

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

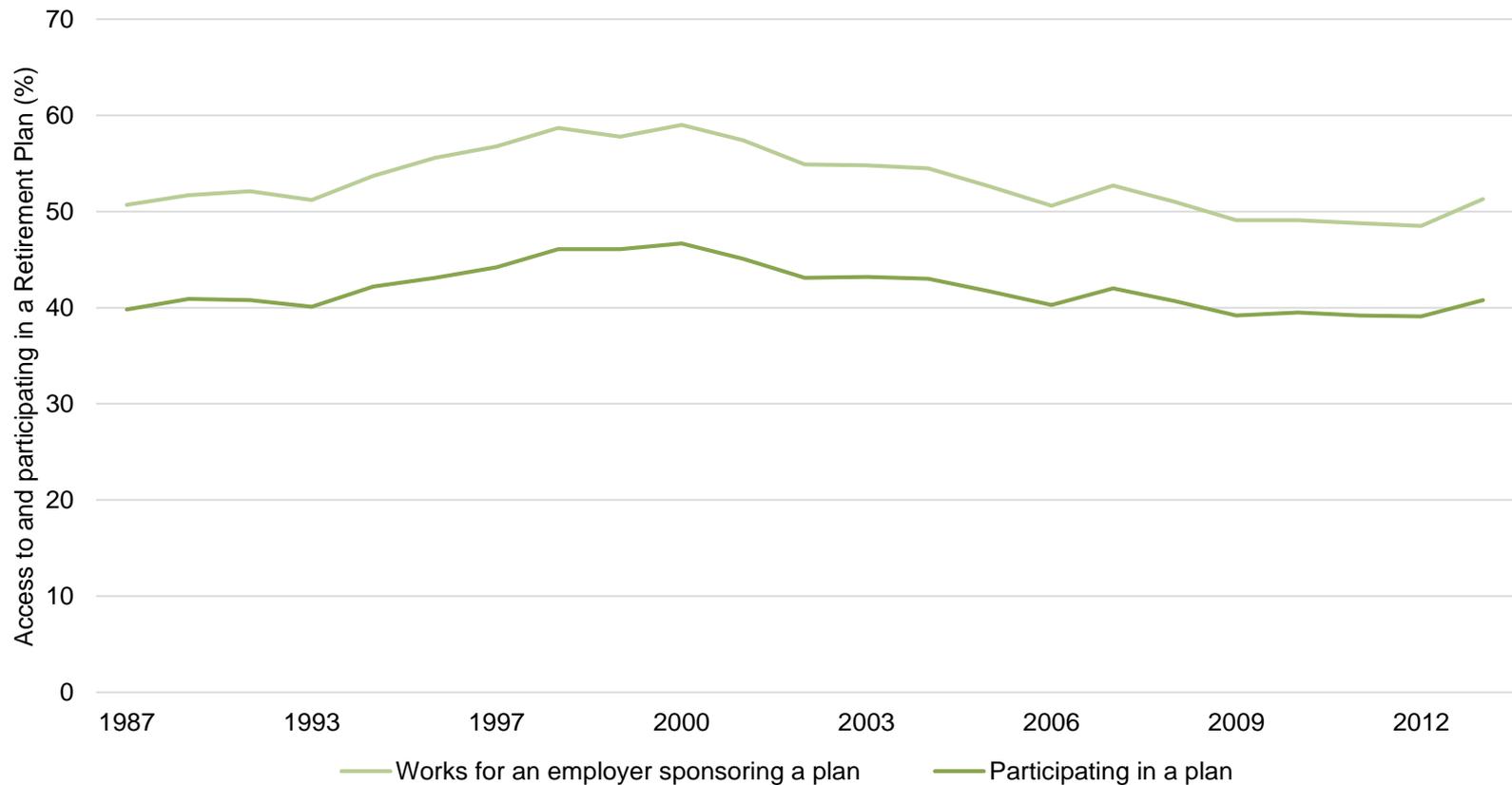
May 5, 2017

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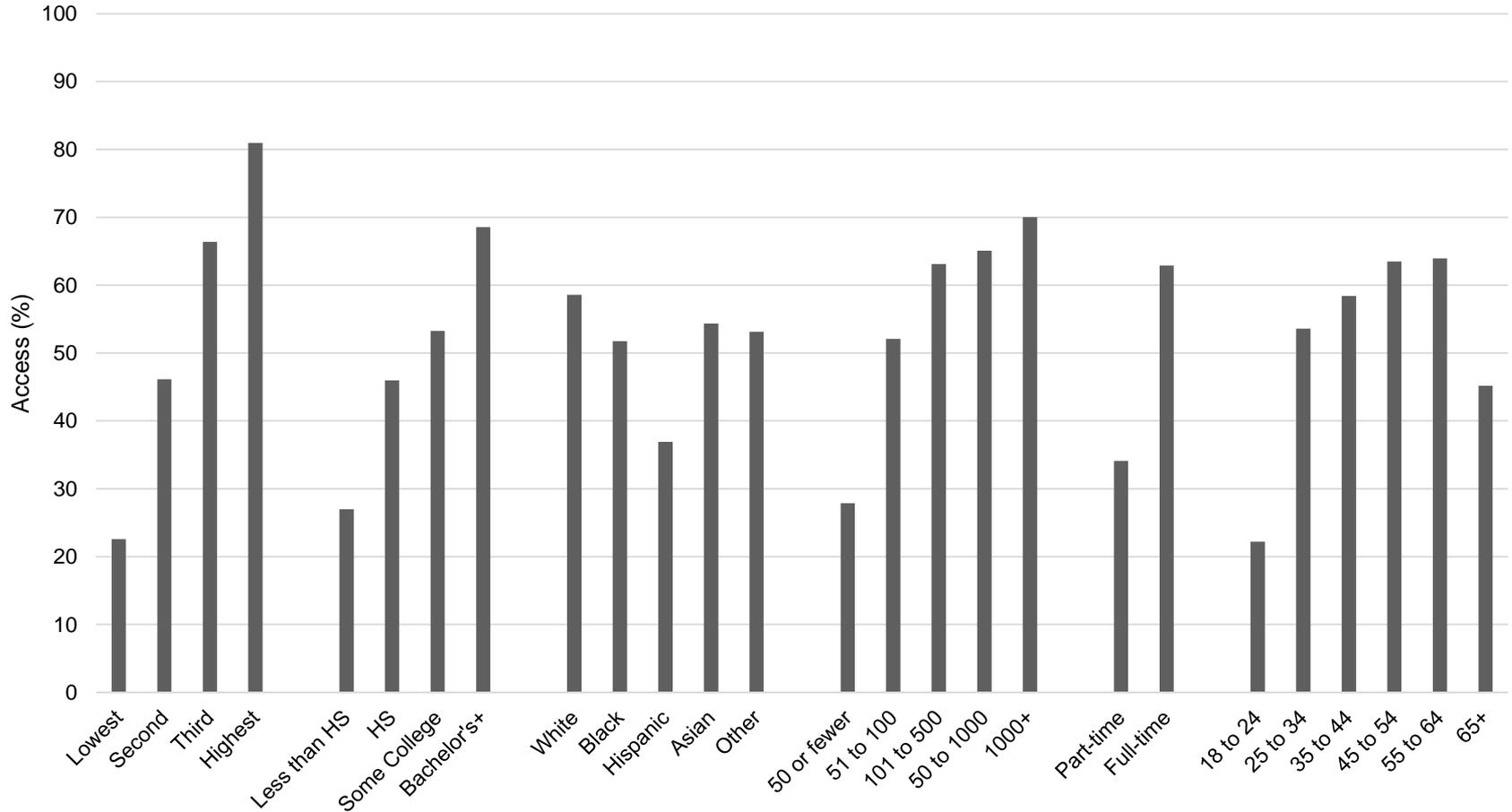
Pension Research Council Symposium,  
“Saving and Retirement in an Uncertain Financial Environment”

# Access and participation in employer sponsored retirement plans, 1987 to 2013 (private sector workers ages 21 to 64). Source: Copeland (2014).



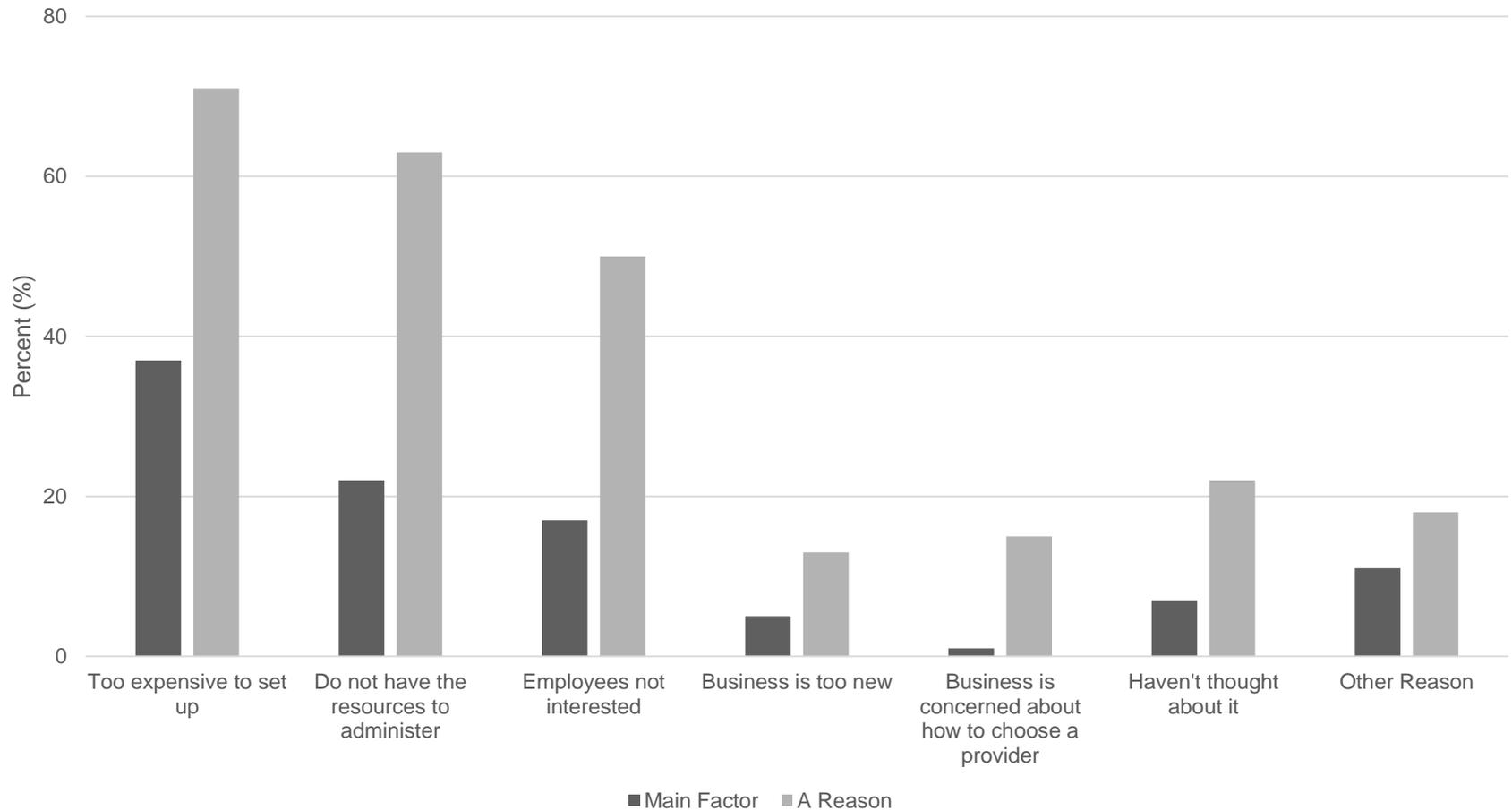
# Retirement plan Access by selected demographics.

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



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

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



# MORE THAN 30 STATES HAVE TAKEN ACTION SINCE 2012

[cri.georgetown.edu/states/all-states/](http://cri.georgetown.edu/states/all-states/)



Source: Georgetown University's Center for Retirement Initiatives

-  = legislative proposal and/or study in 2016
-  = laws enacted (2012-present)
-  = recent state efforts (2012-2015)

# Covered Businesses

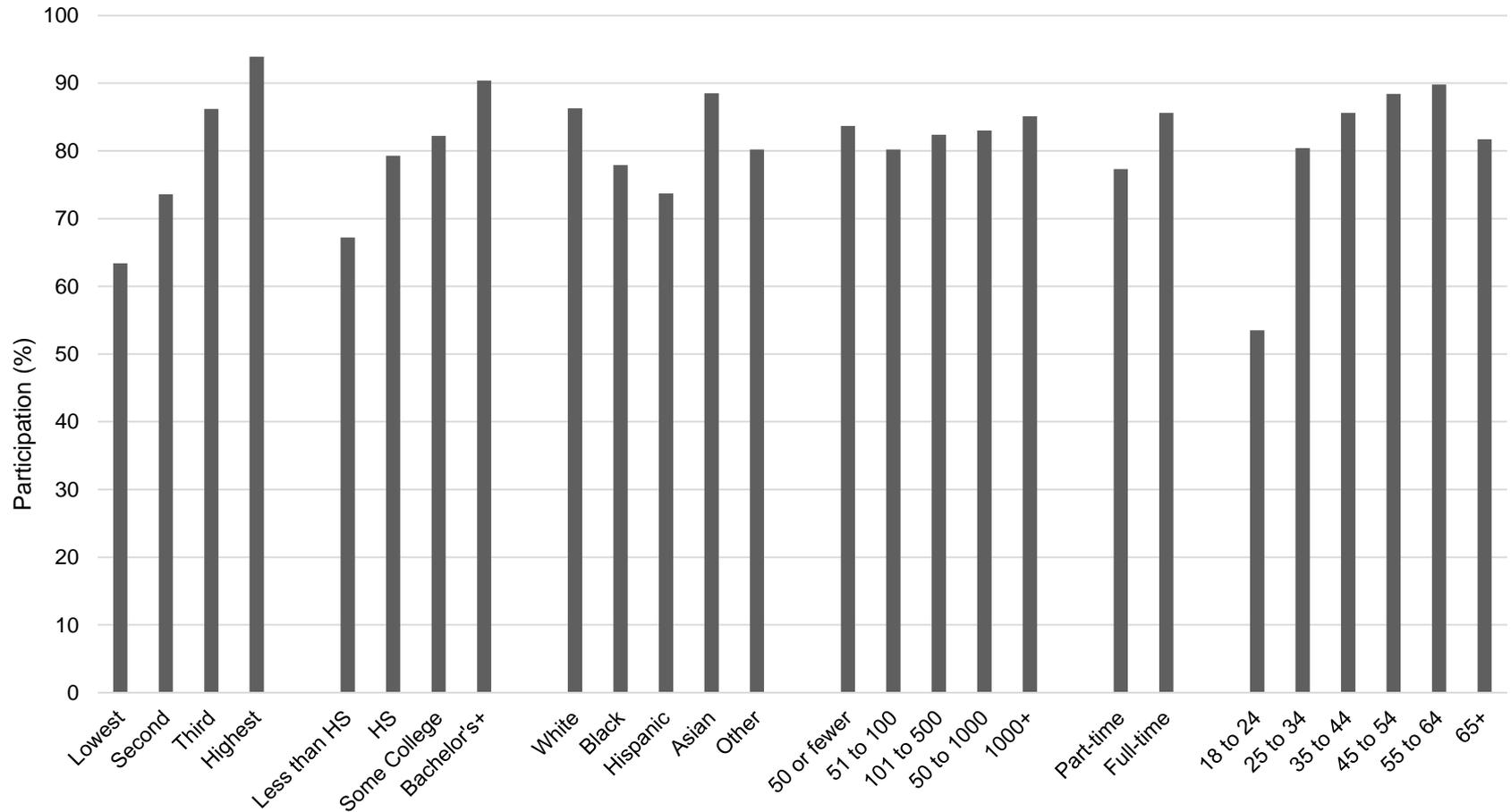
- Auto IRA: Employers with 10+ employees
- California: All employers, phased in over three years
- Connecticut: Employers with 5+ employees
- Illinois: Employers with 25+ employees
- Maryland: Employers using a payroll system or service
- Oregon: All employers

# Default Contribution Amounts

- Auto IRA: 3%
- California: 3%, auto-escalated up to 8%  
Board may set at between 2% and 5%
- Connecticut: 3% (was 6% initially)
- Illinois: 3%
- Maryland: Set by board (was 3%)
- Oregon: Board sets & can allow auto-escalation

# Participation in a retirement plan conditional on access.

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



# Voluntary Does Not Work - 1

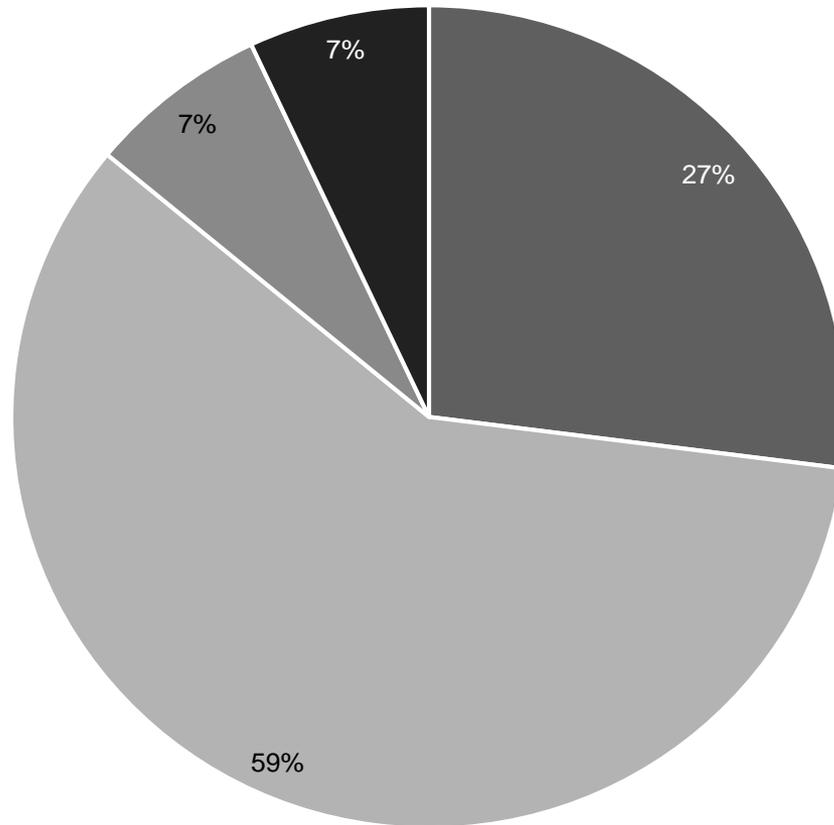
The Pew survey found that the creation of a retirement plan with reduced administrative requirements and the availability of easy-to-understand information would have almost no effect on plan offerings, with over half of those responding saying that those factors would make them no more likely to offer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

# Voluntary Does Not Work - 2

- Only about 20,000 people have enrolled in the nationwide MyRA program as of the end of 2016 (Lobosco 2016).

# Support for an Auto IRA plan

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



■ Strongly Support   ■ Somewhat Support   ■ Somewhat Oppose   ■ Strongly Oppose

Table 3b

## Nearly 90% of Employers With Plans Would Not Switch to State Auto-IRA

Yes	13%
No	87%

Table 3a

## Employers Without Plans Split Between Using a New State-Sponsored Retirement Savings Program or Offering Their Own Plan

<b>Use this new plan</b>	49%
<b>Start your own plan</b>	51%

# US - Auto by Age & Income

Automatic enrollment: The power of the default, Vanguard 1/15/2015

*Employees hired 1/1/2010 through 12/31/2012 as of 6/30/2013*

Income Level	Voluntary	Auto
Under \$30,000	22%	87%
30,000 – 49,999	41	90
50,000 – 75,000	49	93
<b>Age</b>		
Under 25	26%	90%
25 – 34	43	91
35 – 44	47	91

# UK Participation Rates

*Source: James 2017*

- By employer size, 92 percent participate at the largest employers compared with 89 percent at employers with 50-99 employees and 83 percent for employers with 19 employees or less.
- 90 percent of full-time employees participate compared with an average of 82 percent for part-time workers.
- 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

# UK Effect of Auto Enrollment

*Source: Cribb and Emmerson 2016*

- Controlling for other factors, automatic enrollment is responsible for a 37-percentage point increase in overall participation.
- Among younger workers, there is a 52-percentage point increase in workers age 22 to 29, and 37 percent in workers age 30 to 39.
- Low-to-moderate income workers show a 54 percentage point increase in participation in the lowest earnings quartile and 46 percentage points among those in the second quartile.

# Plan Design is Important, but Secondary

- Mandatory provision and automatic enrollment are essential.
- Both work with Auto IRA, Multiple Employer Plans (MEPs), 401(k) plans, and myRA.
- BUT, a state may not require an employer to offer an ERISA plan such as a 401(k) or a MEP.
- Thus, states need to include an Auto IRA for their plan to succeed.

“Politics is the art of the possible, the attainable — the art of the next best”

– Otto von Bismarck