

State-Based Retirement Programs



Learning Objectives

- ✔ Determine why state-run options are being explored
- ✔ Review state programs that have been implemented
- ✔ Discuss state programs that have been proposed



OregonSaves Growth Continues



California's New Retirement Program Gets Under Way

Employers that don't offer a retirement plan will be required to participate



Don't have a 401(k)? State governments have a retirement plan for you

Published: Oct 29, 2018 8:35 a.m. ET



Aa

Ten states, in an effort to head off a crisis, have started IRAs for workers without access to 401(k) retirement-savings plans



Three Worries About State Auto-IRA Programs

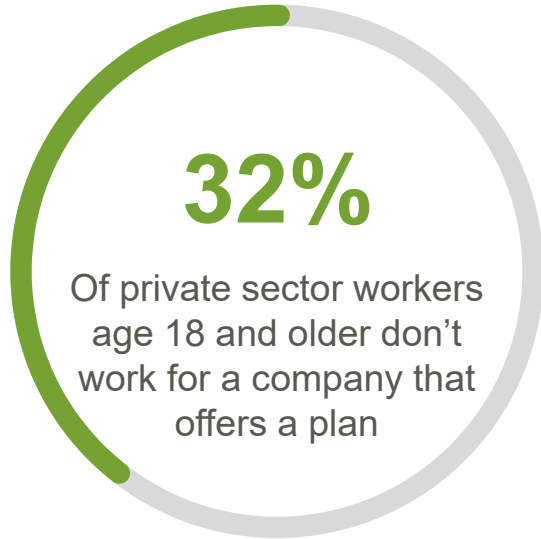


States could help future retirees get more cash from Social Security



De Blasio Boosts Big Apple Auto IRA Plan for Private-Sector Workers

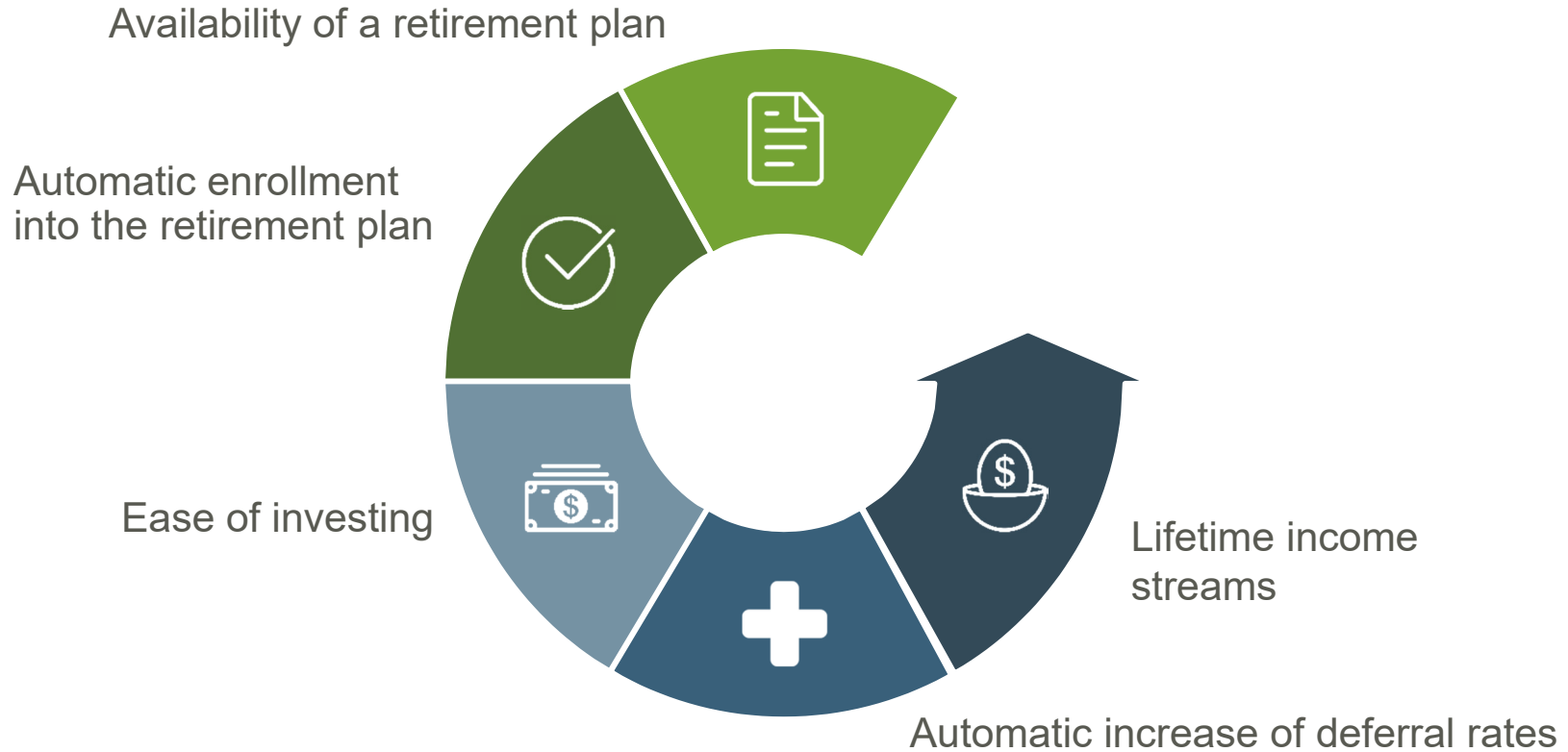
Retirement Savings Crisis



Source: "Employee Benefits in the United States—March 2018," News Release, September 21, 2018. Bureau of Labor Statistics.
<https://www.bls.gov/ncs/ebs/benefits/2018/employee-benefits-in-the-united-states-march-2018.pdf>

Source: "58% of Americans Have Less than \$1,000 in Savings," by Cameron Huddleston, December 21, 2018. GOBankingRates.
<https://www.gobankingrates.com/saving-money/savings-advice/average-american-savings-account-balance/>

5 Ingredients for Adequate Retirement Savings



Federal Proposals



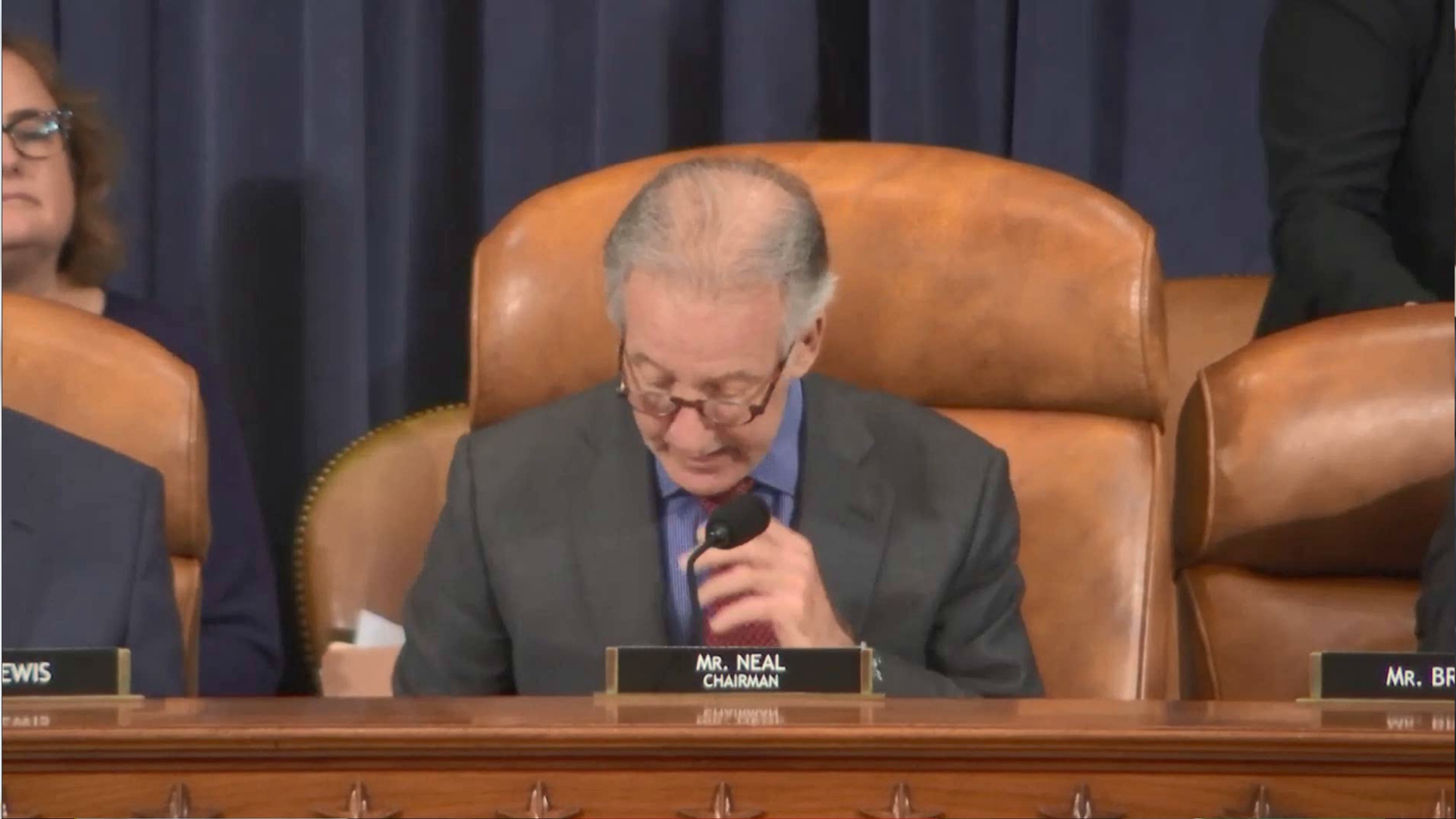
myRA®

- Federally-created Roth-type account
- Payroll deduction
- 20,000 funded accounts in 3 years
- Program ended September 17, 2018



Automatic IRA Programs

- Legislation introduced 2007, 2010, 2011, 2015, 2017
- Proposed most recently by Rep. Richard Neal (D-MA)
- No action taken



MR. NEAL
CHAIRMAN

MR. BR...

MR. LEWIS

Automatic IRA program



Marketplace approach

State Initiatives

State-sponsored prototype plan



State-run multiple employer plans (MEPs)

Automatic IRA Program



Employees automatically enrolled in payroll-deduction IRA



No employer contributions



Employees responsible for investments based on state chosen options



Oregon, Illinois, California



Marketplace Approach



Promotes low-cost retirement savings plans to small businesses



Educates employers on plan availability



Makes plans available on a state-sponsored website



Does not mandate an employer to establish a plan

State-Sponsored Prototype Plan



State would develop prototype plan that could be adopted by various businesses



Plans could range from SIMPLE IRA to 401(k)



Each employer that adopts plan becomes a plan sponsor

State-Run Multiple Employer Plans (MEPs)

- Single plan adopted by several employers not under same ownership
- MEP would include businesses located in that state
- Employers could avoid the role of plan sponsor under ERISA



Concerns of State-Based Retirement Plans



Costs of establishing and maintaining the plan



Whether to require certain employers to establish a plan



Whether employee contributions should be mandatory, automatic, or voluntary



Investment options



Whether benefits should be guaranteed or insured



Effect on those employers who already have a retirement plan

DOL Guidance on State-Run Plans

2016

DOL enacted a rule to exempt state-run plans from ERISA

2018

Howard Jarvis Taxpayers Association v. CalSavers

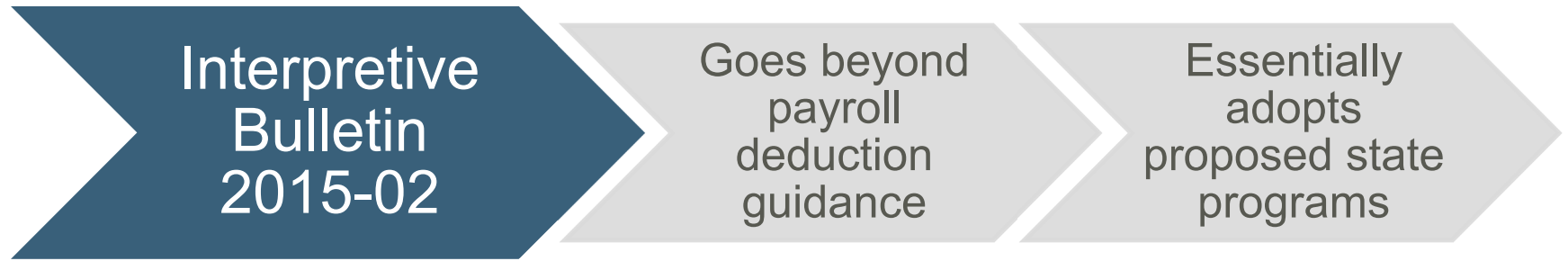
2017

Congress used the Congressional Review Act to override the DOL action and nullify this rule

2019

??

Parameters for State Involvement in ERISA-Governed Plans



Marketplace Approach



Marketplace arrangement would not itself be an ERISA-covered plan



Marketplace could offer both ERISA and non-ERISA savings plans to employers



State's only role is to determine suitable products to be offered through the marketplace

Prototype Plan Approach



States may make available a common pre-approved prototype plan document



Each employer that adopts one of these plans would be the sponsor of an ERISA plan



State could assume responsibility for most of the administrative and asset-management functions



State may designate low-cost investment options and third-party administrative service provider

Multiple Employer Plan (MEP) Approach



States may establish a MEP and allow employers who meet specified requirements to join



State or designated third party would be plan sponsor, named fiduciary, and plan administrator



State would assume responsibility for most of the administrative and asset-management functions



DOL considers MEP to be a single plan – lower costs for employers adopting it

State Consortium




- Several states considering
- Different models contemplated
- Potential concerns
 - ERISA Preemption
 - Interstate Commerce
 - State Law Issues
 - State Contracts
 - Program Conflicts








Existing Programs



Program Comparison

			
Employers Mandated	Employers without a plan with an employee	Employers without a plan with 25 employees in the past 2 years	Employers without a plan with 5 employees
Employees Eligible	Age 18	Age 18	Age 18
Default Rate	5%	5%	5%
Annual Auto Increase	Yes – 1% each year up to 10%	No, voluntary	Yes – 1% each year up to 8%
Default Investment	First \$1,000 in capital preservation fund, then target date fund	First 90 days in a money market fund, then target date fund	First \$1,000 in capital preservation fund, then target date fund
Default IRA	Roth	Roth	Roth
Traditional IRA	Yes	Yes	Yes

	employers registered	7,071	897
	employees enrolled in the program	101,151	46,591
	average employee contribution per month	\$117	\$68.07
	assets in the program (in millions)	\$24.5⁺	\$3.5⁺
	average savings rate	5.53%	5.16%

As of: July 18, 2019

Marketplace Approach Example

Washington Small Business Retirement Marketplace

- Participation is completely voluntary
- State plays educational role only
- Intended to match up small employers with suitable retirement plans
- Marketplace includes
 - 401(k) plans
 - Payroll deduction IRAs with no employer contribution





Marketplace Approach Example

Washington Small Business Retirement Marketplace

- Washington State Dept. of Commerce is identifying financial services firms to be a part of the marketplace
- Financial services firms will work directly with employees and manage their accounts
- No administrative fees
- Low annual fees
- Employee may roll pretax contributions into another IRA or eligible retirement plan after the employee ceases participation in the approved marketplace plan

Multiple Employer Plan

Vermont Green Mountain Secure Retirement Plan



Voluntary for
employers



Automatic enrollment
for employees

50


50 employees or less
with no current
retirement plan



Payroll deduction
contributions



**Luke Huffstutter - Owner
Annastasia Salon - Portland, Oregon**



It costs too
much to
establish a
plan

My
employees
aren't
interested

Nobody
else in my
industry
does it

The state
can do it
better

Questions?

Thank you for attending

State-Based Retirement Programs



We Appreciate Your Opinion

Please complete the electronic course survey for this course located on the Ascend 2019 mobile app.



We help over **9 million Americans**
save for life's biggest moments.
Education. Healthcare. Retirement.