker characteristics and firm sizes, except for three categories – workers who are aged 18-24, who are in the lowest earnings quartile, or who did not complete high school. And even in those three categories, conditional participation rates exceed 50 percent. Likewise, the time series data in figure 1 show that conditional participation rates have been high and relatively steady – between 79 percent and 81 percent – since 1987. These facts suggest that expanding coverage will expand participation as well.

(Insert Figure 3)

Lack of access matters because it impedes the accumulation of retirement wealth. In a 2016 EBRI study, about 61 percent of employees with access to an employer-sponsored plan held more than $25,000 in overall (non-defined-benefit) saving balances and 35 percent had $100,000 or more. In contrast, among those without access to a plan, 87 percent held less than $25,000 and only five percent hold $100,000 or more (Helman et al. 2016).[6] [7]

Designing State-Sponsored Plans to Meet the Needs of Small Business Employees

State-sponsored retirement plans could be structured in a variety of ways to meet a state's explicit economic needs and political requirements. While two major models have been used to date, there are others that may be considered in the future. Table 1 below describes the distinguishing factors of the plans, and table 2 presents the unique advantages and disadvantages of each. The key factor is to design a plan that is practical for small businesses and the state to implement and that meets the needs of affected employers.

(Insert Table 1)

(Insert Table 2)

Secure Choice (Auto-IRA). Five states (California, Connecticut, Illinois, Maryland and Oregon) have enacted Secure Choice programs based on the Automatic IRA (see table 3; AARP 2017; Iwry and John 2009). Under these plans, states sponsor a simple and low-cost plan using a payroll deduction IRA. The programs apply to employers who do not offer any other retirement saving or pension plan. Employers face virtually no regulatory burdens or fiduciary responsibility. Most employers already use either an outside payroll provider or payroll processing software, so the cost of setting up the deduction and forwarding contributions would be minimal. Employees are enrolled automatically and can opt-out or adjust their contribution level. Contributions are invested into a target-date fund or similar vehicle, unless employee chooses to allocate funds to one of a few other basic investment options. Investment management and record keeping can be contracted to a private provider. States handle fiduciary responsibilities and state law sets consumer protections.

Secure Choice plans were developed to meet the needs of small businesses and their employees. One criticism of using a payroll deduction IRA is that contribution limits are significantly lower than in 401(k) plans. In 2017, workers under 50 can contribute up to $18,000 annually to 401(k) plans, but only $5,500 to an IRA. However, small business employees are likely to have lower median earnings than those of larger firms, suggesting lower optimal targets for wealth accumulation. In California, research shows that employees without access to a retirement plan have a median income of $23,000 (Overture Financial 2016). In addition, employers are prohibited from contributing to an IRA, further limiting the opportunity to accumulate funds. Secure Choice plans are not covered by the Employee Retirement Income Security Act (ERISA), the major federal law covering employee benefits. Thus, the strength of

employee protections in secure choice plans depends on state laws and may differ from the extensive protections guaranteed under ERISA.

The Illinois Secure Choice Savings Program was enacted in January 2015 and will take effect with a pilot program beginning in 2018. The plan will apply to all employers who have at least 25 employees, who have been in business for at least two years, and who do not currently provide a qualifying savings plan. Smaller employers can voluntarily participate (Illinois State Treasurer 2016). Employees will be automatically enrolled in a Roth IRA with a 3 percent default contribution rate.

The Oregon Saves program, enacted in 2015, will be implemented in July 2017 as a pilot program and then expanded in 2018. The plan requires all Oregon employers either to join the state Oregon Saves plan or offer their own qualified retirement plan (State of Oregon 2017). Employees will be automatically enrolled in a Roth IRA with a 5 percent default contribution rate.

California's Secure Choice program was enacted in September 2016 and will be phased in over a three-year period starting in 2019. The program will require employers who have five or more employees and who do not otherwise provide a retirement plan to automatically enroll their employees in a state-sponsored IRA overseen by the Secure Choice Retirement Savings Investment Board. The default contribution rate will begin at 3 percent of workers' payroll, with the option for the Board to implement an automatic escalation policy (automatically increase contributions by 1 percent per year, capped at a rate of 8 percent). For the first three years of the program, funds will be invested in low-risk securities such as Treasury bonds, after which more investment options will be made available (California State Treasury 2017).

The Connecticut Retirement Security Program was enacted in 2016 and will go into

effect in 2018. The plan requires employers who have five or more employees and who do not provide a retirement savings option to join the state plan. Employees will be automatically enrolled in a Roth IRA with a 3 percent default contribution rate. The initial contribution rate will be 3 percent (Connecticut sHB 5591 2016). A public-private oversight board, the Connecticut Retirement Security Authority, was established to oversee the implementation of the program.

The Maryland Small Business Retirement Savings Program and Trust was enacted in 2016 and will be implemented in 2017. The plan requires private employers who do not currently offer a retirement savings plan and who have been in business for the last two years to enroll their employees in an Automatic IRA. The program is required if an employer uses an outside payroll provider or a payroll software program. If businesses comply with the law, they receive a wavier on an annual $300 business report filing fee (Maryland General Assembly 2016). A Small Business Retirement Savings Board, which oversees the program, will select Auto-IRA plans and contribution rates.

Marketplaces. Two states (Washington and New Jersey) are in the process of implementing retirement savings marketplaces (table 3). A marketplace is a state-sponsored website that enables small businesses to find retirement saving or pension plans. The marketplace would display a diverse array of plans – including payroll deduction IRAs, IRA SIMPLEs, open MEPs, MyRA, and perhaps even 401(k) plans and defined benefit plans – from several different providers. The state can pre-screen retirement plans, ensuring that the options presented to employers meet certain pre-set standards (regarding, for example, fees), and can provide unbiased information about retirement plan options. Because the marketplace merely lists plan options, the state has no potential ERISA liability and does not take on any of the employer's

legal responsibilities. The marketplace design enables employers to determine which type of plan best meets their and their employees' needs, including whether they prefer an ERISA-covered plan. The provision of a marketplace could be coupled with a requirement that employers provide coverage, as discussed in the next section. But a marketplace, by itself, does nothing to simplify retirement saving or to reduce regulatory burdens and fiduciary responsibilities that would be placed on smaller employers.

Washington's Small Business Retirement Marketplace was enacted in 2015 and will become fully operational during 2017. Employers with fewer than 100 employees will be eligible to participate. Though they are not required to enroll, the law permits the government to provide incentives for employers to do so. The marketplace will contain a variety of low-cost savings options provides by financial services firms (SIMPLE IRA and payroll deduction IRAs, for example) and investment choices as well as access to the federal MyRA.

New Jersey enacted marketplace plan in 2016 based on Washington's model. It will be available to companies with fewer than 100 employees and participation is voluntary. The marketplace will offer a similar variety of low-cost savings options, at least two investment choices and access to MyRA (Bernard 2016).

Open MEPs. Beyond Secure Choice plans and marketplaces, states can also choose to operate an open Multiple Employer Plan (MEP).[8] No state has sponsored a MEP to date, but the New York City Comptroller's office proposed a variation of an open MEP in 2016 as part of a larger retirement savings plan (Office of the New York City Comptroller 2016). Federal regulations require employers participating in a private sector MEP to have a common bond (such as being in the same industry). State-sponsored MEPS, however, do not face this restriction; they can be open to workers from firms without a common bond. Under an 'open MEP,' several small

businesses join together to offer a common type of account to each employer's workforce. The common plan structure reduces the compliance burden and places most fiduciary responsibilities on the plan administrator. State-sponsored open MEPs could be open to any small business in the state that wants to offer its employees a retirement plan. As with the Secure Choice model, these open MEPs would use services that are contracted out to private sector providers.

Potential wealth accumulation is higher in a MEP because of the possibility of employer contributions and the use of 401(k) contribution limits. MEPs are also more likely to offer loan provisions and more diverse investment choices. Both MEPS and Secure Choice plans reduce administrative costs for small employers compared to offering a comparable retirement plan on their own. But MEPs may impose higher administrative costs and greater responsibilities on employers than IRA-based plans, since MEPs would typically offer more services and the employer must meet certain fiduciary and regulatory responsibilities under ERISA. As discussed below, participation in a state-sponsored MEP would be voluntary, as states are not allowed to require employers to offer an ERISA-regulated plan.

(Insert Table 3)

MyRA. Another option states could pursue would be to encourage workers to sign for MyRA. Established by executive order by the Obama Administration in 2015, the MyRA is a Roth IRA offered through the US Treasury and is designed to be a simple, starter account that is available to all workers. However, Roth IRA income limits apply and MyRA savers who also have other retirement accounts face overall contribution limits. The program has no fees. Funds are invested exclusively in Treasury bonds.

The accounts can be offered through an employer using payroll deduction. In addition, individuals can participate on their own using direct debit from a checking account. Savers can

also direct all or a proportion of their income tax refunds directly into their MyRA. MyRAs can travel with workers from job to job if the new employer offers the program or if the saver converts it to an individual account. When the MyRA balance reaches $15,000, the account holder must transfer the funds to a private-sector Roth IRA in order to continue contributing. To date, however, no mechanism exists to facilitate these transfers, which hampers the usefulness of the MyRA. In addition, the MyRA faces an uncertain political future with the new Treasury Secretary promising to reconsider the program. To date, participation has been limited.

Other State and Local Actions. Beyond the states discussed above, in the past few years, legislation has been introduced in the more than half of the remaining states to either establish state-sponsored retirement programs or create a commission to study them in the context of their state (Georgetown Center for Retirement Initiatives 2017). In 2012, Massachusetts' Connecting Organizations to Retirement Program (CORE) created a voluntary 401(k) program for non-profits with fewer than 20 employees. Employers can choose to adopt the plan and the state controls its administrative costs. States are also experimenting with including different plan features. For example, West Virginia and Utah have proposed Automatic IRA plans, but without a mandate that employers participate. In the first month of 2017 alone, legislators in 10 states proposed legislation to enact state-sponsored retirement savings plans or create a feasibility study.

In addition, New York City, Seattle and Philadelphia have expressed interest in creating retirement plans for local private-sector workers. New York City proposed the creation of a voluntary marketplace to access easy-to-use 401(k) plans, including a newly created publicly funded Empire City 401(k) MEP, as well as SEP-IRAs and SIMPLE IRAs. Employers who do not offer a plan on their own or through the marketplace would be mandated to enroll employees

in a new NYC Roth IRA in which the first $15,000 is invested in a MyRA account and anything above that would be put in more conventional investment vehicles (Office of the New York City Comptroller 2016). Philadelphia has proposed the creation of a working group to develop a plan, as well as a series of outreach efforts with the local community (City of Philadelphia Office of the Controller 2016).

Small Business Needs. A key factor in designing a successful state-sponsored plan is understanding why small businesses currently don't offer a plan and what reform features they support. In order for the plan to attract sufficient political support, it is imperative to have small businesses believe that the state proposal is feasible and designed to meet the needs of their workers. At the same time, the state needs to understand how small businesses will react to the proposal, and what proportion of employers that are required to offer a plan will use the state plan instead of starting their own.

The expense and complexity of small business retirement plans are major reasons why employers fail to offer them. On an asset-weighted basis, the smallest existing private sector retirement savings plans can cost as much as four times as much as larger plans (Steverman 2017). In a January 2017 survey, 37 percent of small businesses that do not offer plans said that the main reason was because it was too expensive to set up, with a total of 71 percent citing it as a factor (figure 4). Another 22 percent said the main reason was that the company did not have the resources to administer a retirement plan, with a total of 63 percent mentioning this as a reason. The focus on cost was reinforced later in the survey when small and medium-sized business owners were asked what would motivate them to offer a retirement plan and the answer that drew the largest support was an increase in profits, with a business tax credit for starting a plan coming second (Pew Charitable Trusts 2017: 3). Interestingly, the survey found that the

creation of a retirement plan with reduced administrative requirements and the availability of easy-to-understand information would have almost no effect on plan offerings, with over half of those responding saying that those factors would make them no more likely to offer a plan.

(Insert Figure 4)

However, small businesses responded positively in the survey to a mandatory retirement savings plan with features like those found in the Automatic IRA, as shown below in table 4. About 92 percent of small- to medium-sized employers expressed some level of support for enabling employees who did not have a workplace retirement plan to participate. Further, 79 percent supported the idea that employers would only have the responsibility to withhold money from an employee's pay and send it to the retirement account and 83 percent supported employers not being required to contribute. Overall, 86 percent of surveyed employers expressed some level of support for an Automatic IRA-based program. However, that support was less than enthusiastic, with 59 percent 'somewhat' supporting (figure 5).

(Insert Table 4)

(Insert Figure 5)

Features contained in an open MEP are also popular with small to medium-sized employers, with 88 percent of employers supporting allowing both employers and employees to contribute and 84 percent favoring the reduced legal liability found in an open MEP (table 5).[9] Employers also supported a marketplace, with almost 86 percent saying that it would be helpful to improve retirement savings. However, this contrasted with earlier answers stating that easy-to-understand information and a plan with reduced administrative requirements would make employers no more likely to start a plan.

(Insert Table 5)

Evaluating State-Sponsored Plans

With proper safeguards, almost any plan structure can assist workers to build some level of additional retirement security. The two features most essential to the success of state-sponsored retirement savings plans are, first, requiring an employer to offer a retirement saving option, and, second, automatic enrollment of workers into that plan.

An effective state-sponsored plan will generate several results. In addition to raising coverage and generating high participation rates among the newly covered workers, it should also induce significant contributions, provide safe and rewarding investments, require low fees, and induce responsible withdrawal patterns. Luckily, the states that have enacted Secure Choice plans have already included provisions that deal with fees and responsible initial investment choices. Several of them recognize the need for an appropriate level of contributions and have taken steps in that direction. Others have discussed responsible withdrawal options, but have recognized that this discussion must come after the plan is established.

Boosting Coverage Through Mandatory Provision. We believe that requiring employers to offer a plan would be the most effective way to increase coverage.[10] Mandatory provision rules require, generally, that all companies offer some type of retirement savings or pension plan to their workers. Firms that offer 401(k)s or DB pension plans already meet that requirement. Those who do not would have to either establish such a plan or offer their employees access to a state-sponsored retirement saving plan. Under federal law, required coverage can only apply to an IRA-based retirement plan; states are forbidden from requiring employers to establish an ERISA-regulated retirement plan.

There is some evidence that a state-sponsored plan without a required offering is less likely to raise coverage significantly. For example, only about 20,000 people have enrolled in

the nationwide MyRA program as of the end of 2016 (Lobosco 2016). Even with much more promotion, a voluntary program is unlikely to encourage employers who are mainly concerned with running a business to open a retirement plan for their employees.

Small businesses do have concerns about a state government's involvement in retirement saving, expressing much stronger support for a plan sponsored and administered by a private sector provider such as an insurance company or mutual fund company than a plan administered by the federal government or a state government. As a result, employers split almost 50-50 between those who would participate in the state-sponsored plan and those who would start their own retirement plan (Pew Charitable Trusts 2017: 8).

However, we do not believe that it would be effective for states to require small-to-medium businesses to offer a payroll deduction IRA or their own plan and then to leave it to the private sector for everything else.[11] While eventually competition would likely cause a drop in the cost of those plans, the initial high prices would undermine support for the program. As a result, states should pair the requirement to offer a plan with a low-cost state-sponsored payroll deduction IRA that can provide a simple retirement savings plan at minimal cost.

Boosting Participation Rates Through Automatic Enrollment. In a traditional DC plan or IRA, individuals are not enrolled unless they specifically sign up to participate, designate a contribution level, and allocate contributions to investment vehicles. Under automatic enrollment, eligible workers are placed in the plan, saving a pre-determined amount in a pre-set investment option unless he or she decides otherwise. Despite their initial enrollment in the plan, savers always have complete control and can choose at any point to opt-out or change their contribution levels or investment allocation.

Automatic enrollment is essential to create the needed participation by newly covered

employees. While studies in the US and other countries show the value of automatic enrollment, adoption of the feature is voluntary for employers, and it is predominantly offered by larger companies.[12] However, a new United Kingdom program is similar to the various state proposals and offers data on the effects of a universal automatic enrollment system.[13] Under the UK reforms, all employers will eventually be required both to offer a retirement plan that meets minimum contribution levels and to provide automatic enrollment of their workers. The reforms are being phased in over several years ending in 2019. The current experience with the smallest businesses is especially valuable for understanding the potential effects of state-sponsored retirement plans.

An annual UK government evaluation of the automatic enrollment reforms shows a substantial increase in both retirement plan coverage and participation at all incomes, ages, genders, employer sizes and among both full-time and part-time workers (Department for Work and Pensions 2016). Overall, almost seven million workers have been automatically enrolled at almost 300,000 UK employers and 265,000 who opted out the first time have been re-enrolled.

Participation has been very high, but varies by age, working hours and employer size (James 2017). Opt-out rates range from about eight percent at the largest employers to roughly 11 percent at employers with 50-99 employees. However, the proportion climbs to 17 percent for the smallest employers with 19 employees or less. About 90 percent of full-time employees participate compared with an average of 82 percent for part-time workers. About 93 percent of employees under age 30 participate, compared to 91 percent of those between 30 and 49, and only 77 percent of workers over age 50.

Estimates suggest that, controlling for other factors, automatic enrollment is responsible for a 37-percentage point increase in overall participation (Cribb and Emmerson 2016).

Automatic enrollment is especially effective in increasing participation among younger workers, with a 52-percentage point increase in workers age 22 to 29, and 37 percent in workers age 30 to 39. It also has a major effect on low-to-moderate income workers, with an increase in participation of 54 percentage points among those with earnings in the lowest earnings quartile and 46 percentage points among those in the second quartile.

These findings, combined with polling of automatically enrolled workers in the United States that shows wide support for the mechanism even among those who have opted out makes a compelling case for including the mechanism in state-sponsored retirement savings plans (Retirement Made Simpler 2009).

Conclusion

Although there is near universal agreement that coverage rates for American workers are insufficient, state-sponsored retirement savings plans are only beginning to grow. Five states are implementing Secure Choice plans and two are implementing marketplaces, with the programs set to be fully phased-in over the next few years. These numbers are expected to grow in the near future as other states consider establishing a state-sponsored plan.

We believe the most important determinants of the programs' ability to reach their potential factors are straightforward: requiring firms to offer either the state plan or their own plan; and automatically enrolling workers. In principle, these two features matter more than whether the underlying account uses an IRA or a 401(k). As a practical matter, however, federal regulations forbid states from requiring employers to offer ERISA-regulated plans, making an IRA-based state program the only option consistent with mandatory provision.

Enabling all Americans to save for retirement from the day they go to work until the day that they fully retire has been discussed for decades. The plans offer great potential to raise

coverage, participation, and retirement wealth accumulation among a broad swath of the American work force. In order to reach this potential, states should pursue mandatory provision and automatic enrollment as part of whichever overarching program they pursue.

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Endnotes

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[1] For example, The Obama Administration included an Auto IRA proposal in every budget. The most recent auto IRA proposal by the Administration would require employers with more than 10 employees who have been in operation for over two years to enroll employees in a Roth IRA with a three percent default contribution rate. Employers with fewer than 100 employees who do so would receive a temporary tax credit for $1,000 for up to three years in addition to an annual credit of $25 per employee (up to $250) for six years (Office of Management and Budget 2017). Members of Congress also proposed bills that mandate employers to offer an Automatic IRA in each of the last six years. In the current legislative session, the American Savings Account Act of 2017 (H.R. 1083) would automatically enroll private sector workers without access to a retirement savings plan into a newly created American Savings Account, similar to the Thrift Savings Plan currently offered to government employees. Additionally, Members of Congress proposed acts to decrease barriers to the formation of MEPs in the private sector (H.R. 854; H.R. 6396) and acts to authorize the creation of state sponsored MEPs (S. 3389).

[2] Additional DOL regulations gave certain cities similar powers. Seattle, Philadelphia and New York City wrote letters of interest to the DOL asking whether their 2015 ruling that cleared the way for states to enact state-sponsored retirement plans also applied to cities. DOL responded by clarifying that a political subdivision qualifies if they meet three criteria: (1) state law gives them the authority to require employers' participation in payroll deduction savings programs; (2) the political subdivision has a population that is at least the size of the least populous state (currently Wyoming, with 600,000 residents); and (3) the state in which the subdivision is located cannot already have a statewide retirement program for private-sector employees.

[3] The regulations clarify that if states offer an Auto IRA under certain conditions, the plans do not fall under the Employee Retirement Income Security Act (ERISA). Although the states now working on such a plan believe that the regulations are very helpful in avoiding a legal challenge, they also believe that they have legal authority under earlier, less explicit law and regulations.

[4] A study by Segal Consulting estimated that if all states sponsored a retirement savings program, taxpayers would save $5 billion over the first decade in Medicaid costs and that these savings would continue to increase over time. 15 states have the potential to save over $100 million each over the first decade (Segal Consulting 2017).

[5] Participation and coverage information presented in this section is adapted from a Government Accountability Office (2015) analysis of data from the Census Bureau's Survey of Income and Program Participation (SIPP). We define retirement plan coverage (synonymous with access) as being an employee aged 18 or older who works for an employer who provides a retirement plan and is eligible for that plan. Since GAO does not report trends in coverage, we use data from Copeland (2014). This EBRI report presents Current Population Survey data on retirement plan participation and coverage over time for workers ages 21 to 64.

[6]EBRI defines 'having a retirement plan' as having an IRA, DB or DC plan. The value of assets reported contains all investments except for the value of the respondent's primary residence and DB plan assets.

[7] Although workers without an employer-based plan can contribute to Individual Retirement Accounts (IRAs), very few do.

[8] MEPs can be either open or closed. Under a closed MEP, all businesses that enter the plan must be have some common interests (such as being in the same industry). An open MEP has greater

flexibility in the types of businesses that it includes. All MEPs considered by the states are open MEPs because they would allow any business that employs residents of that state to join.

[9] While the employers like the ability to contribute if they so choose, they also do not want to be required to do so. This is reflected in the Automatic IRA question.

[10] Whether this requirement applies to all employers in the state or only to employers with more than a certain number of employers is a political decision.

[11] Similarly, the United Kingdom found that relying on competition alone to reduce fees and create effective retirement products would not be effective as many employers would not have enough information to choose a provider that offered good value. See: http://webarchive.nationalarchives.gov.uk/20131101164215/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505

[12] See, for example, Madrian and Shea (2001) and Chetty et al. (2013).

[13] A key difference is that the UK is also phasing in the contribution level. Initially, employers and employees only contribute one percent of earnings each. This two percent total initial contribution is close to the usual three percent initial contribution in the United States. By April 2019, that will climb to a total of eight percent of earnings. Also, the UK system exempts lowest income workers and does not collect contributions on the first GBP 113 of weekly earnings.

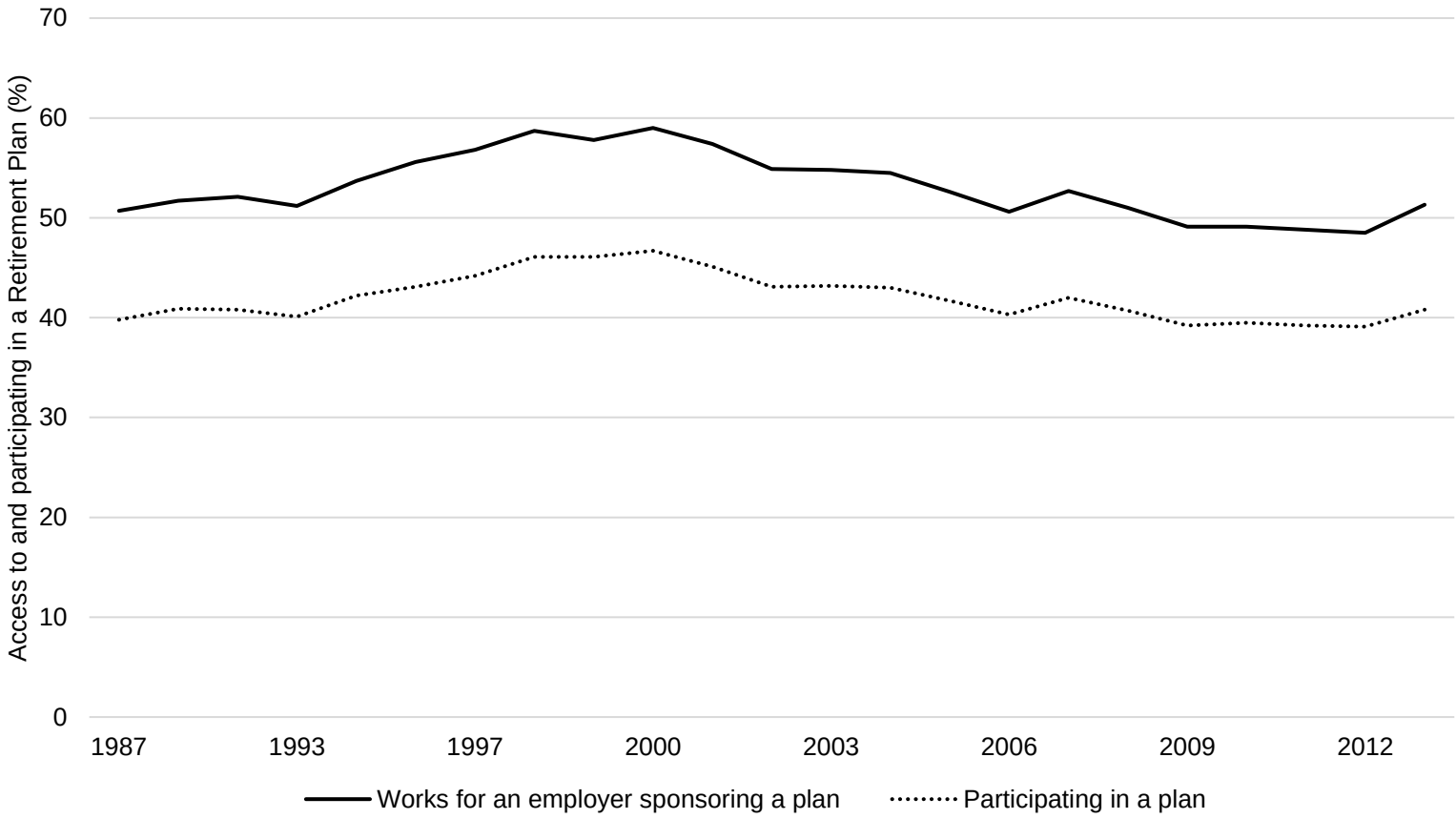

Figure 1. Access and participation in employer sponsored retirement plans, 1987 to 2013 (private sector workers ages 21 to 64).

Source: Copeland (2014).

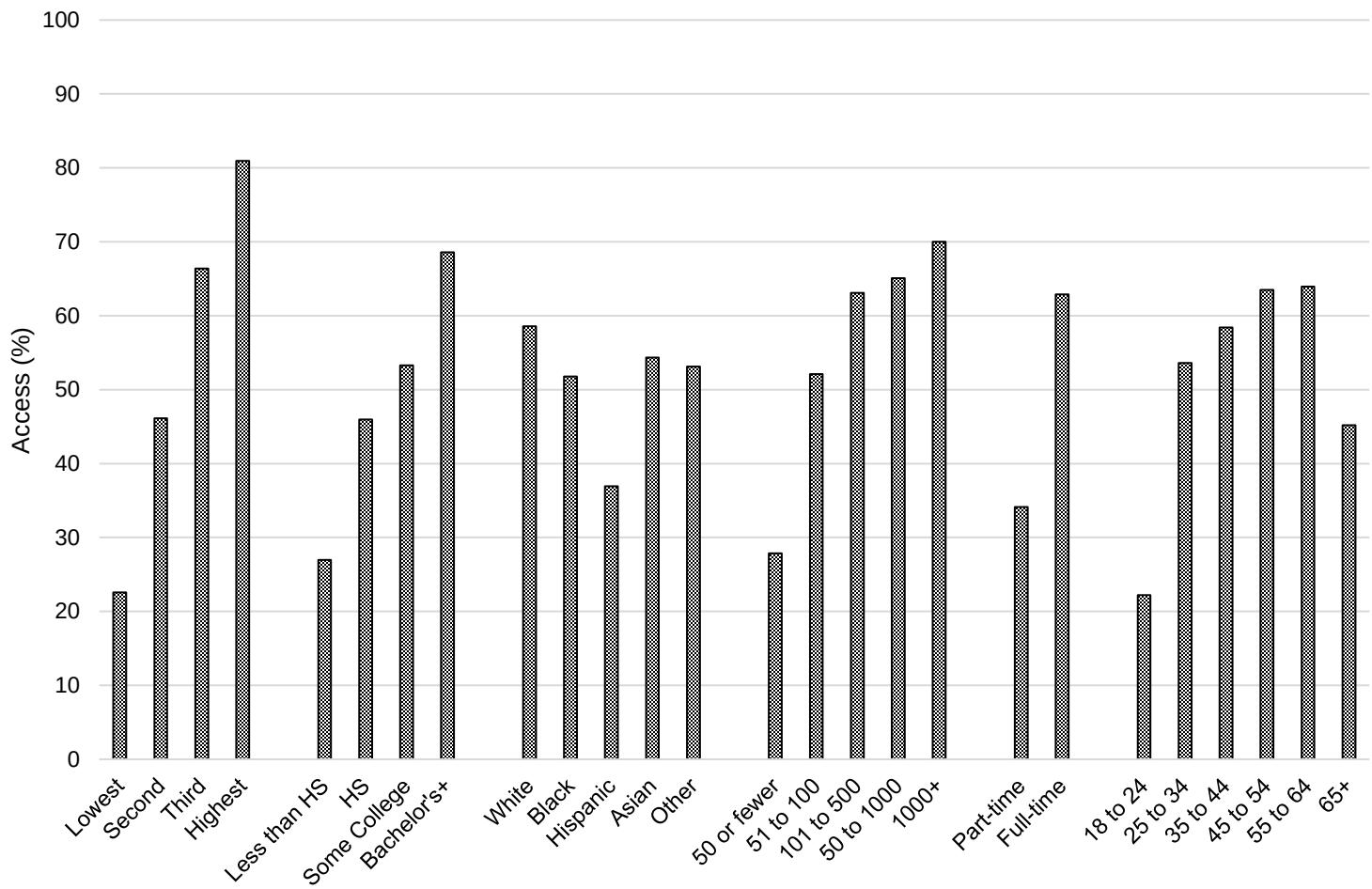

Figure 2. Retirement plan Access by selected demographics.

Note: Access is defined as working for an employer who offers a retirement plan and being eligible for that plan.

Source: GAO (2015) analysis of 2012 SIPP data.

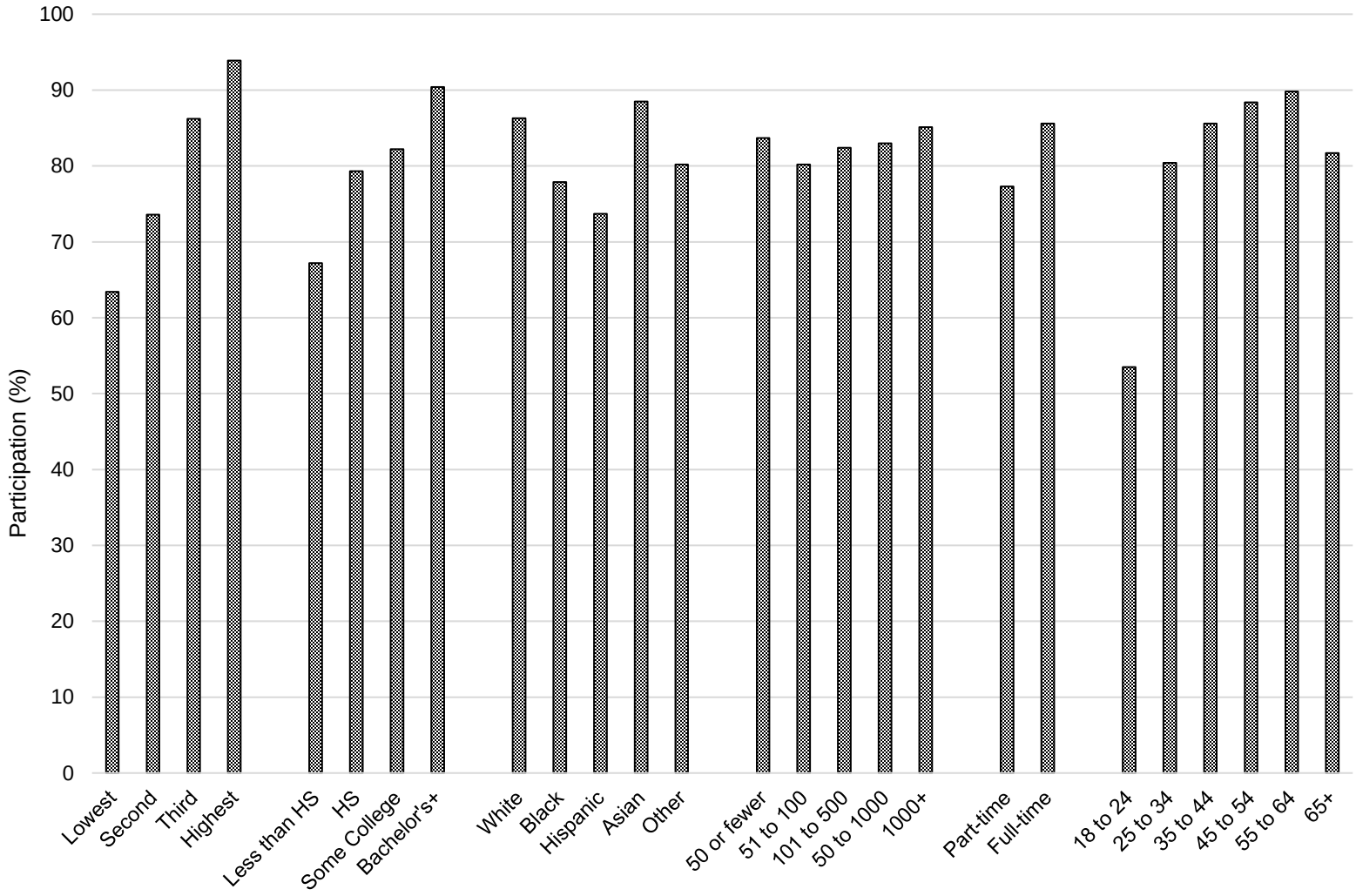

Figure 3. Participation in a retirement plan conditional on access.

Source: GAO (2015) analysis of 2012 SIPP data.

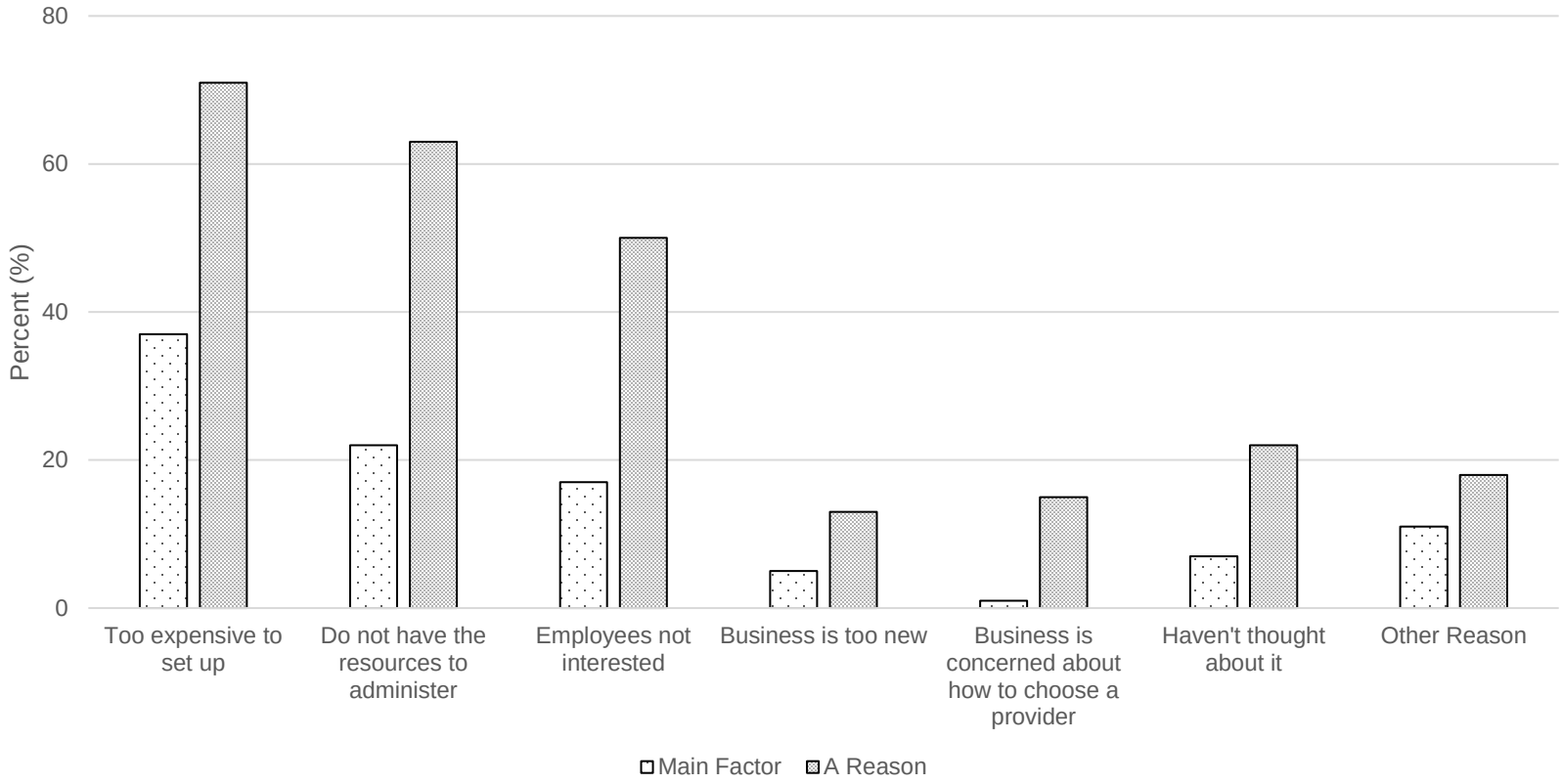

Figure 4. Reasons small and medium sized businesses don't offer retirement plans.

Note: Survey data is directly from source attributed below. The study authors surveyed owners of small and medium sized business without retirement plans in place about their views on implementing such a plan.

Source: Pew Charitable Trusts (2017), Figure 1.

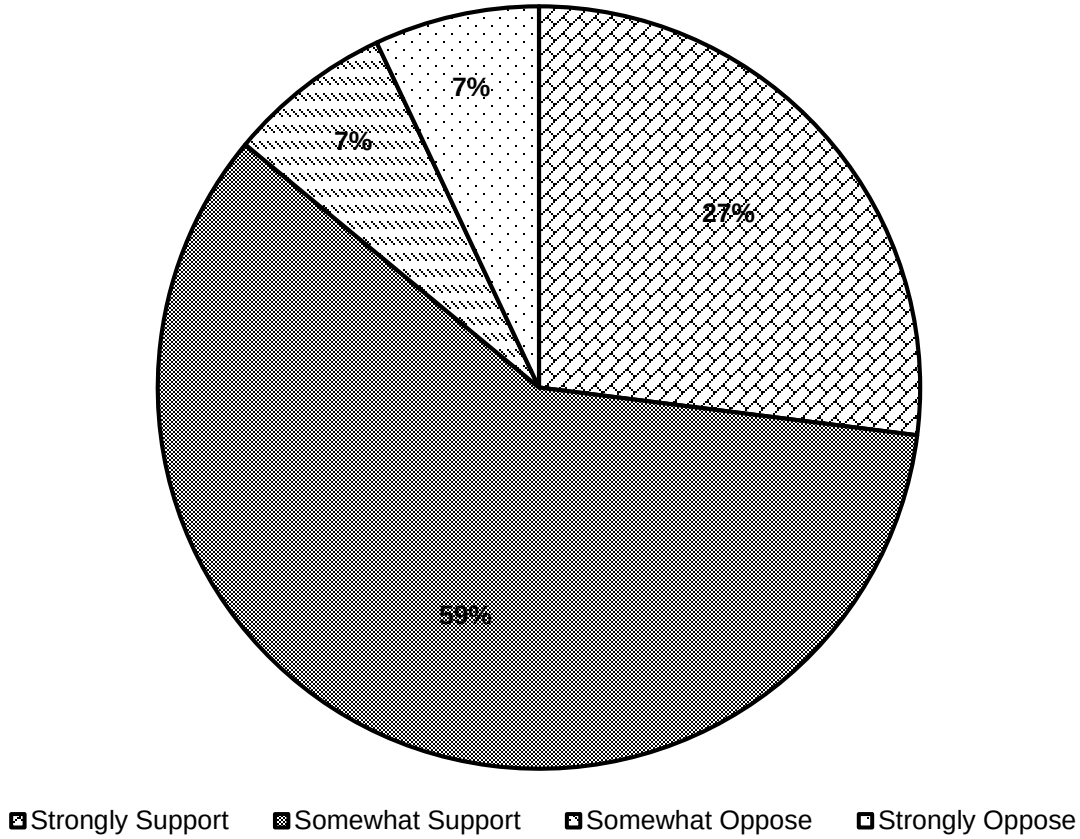

Figure 5. Support for an auto IRA plan.

Note: Survey data is directly from source attributed below. The study authors surveyed owners of small and medium sized business without retirement plans in place about their views on implementing such a plan.

Source: Pew Charitable Trusts (2017), Figure 3.

Table 1. Comparison of state retirement plan structures

	Auto-IRA	Open MEP	Marketplace	MyRA
Account Structure	Payroll deduction IRA (Traditional or Roth)	401(k) or other DC plan	Varies. May include SIMPLE IRAs, auto IRAs, Roth IRAs, 401(k), MyRA	Roth IRA
Employer Participation Requirement	Yes	No	No	No
Employer Contribution	No	Allowed	Allowed	No
Contribution Limits	$5,500 annually ($6,500 if over 50)	Same as for a 401(k): $18,000 annually ($24,000 if over 50)	Depends on account type	$5,500 annually ($6,500 if over 50). After $15,000 must rollover into private Roth IRA
ERISA Coverage?	No	Yes	Marketplace itself is not covered but individual plans may be	No

Table 2. Advantages and disadvantages to retirement plan types

	Secure Choice (Auto IRA)	Open MEP	Marketplace	MyRA
Advantages	• Simple and low-cost • Employers have virtually no regulatory burden or fiduciary responsibility • Easy to change contribution amounts • Employees do not need to take action to participate and maintain complete control over their account	• Allows employer contributions • Higher contribution limits • ERISA protection • More likely to have additional investment and financing options • Lower regulatory burden for employers • Streamlined compliance at the state level • Can use auto-enrollment	• Allows the state to pre-screen retirement plans to ensure they meet certain standards • Can provide high quality information about retirement alternatives • Employers can choose their level of involvement • State does not have any involvement with ERISA	• Good way for new savers to get in the habit of saving • Simple and easy to understand • Limited to no risk of loss • No fees • National program is available to everyone
Disadvantages	• Low contribution limits • No employer matches • Strength of employee protections depends on state law • Plans in different states may have different rules	• May impose higher costs and more responsibilities on employers than IRAs • Employer must ensure fiduciary responsibilities are handled by provider	• No direct incentive for employers to adopt a retirement savings plan (will do little to raise coverage). • Does nothing to simplify retirement saving or reduce regulatory burdens for small employers • Needs an enforcement mechanism to ensure that plans continue to be adequate	• Low maximum size • No real potential for contributions to grow • No mechanism to roll over account to a private provider once maximum size is reached • Uncertain political future

Table 3. Comparison of state retirement plan actions

	California	Illinois	Oregon	Maryland	Connecticut	Washington	New Jersey
Date Enacted	September 29, 2016	January 5, 2015	June 25, 2015	May 10, 2016	May 27, 2016	May 18, 2015	January 19, 2016
Date to be Implemented	Bill effective January 1, 2017. Implementation in 2018 or later.	Effective June 1, 2017. Participants must be able to enroll within two years and employers have 9 months after that to set up automatic payroll deposits. Phased enrollment	Individuals may begin to make contributions beginning July 1, 2017	Act takes effect July 1, 2016	January 1, 2018	January 1, 2017	Not specified
Plan Type	Auto IRA	Roth IRA	Roth IRA	At least one payroll deposit IRA	Roth IRA	Marketplace containing selection of: SIMPLE IRA, myRA, auto IRA and/or 'life insurance plans for retirement purposes'	Marketplace containing selection of: SIMPLE IRA, myRA, auto IRA and/or 'life insurance plans for retirement purposes'

Table 3. Comparison of state retirement plan actions (continued)

	California	Illinois	Oregon	Maryland	Connecticut	Washington	New Jersey
Automatic Enrollment	Yes	Yes	Yes	Yes	Yes	Not required	Not required
Default Contribution Rate	3% (Board can adjust from 2% to 5%), option for auto-escalation at no more than 1% per year until rate reaches 8%.	3%	5% standard rate, 1% minimum and no maximum	Not specified	3%	None Specified	None Specified

Table 4. Individual features of an auto IRA that business owners support

	'Somewhat support' or 'Strongly Support' (%)[a]
Businesses' only responsibility would be to withhold money from participating employees' paychecks and send it to the retirement account on their behalf.	79%
Businesses would not be required to contribute to the plan.	83%
Businesses would not have any legal responsibility for their employees' retirement accounts.	86%
Employees who don't have access to a retirement savings plan at their work would be offered the chance to participate in one.	92%
By default, workers would contribute to the retirement savings account unless they took action to opt out of the program.	72%
Employees could stop or change their contributions at any time.	92%
As a starting point, participating employees would contribute a set amount of three percent of their paychecks to the retirement account.	79%
As a starting point, participating employees would contribute a set amount of six percent of their paychecks to the retirement account.	69%
Employees could withdraw their own contributions to the account at any point without a penalty.	82%

Notes:

a. Survey data is directly attributable to the source below. The study authors surveyed owners of small and medium sized business without retirement plans in place about their views on implementing such a plan. For this question, employers were asked to indicate their support for features of a hypothetical retirement plan similar to an Auto IRA that would be sponsored by an outside organization and not a business like theirs.

Source: Pew Charitable Trusts (2017), Table 1.

Table 5. Individual features of a MEP that business owners support

	'Somewhat support' or 'Strongly Support'(%)[a]
Several businesses could adopt a group retirement savings plan run by their state treasurer's office	55%
Both employers and employees could make contributions	88%
Employers and employees have some choice in how to invest their contributions	92%
The state would handle record keeping, financial reporting, and communication for the plan	57%
Employers would have reduced legal liability compared with operating their own plan	85%

Notes:

a. Survey data is directly attributable to the source below. The study authors surveyed owners of small and medium sized business without retirement plans in place about their views on implementing such a plan. For this question, employers were asked to indicate their support for features of a hypothetical retirement plan similar to a MEP that would be sponsored by an outside organization and not a business like theirs.

Source: Pew Charitable Trusts (2017), Figure 5.