

State Initiatives to Close the Retirement Savings Coverage Gap for Private Sector Workers

Presentation to
Investments and Pensions Oversight Committee
New Mexico State Legislature
October 31, 2016

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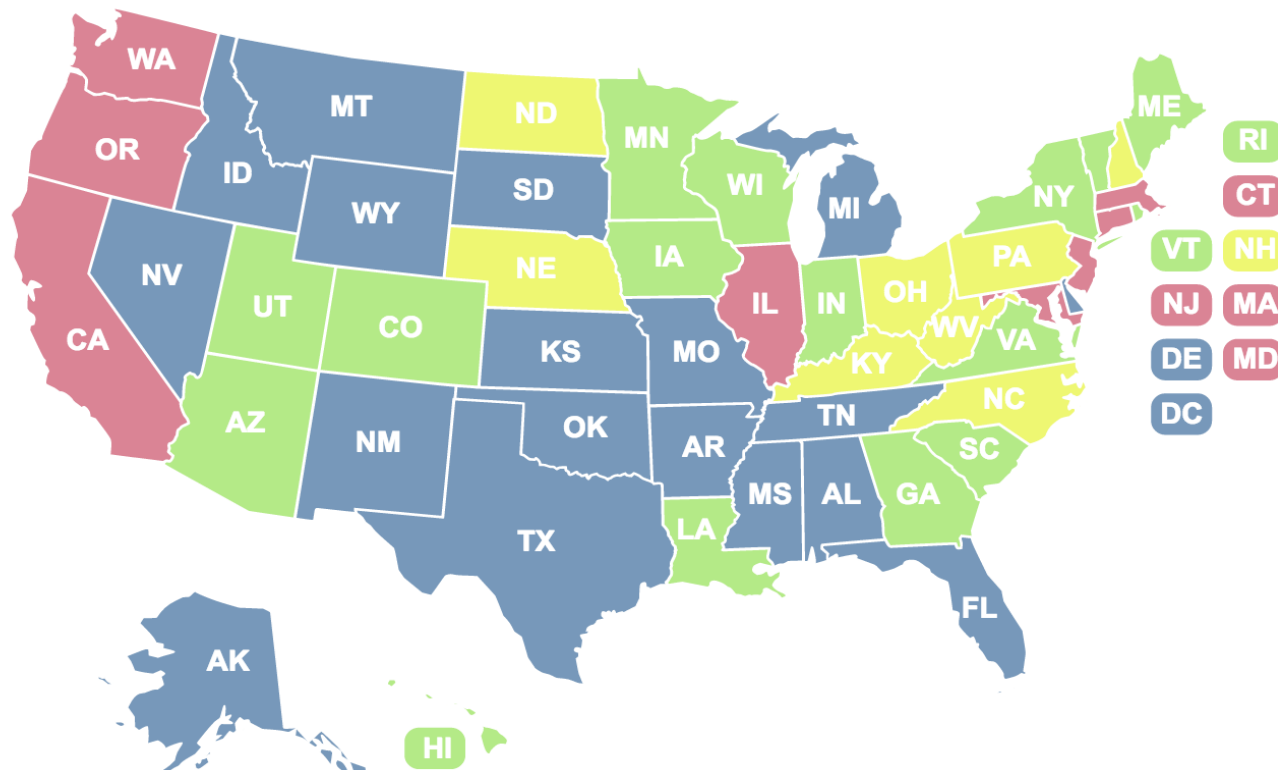
Why Are States Acting?

- Top financial concern
- Too little saved and Social Security isn't enough
- More than half of private sector workers are uncovered
- Long-term budget consequences
- Long-term economic consequences

From Crisis to Opportunity

- For Innovation and Leadership Look to the States
- States Are Stepping Up To Address Retirement Security
- Goal To Design Simple, Low-Cost, Easily Accessible and Effective Savings Options

Since 2012, More Than 30 States Have Considered or Enacted Private Sector Retirement Initiatives



Source: Georgetown University's Center for Retirement Initiatives

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

The States Are In Various Stages of Planning and Implementation

States – Program Enacted (8)

MASSACHUSETTS (2012)

ILLINOIS (2015)

OREGON (2015)

WASHINGTON (2015)

CONNECTICUT (2016)

MARYLAND (2016)

NEW JERSEY (2016)

CALIFORNIA (2012/2016)

States/Metro – Study (6)

MARYLAND (2014-2015*)

MINNESOTA (2014)

OREGON (2013-2014*)

VERMONT (2014)

NEW YORK CITY (2015)*

UTAH (2015*)

VIRGINIA (2015)

NEW YORK STATE (2016)

PHILADELPHIA (2016)

* COMPLETED

States/Metro – Legislation in 2016 (17)

ARIZONA

COLORADO

GEORGIA (S)

HAWAII (S)

INDIANA (2) (S)

IOWA

LOUISIANA

MAINE

MASSACHUSETTS (2)(S)

MICHIGAN

NEW JERSEY (2)

NEW YORK

PENNSYLVANIA

RHODE ISLAND

SOUTH CAROLINA (S)

UTAH

WISCONSIN

8 other states in prior years have considered legislation
(S) – Study bill

How Would ERISA Apply to State Initiatives?

- ❖ States wanted clarity on whether and how ERISA would apply to these state-sponsored retirement savings plans.
- ❖ The President encouraged the Department of Labor (DOL) to issue rules to "Provide a Clear Path for States to Create Retirement Savings Programs" on July 31st, 2015.
- ❖ DOL issued two policy documents:
 1. A [Final Rule](#) on August 30, 2016 creating a new safe harbor allowing state sponsored mandatory auto-enroll IRA to be exempt from ERISA. At same time, DOL also published a new [proposed rule](#) to allow state political subdivisions (e.g., cities) to establish such programs. DOL expects to finalize the "city" rule by the end of 2016.
 2. An [Interpretive Bulletin](#) (IB) in November 2015 for ERISA covered plans –MEPs, Prototype Plans, and Marketplace. The proposed guidance allows for a state open Multiple Employer Plan (MEP) arrangement by the state to facilitate plan formation and take burden off of employers, but maintain ERISA protections. DOL would extend this guidance to state political subdivisions.

8 States – 3 Models Adopted So Far With Ongoing Innovation

1. ERISA-exempt – Auto-IRAs (CA,CT,IL,MD,OR)
2. ERISA-covered – 401(k) Prototype (MA)
3. ERISA-products – Marketplace (WA,NJ)

Other Possible Options:

- ERISA-covered –State Open Multiple Employer Plans (MEPs)
- Others being designed consistent with federal Department of Labor guidelines (e.g.,hybrid combinations)
 - ❑ New York City – October 2016 study group report recommends a voluntary 401(k) marketplace including a state-sponsored 401(k) MEP. Employers that do not select a plan on their own would then default into a state-sponsored Roth auto-IRA program.

AUTO-IRAs*

CA, CT, IL, MD, OR

- Mandatory, auto-enroll (with opt-out)
- Default contribution
- Employer contributions generally not permitted (would trigger ERISA)
- Pooled and professionally managed funds
- Must keep fees “low” (.75%-1% range)
- Market analysis and legal analysis to guide design and management issues

*General program characteristics with variations and administrative discretion to shape final program (see CRI's Comparison Charts for program details).

MARKETPLACE

Washington, New Jersey

- Managed by State Agency.
- Voluntary participation for employers with less than 100 employees.
- 401(k), SIMPLE IRA, myRA (Roth IRA), and payroll deduction IRAs and others can be added.
- Employer contributions encouraged (ERISA plans encouraged).
- To be built and funded by private sector.
- Participation providers must offer at least two product options.
- Fees cannot exceed 1%.

Prototype 401 (k) Massachusetts

- Managed by the State Treasurer
- Targeted to expand access for employees of non-profit organizations
- Voluntary participation by non-profit employers with 20 or fewer employees
- Defined contribution 401(k) plans
- Auto-enroll with opt-out.
- Default contribution at 6% or can choose 4% with auto-escalation up to 10%.
- Fees estimated to be well under 1% (20-80 bps).

Comparison of Plan Design Options & Features

- Comparison of Plan Design Options and Features
- Comparison of Plan Design Features
CA, IL, OR, MD and CT (ERISA-exempt)
- Comparison of Plan Design Features in
WA, NJ and MA (ERISA)

<http://cri.georgetown.edu/state-briefs/>

Key Plan Design Considerations*

- Voluntary or mandatory participation
- Role and responsibilities of the state
- Role and responsibilities of employers
- Types of employers and workers covered
- Types of products offered
- Default, minimum and maximum contribution levels
- Use of other tools and nudges such as auto-enrollment and auto-escalation

* Please refer to CRI's Document "Comparison of Publicly-Sponsored Private Retirement Programs: Plan Design Options and Features, October 31, 2016"

Key Plan Design Considerations*

- Use of tax or other incentives
- Investment and management of assets
- Program funding
- Program administration
- Marketing, outreach and financial education
- Withdrawal rules and portability
- Lifetime income options (annuitization)

* Please refer to CRI's Document "Comparison of Publicly-Sponsored Private Retirement Programs: Plan Design Options and Features, October 31, 2016"

State Initiatives: Lessons Learned

- ✓ Understand the Target Population
 - Employees
 - Employers
 - “Gig economy” and the independent contractor
- ✓ Engage Stakeholders Early and Often
 - Visit with small businesses, low income advocacy groups, etc.
 - Take advantage of resources of organizations committed to your goals.
 - Reach out to other states to learn from their experiences.
- ✓ Define Overall Policy Goals and Objectives
 - Understand what improving retirement security means (e.g., savings only or creating a stream of lifetime income, etc.).
- ✓ Design the Program to Meet Your Goals
 - Keep the design simple and easy to understand to boost participation.
- ✓ Be Prepared to Refine the Program Design
 - Avoid detailed design features in law to provide flexibility to adjust in implementation.
- ✓ Keep the Future in Mind – How Will Success Be Measured?
 - You can define it or others will define it for you.

Outlook for 2016-17

- DOL finalizes ERISA safe harbor rulemaking for state political subdivisions (“city” rule).
- Action and Trends for 2017 and beyond
 - Implementation work will be watched (WA,OR first to launch)
 - State studies continue (e.g., VT, NY)
 - Large cities exploring their own plans (NYC, Seattle, Philadelphia)
 - One or more new state programs enacted
 - Evolution of models continues (NYC)
 - Private sector innovation in response to state efforts
 - How to expand focus from accumulation to decumulation and lifetime income

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President Directs DOL to Issue Rules to "Provide a Clear Path for States to Create Retirement Savings Programs"

[More information here](#)

STATES AS INNOVATORS

WILL 2015 BE THE YEAR FOR STATE SPONSORED RETIREMENT SAVINGS PLANS? STATES ARE OFF TO A STRONG START!

NEWS - July 13th, 2015. At today's White House Conference on Aging, President Obama called on the U.S. Department of Labor and Secretary Tom Perez to issue by year's end a proposed set of rules "to clear a path for states to create retirement savings programs." The President indicated that he wants "to do everything we can to encourage more states to take this step."

[President Obama's blog post](#)

RETIREMENT SECURITY FAST FACTS

Download Retirement Security Talking Points!

FAST FACT SHEET #2

How Prepared Are Women For Retirement?

NEWS AND REPORTS

The Savings & Investment Bipartisan Tax Working Group Report, U.S. Senate Finance Committee, July 7, 2015

The Federal Reserve's 2014 Survey of Household Economics and Decisionmaking, May 2015

Simplifying Choices in Defined Contribution Retirement Plan Design, The Pension Research Council, May 2015

The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor, EBRI, April 2015

An Analysis of the Illinois Secure Choice Savings Program, New America, April 1, 2015

State-run retirement programs picking up steam, BenefitPro, March 22, 2015

Congress Forms Retirement Caucuses, BenefitsPro, March 4, 2015

Americans' Views of the Retirement Crisis, National Institute on Retirement Security, March 2015 Report

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