State Savings Programs: Lessons Learned from Connecticut

Alicia H. Munnell
Peter F. Drucker Professor, Boston College Carroll School of Management
Director, Center for Retirement Research at Boston College

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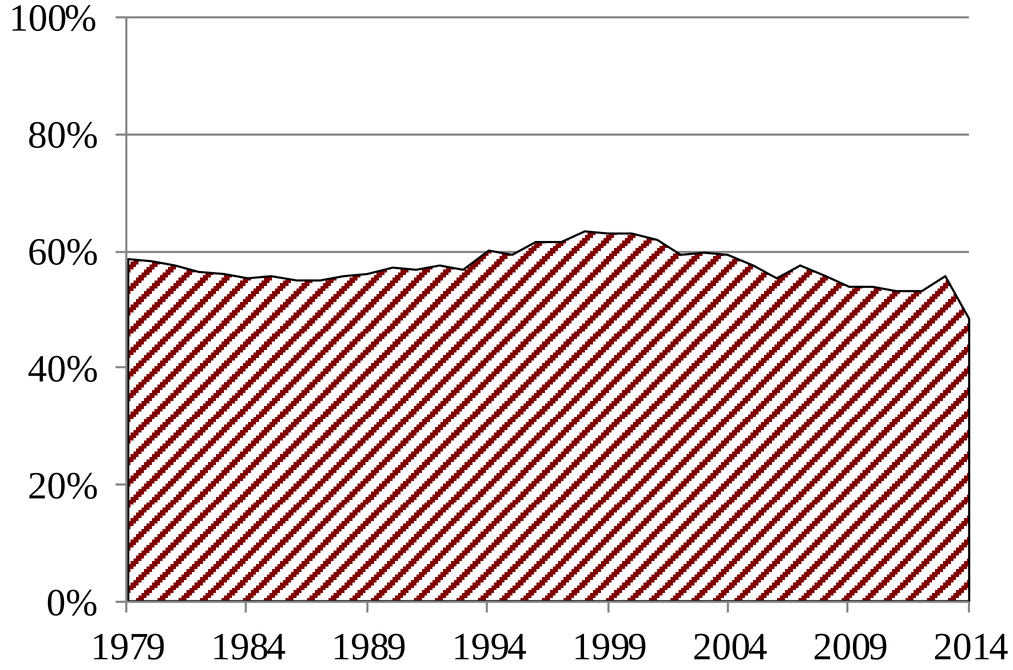
The problem: only half of private sector workers have coverage at any given point.

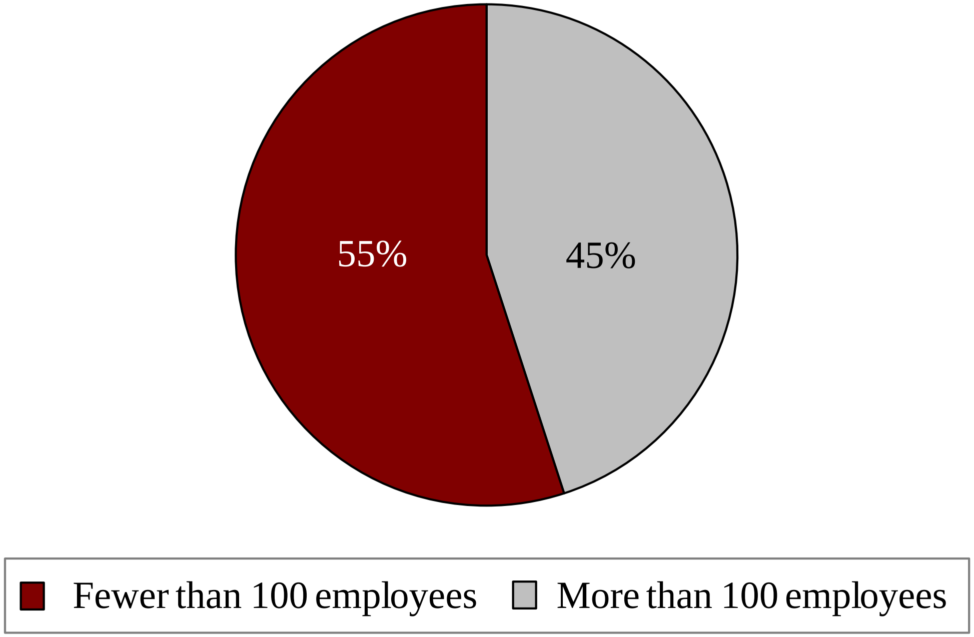
Percentage of Private Sector Workers Ages 25-64
Offered an Employer-Sponsored Retirement Plan, 1979-2014



Source: U.S. Census Bureau, *Current Population Survey Annual Social and Economic Supplement*, 1980-2015.

Most workers who lack coverage work for small employers.

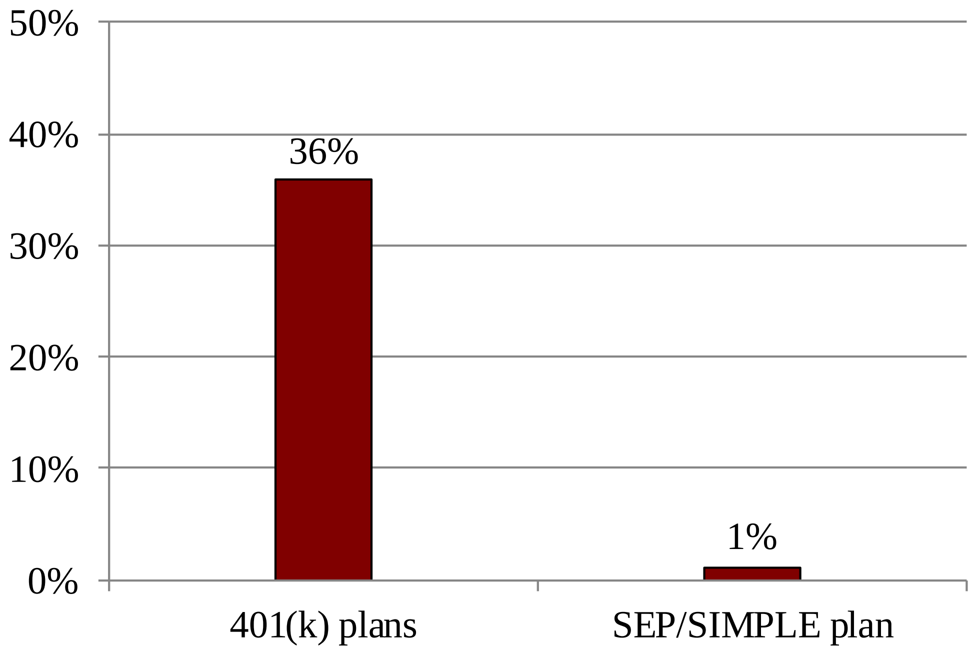
Percentage of Uncovered Private Sector Workers
at Small Firms, 2014



Source: Author's calculations from U.S. Census Bureau, *Current Population Survey March Supplement*, 2015.

New products to boost coverage by small employers have not moved the needle.

Percentage of Private Sector Workers Enrolled in a 401(k) or a SEP/SIMPLE Plan, 2013



Source: Author's calculations from the U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances*, 2013.

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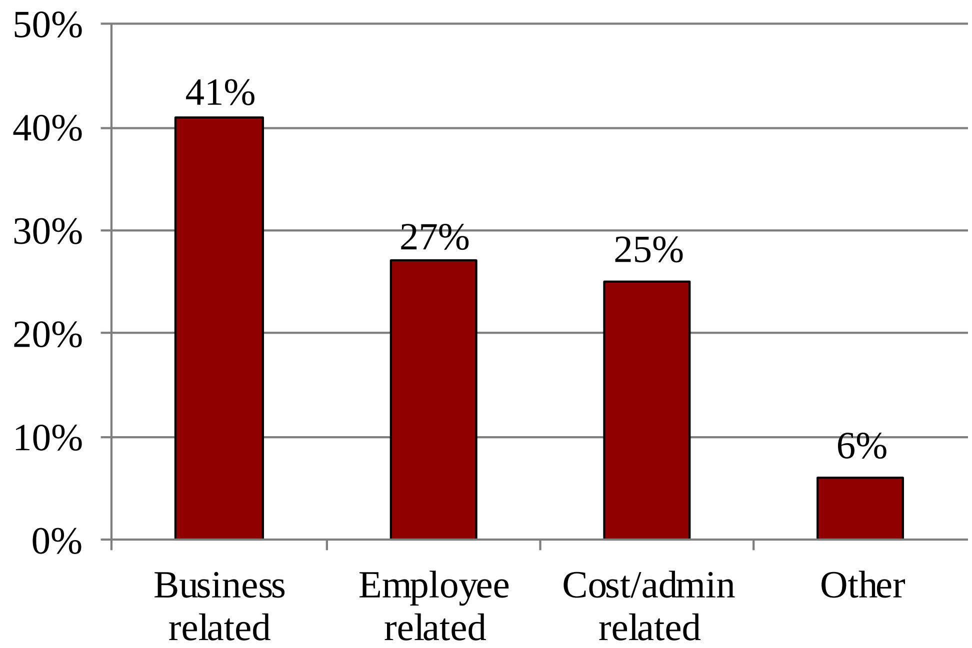
Not surprising, as administrative costs are not the key issue.

Reasons Cited by Small Employers as the Most Important for Not Offering a Retirement Plan, 2003



Source: Employee Benefits Research Institute. 2003. "The 2003 Small Employer Retirement Survey Summary of Findings." Washington, DC.

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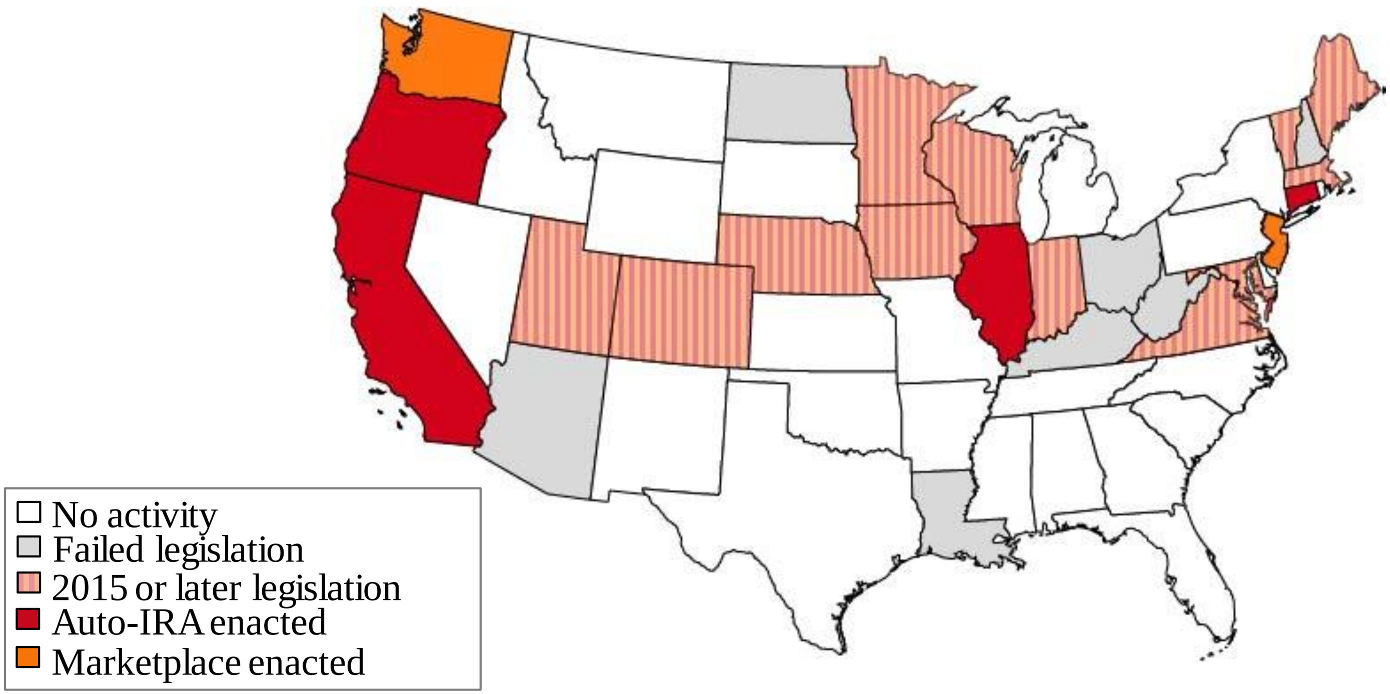
So policymakers have offered broader national reforms to close the coverage gap.

- Auto-IRA plans (Obama Administration)
- USA Retirement Funds (Senator Harkin)
- Guaranteed Retirement Accounts (Teresa Ghilarducci)
- SAFE Retirement Plans (Center for American Progress)

But Congress has not passed any legislation, so the states are stepping into the breach.

State Retirement Security Activity, as of March 2016

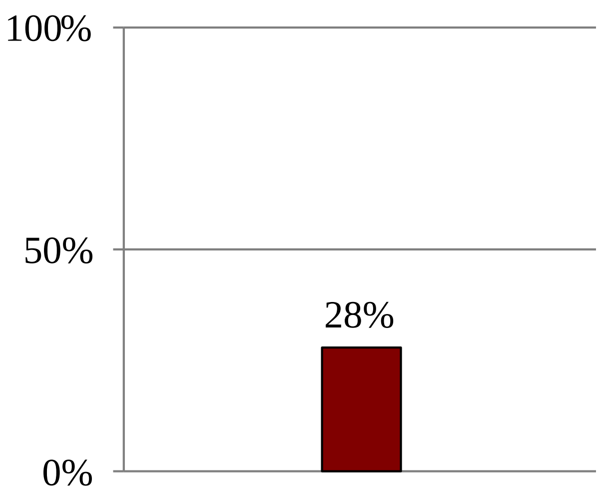


Source: Author's analysis.

Auto-IRA with employer mandate and auto-enrollment is the most promising approach.

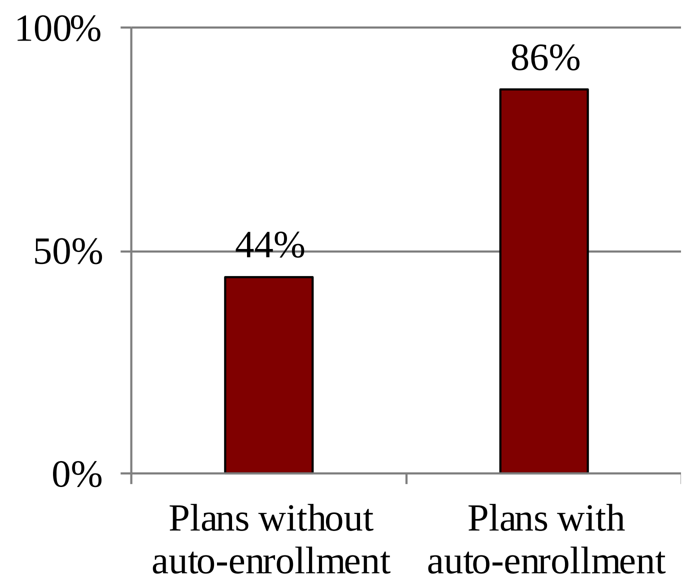
Mandate needed because many firms won't offer a plan.

Percentage of workers at small firms offered a plan, 2014



Auto-enrollment needed because many employees won't participate.

401(k) participation rates for workers < $50,000 by auto-enrollment status, 2014



Sources: U.S. Census Bureau, *Current Population Survey March Supplement*, 2015; and author's calculations from Vanguard. 2015. "How America Saves 2015." Valley Forge, PA.

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CT hired our Center to conduct market analysis of its proposed Auto-IRA program.

Employees

1. How many uncovered workers will opt out?
2. Will program design affect opt out?

Employers

1. What factors drive employer views?
2. Will employers discourage participation or switch to state program?

On the employee side, we started with a base case program design.

- 6-percent contribution rate
- Roth IRA
- Target date fund
- One contribution change per year
- No annuity

To gauge opt out, we showed different groups alternative versions of the program.

Group 1
(340 people)

Base case
6% contribution rate

Group 2
(340 people)

Identical
except with
3% contribution rate

Group 3
(340 people)

Identical
except with
auto-escalation
to 10% rate

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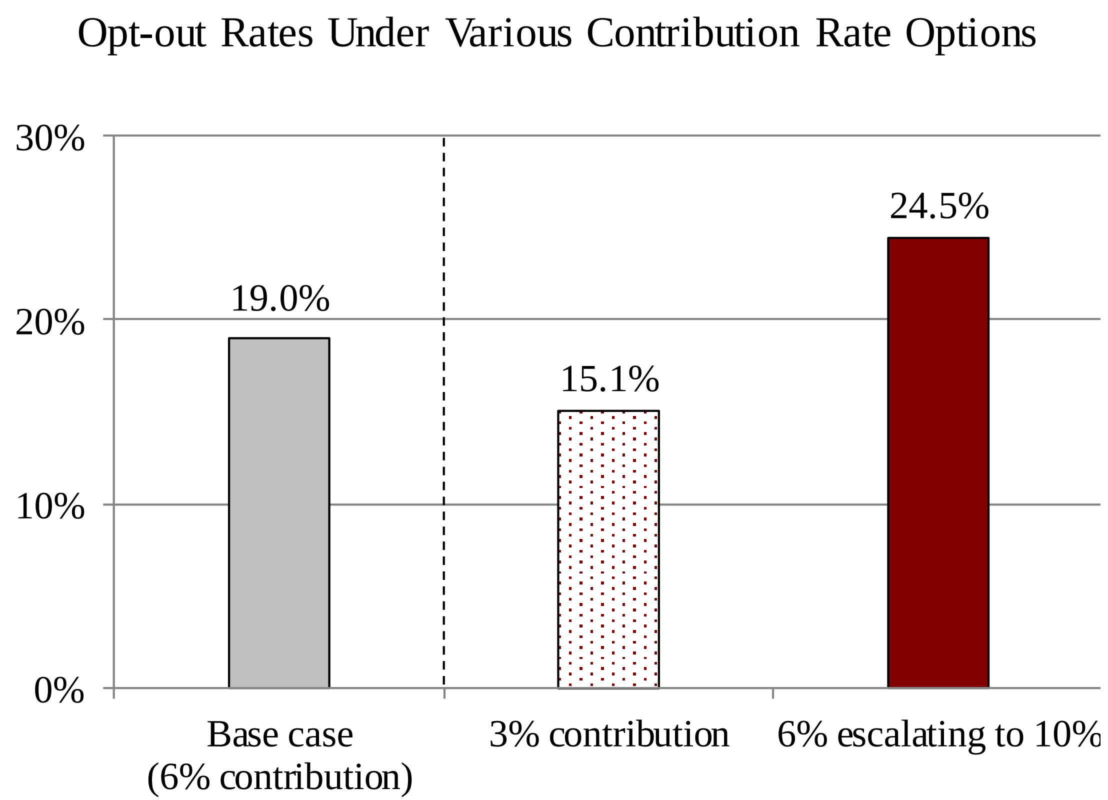
The base case of 6% had low opt out, 3% slightly lower, and escalation to 10% higher.



Note: Solid red bar significantly different from base case at 5-percent level; dotted bar at 10-percent level.
Source: Author's calculations from a survey of uncovered workers (conducted by Knowledge Networks).

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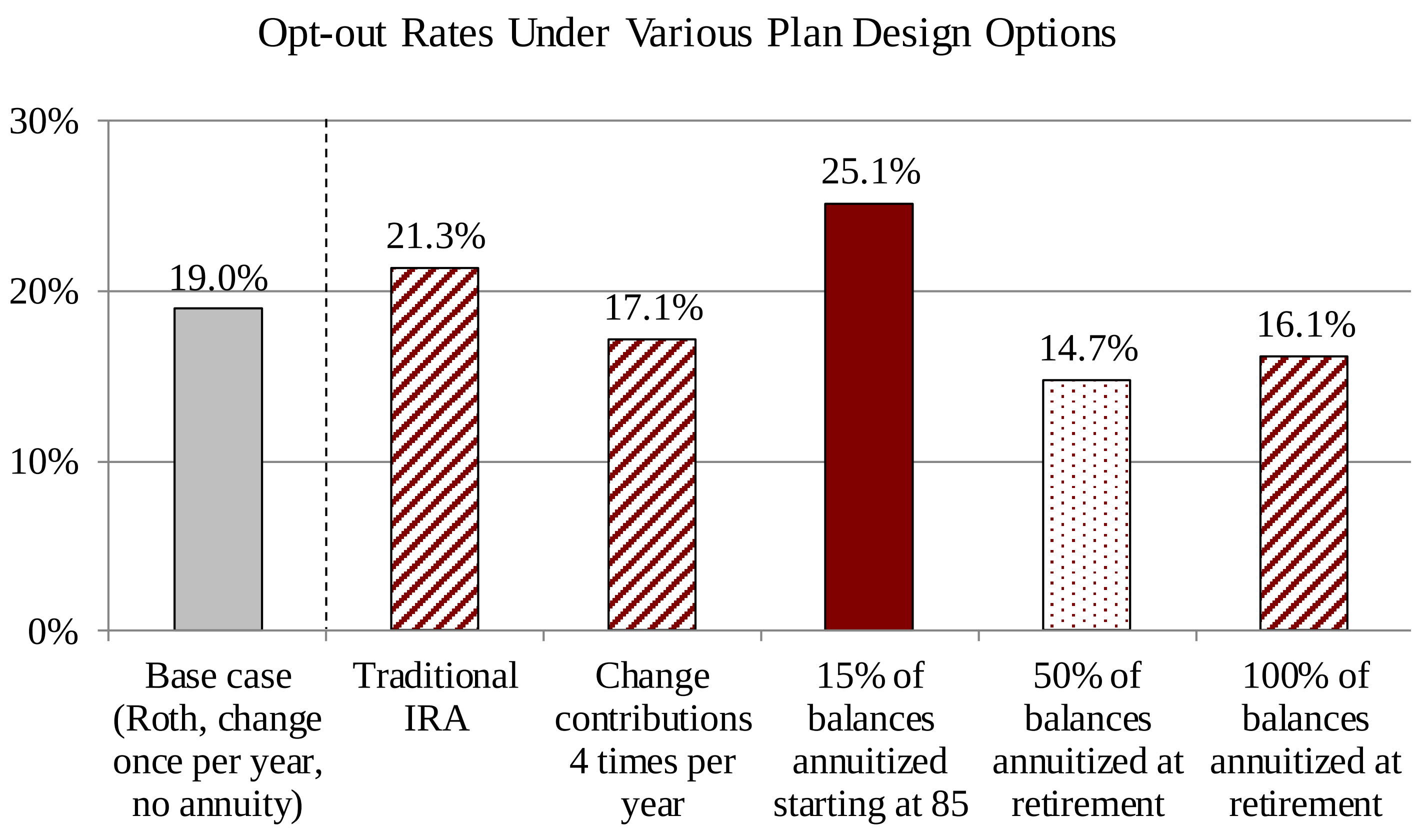
Most other program features had a limited impact on opt-out rates.



Note: Solid red bar significantly different from base case at 5-percent level; dotted red bar significant at 10-percent level.
Source: Author's calculations from a survey of uncovered workers (conducted by Knowledge Networks).

The employer survey queried two types of firms.

Without Retirement Plan

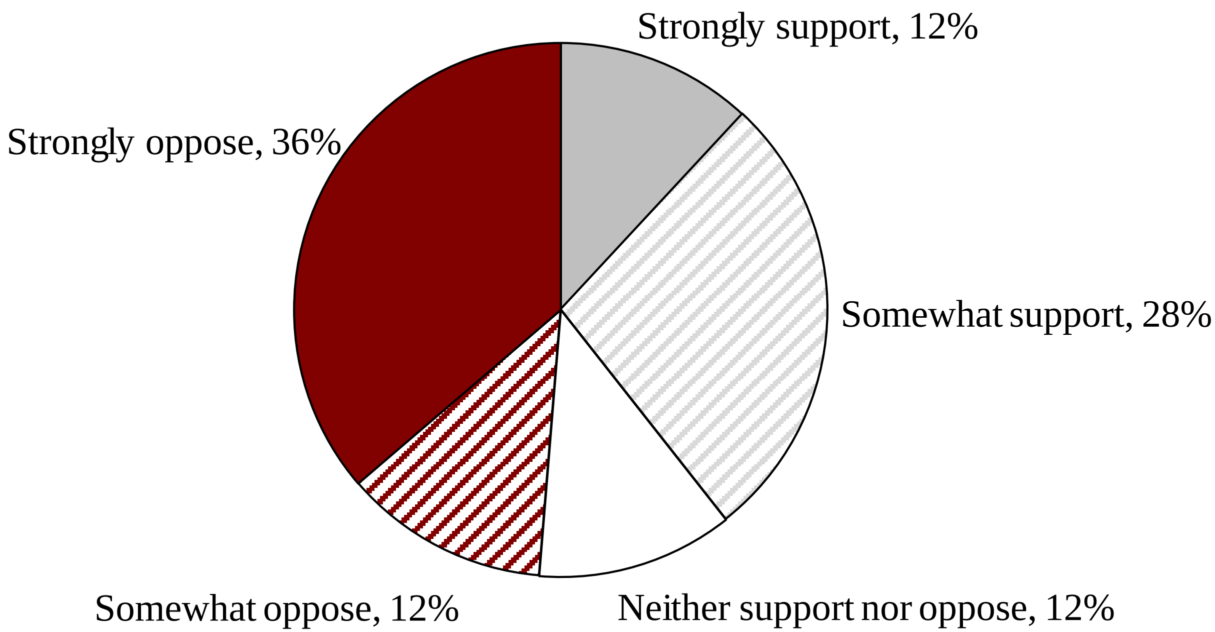
- Level of opposition
- Reasons for opposition

With Retirement Plan

- Enroll ineligible workers
- Switch to state program

For firms without plans, support was mixed.

Support for Program from Non-Plan Firms



Note: Excludes six respondents who answered "don't know" or "refuse."
Source: Nielsen Phone Survey of Connecticut Employers.

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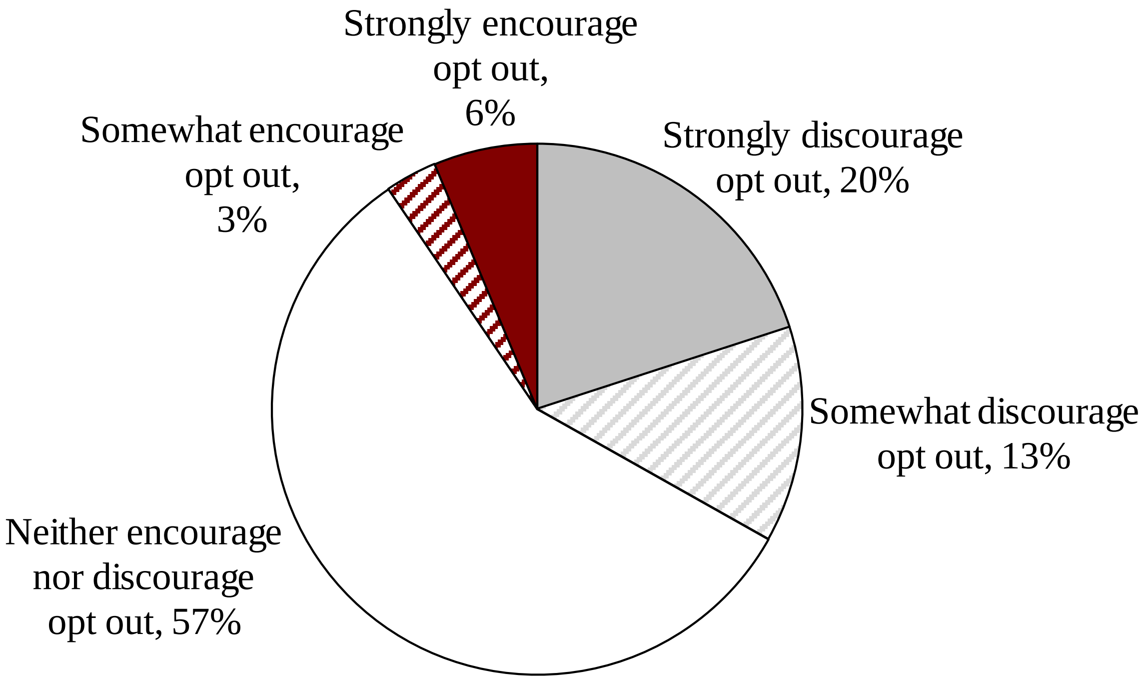
A deeper dive showed that the three major concerns could be addressed.

Concern	Solution
State government cannot manage its own pension plans.	Funds will be invested by private sector and kept separate from state pension fund.
Workers should not be forced to save.	Workers can opt out.
Mandate will be a big burden for firms.	Employer role will be strictly limited.

And, in any case, existing opposition does not translate to firms encouraging opt out.

Share of Non-Plan Firms Discouraging/Encouraging Opt Out



Note: Excludes nine respondents who answered "don't know" or "refuse."
Source: Nielsen Phone Survey of Connecticut Employers.

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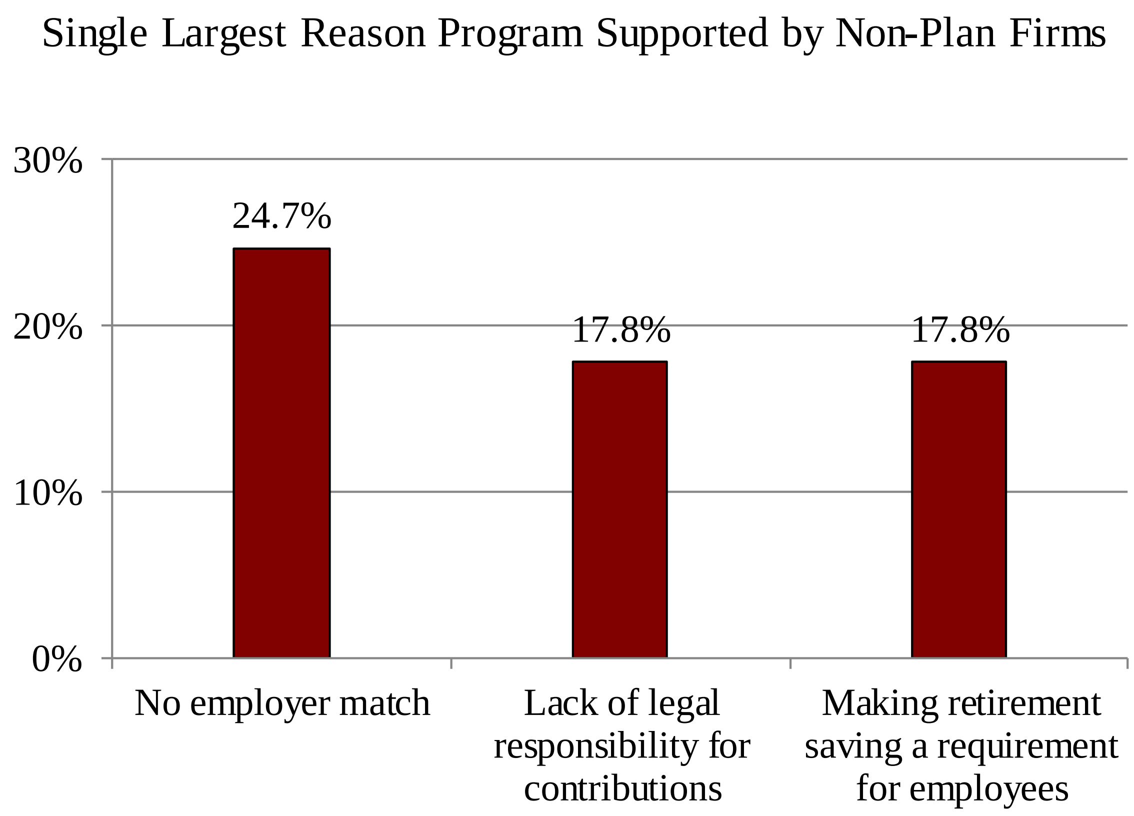
Among those supporting the program, opinion was driven by limited employer role.



Source: Nielsen Phone Survey of Connecticut Employers.

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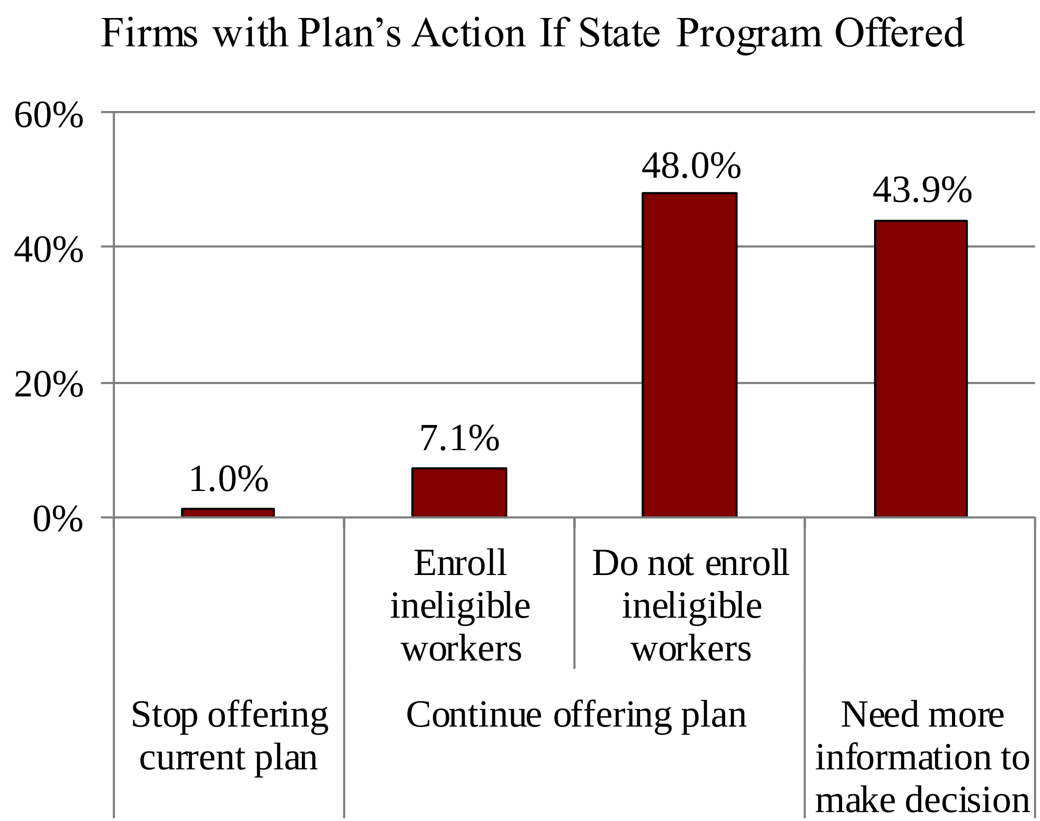
For firms *with* plans, few would enroll their ineligible workers or drop their current plan.



Note: Excludes three respondents who answered "Don't know" or "Refuse."
Source: Nielsen Phone Survey of Connecticut Employers.

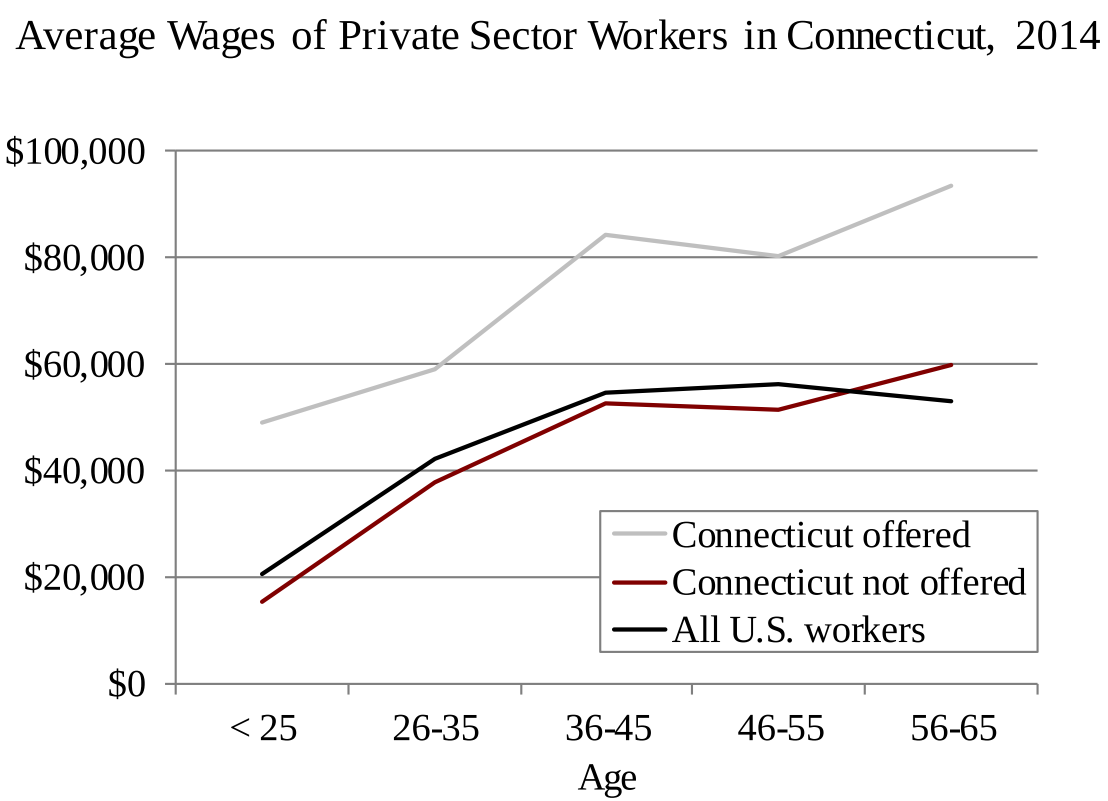
Takeaways from our market analysis.

- A mandate and auto-enrollment are needed to achieve the policy goal – boosting coverage and saving – and to ensure that the program is financially feasible.
- High participation rates are achievable.
- Employer support is mixed, but even opponents would not undermine program implementation.

A new thought: the federal Saver's Credit could help enhance state initiatives.

- The Saver's Credit would provide a match.
- The current Credit offers a maximum of $1,000.
- But it has two limitations:
  1) not refundable; and
  2) applied after the Child Tax Credit.

CT workers have higher incomes, so fewer can take full advantage of Saver's Credit.



Source: Author's calculations from U.S. Census Bureau, *Current Population Survey March Supplement*, 2015.

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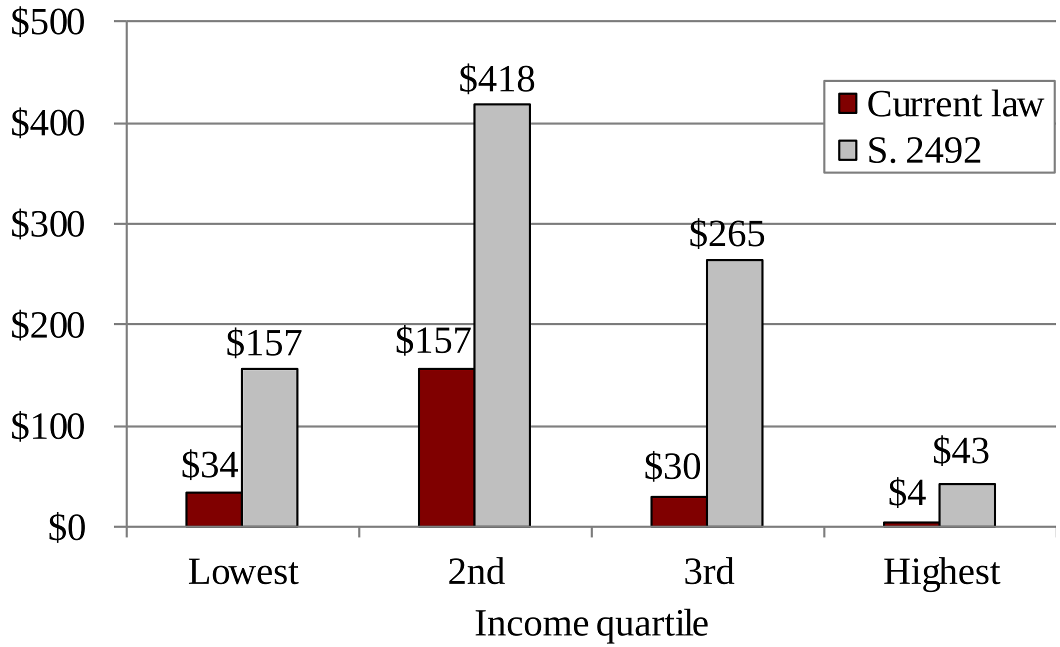
But CT workers get a higher amount with a refundable Credit under Senate bill S.2492.

Saver's Credit under Current Law and S.2492 for Connecticut Workers Not Offered an Employer-Sponsored Pension, 2014



Note: The $65,000 threshold in S.2492, which is adjusted each year for inflation, was assumed to have been $60,000 in 2014.
Source: Author's calculations from U.S. Census Bureau, *Current Population Survey March Supplement*, 2015.

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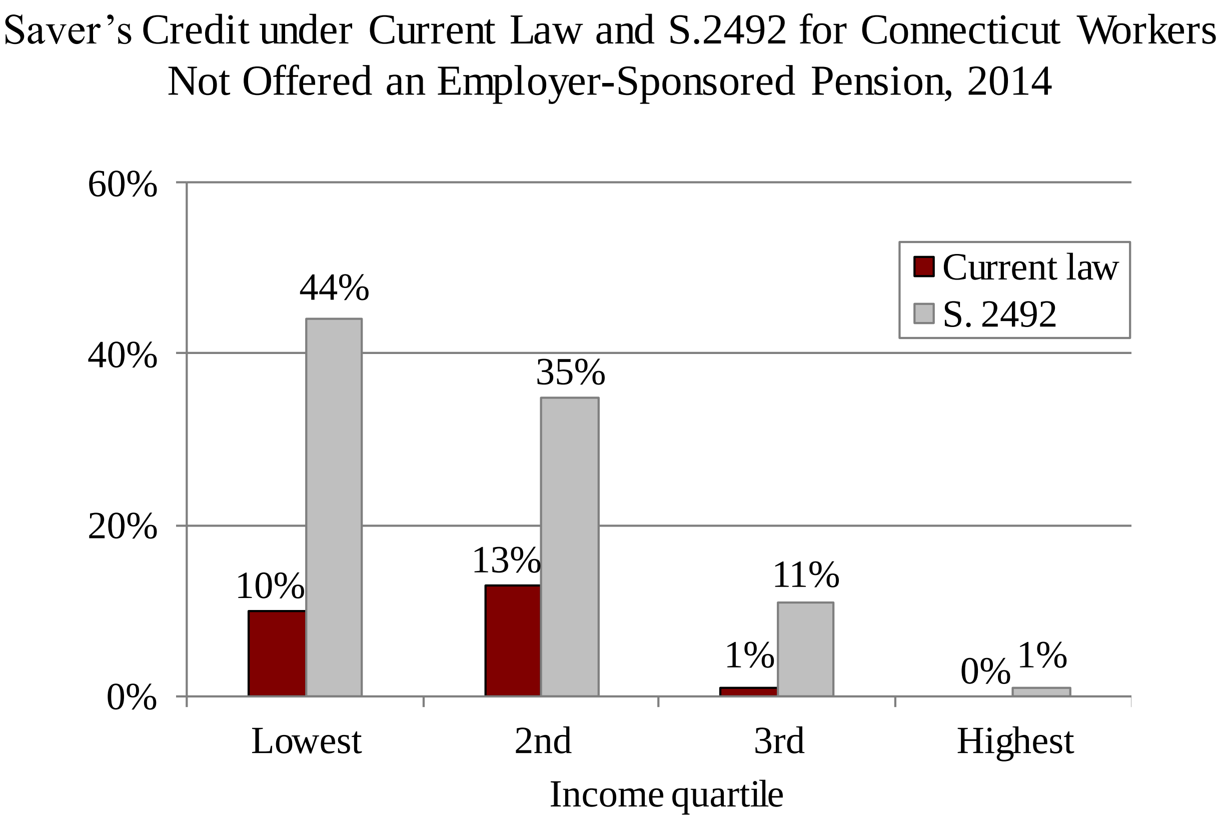
And these larger amounts translate into significant match rates.



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Source: Author's calculations from U.S. Census Bureau, *Current Population Survey March Supplement*, 2015.

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Conclusion

- Given federal inaction, states are taking the lead to close the coverage gap.

- The U.S. Department of Labor is trying to clear away legal underbrush.

- Findings from CT show that the proposed program can achieve its core goals of expanding participation and retirement saving.

- The federal Saver's Credit, if improved through new legislation, could provide a helpful supplement to state plans.

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Remaining To-Do List for State Programs

- Minimize employer administrative burden by limiting responsibility for enrollment and payroll deduction.
- Build a new recordkeeping platform to fit an Auto-IRA program.
- Develop an effective enforcement mechanism to ensure employer compliance with mandate.