Vitaly Taranov/Unsplash

Is the OregonSaves Retirement Program Expensive for Employers?

4 out of 5 businesses report no out-of-pocket costs

Employer-provided defined contribution plans such as 401(k)s are now the main vehicle for retirement savings in the United States.[1] Some research, however, estimates that as many as 42% of American workers lack access to a retirement plan at their jobs.[2]

To address this gap in access to retirement plans, half of U.S. states are looking at setting up individual retirement accounts with automatic enrollment—known as auto-IRAs or Secure Choice programs—for private sector workers whose employers don't offer workplace retirement savings plans. And seven states—California, Colorado, Connecticut, Illinois, Maryland, New Jersey, and Oregon—are currently implementing them. Under these state auto-IRA programs, employees without access to a retirement plan on the job are automatically enrolled and contribute a preset percentage of their wages or salaries. They can choose to opt out of the program, change the contribution percentage, or withdraw prior contributions at any time.[3]

In 2017, Oregon opened its plan, OregonSaves, to the first round of workers, part of a multiyear rollout that started with the largest firms and successively enrolled smaller businesses. By the end of 2019, the program included all eligible firms with five or more employees, with firms with four or fewer employees scheduled to complete enrollment by late 2021.

To help inform policymakers in Oregon and other states considering an auto-IRA program, in 2019 and 2020 The Pew Charitable Trusts surveyed more than 2,500 private sector businesses that participate in OregonSaves. The survey was designed to help better understand how employers—which are required to facilitate the program, but otherwise have minimal involvement with it—experience various elements of OregonSaves and whether the program imposes costs or burdens. (See the appendix for more information about the survey methodology.)

This brief explores the characteristics of firms that reported any out-of-pocket (OOP) costs, either to set up OregonSaves for their workers or on an ongoing basis after the initial enrollment.

Key findings

- About 80% of OregonSaves employers did not report any OOP costs associated with the program.
- The 21.5% of employers that did report OOP costs cited fees for outsourcing program contributions to external payroll firms or bookkeepers, wages for additional staff time to set up the program, and/or time spent registering employees with OregonSaves. Employers who handled payroll internally were about equally likely to report OOP costs as employers who outsourced their payroll management.
- Middle-sized firms (10 to 49 employees) were more likely than small firms (nine or fewer employees) to report OOP costs, possibly because larger workforces translate to higher administrative costs.
- OOP expenses were more prevalent in some industries, such as leisure and hospitality, natural resources and mining, and administrative and support services, than in others. In the case of leisure and hospitality and administrative and support services, this perhaps reflects the nature of workforces that are characterized by high rates of employee turnover, leading to frequent payroll changes.[4]
- Overall satisfaction with OregonSaves is strongly linked to the absence of OOP costs. Among firms reporting no OOP costs, about half (49.9%) reported being somewhat satisfied or very satisfied with OregonSaves, while about one-fifth (20.4%) reported being somewhat or very dissatisfied.[5] Conversely, of the firms that reported OOP costs, only 27% said they were satisfied or very satisfied with the program, while almost half (49.4%) reported being somewhat dissatisfied or very dissatisfied.

Out-of-pocket costs

About one-fifth (21.5%) of employers reported that they had incurred OOP costs, with many pointing to higher payroll processing costs in the form of additional payments to external payroll companies, accountants, or contractors, or wages paid to in-house staff for additional time spent processing contributions to OregonSaves. Other employers, as shown by verbatim responses from the survey, took a broader view of what is an out-of-pocket cost by including their own or staff time:

> "Staff time for meetings, staff time for processing deposits. The staff meeting was pretty expensive but we feel that financial literacy is essential, so we support that."

> "The administrative time it takes to set up the plan. It just doesn't happen. It takes time and time is money."

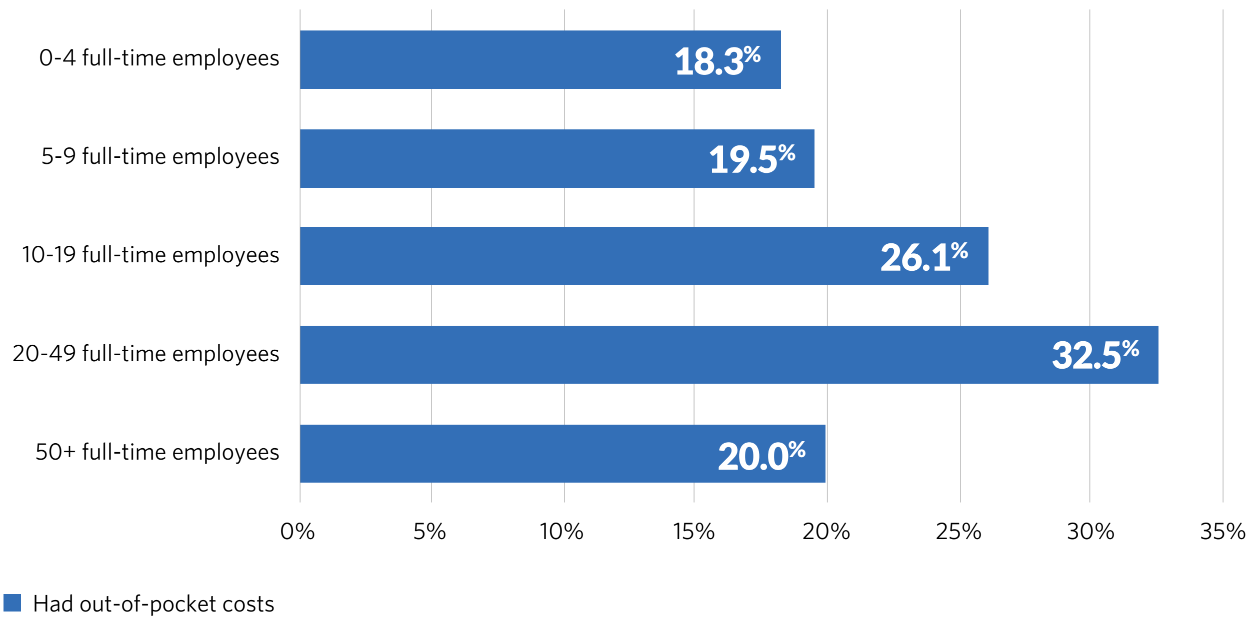
> "Minimal, mostly copier/paper expenses and admin. time to explain the program."

Among the firms that reported OOP costs, some survey respondents characterized the costs as "minimal," but others felt the burden was heavier—describing it as "a lot" or "extensive."

Middle-sized firms were more likely than smaller firms to have OOP costs (Figure 1): for example, 32.5% of firms with 20-49 employees reported OOP costs, compared with 18.3% of firms with up to four employees. However, the very largest firms, with 50 or more employees, reported lower OOP costs than firms in the midsize category.

Figure 1

Firms With 10 to 49 Employees Were More Likely to Incur Out-of-Pocket Expenses



Note: Sample size = 2,370.

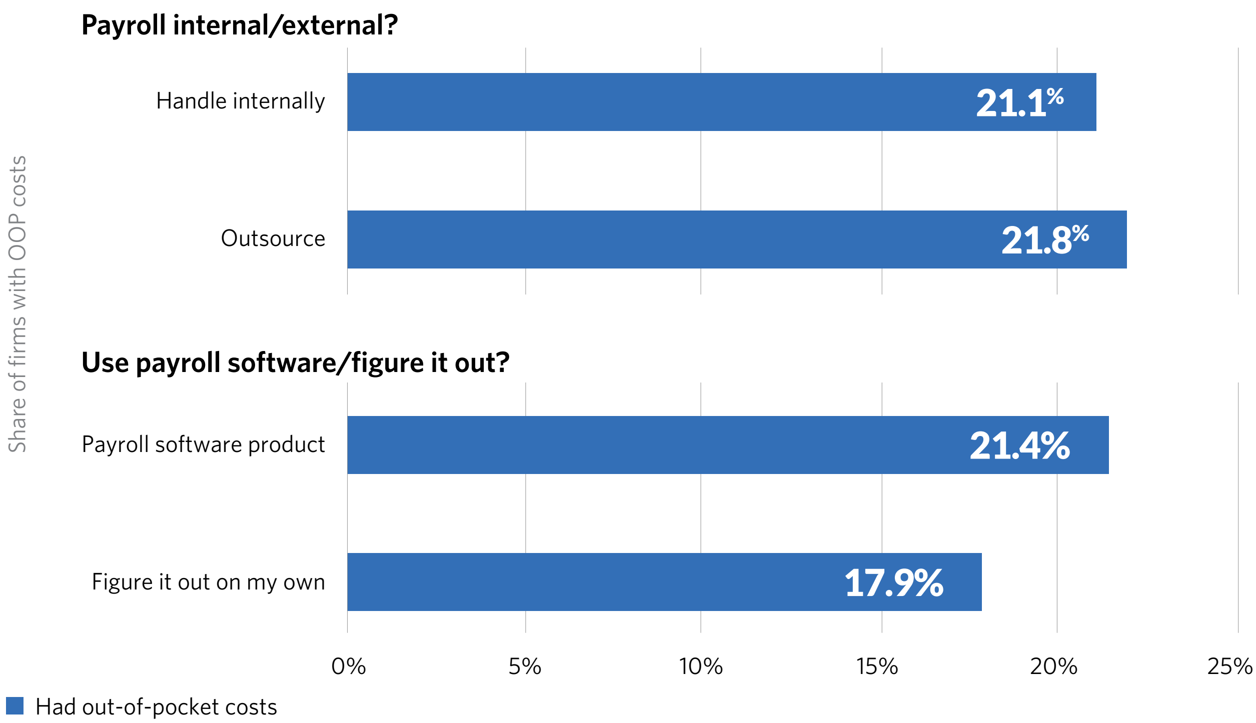
Source: Pew's survey of employers registered with the OregonSaves retirement savings program, 2019-20

Among all firms, 55.9% reported using a payroll provider, while 44.2% said they handled payroll internally. Employers who outsourced their payroll management were not more likely to report OOP costs than those who handled payroll internally (Figure 2). Among employers who used external payroll processing firms, accountants, or bookkeepers, 21.8% reported that the external providers charged additional amounts to service auto-IRA accounts. Among firms that handled payroll internally, a similar share (21.1%) reported incurring OOP costs, perhaps because they needed to pay more in salaries or overtime for staff to handle enrollment and contributions—or, as noted above, may have reported the additional uncompensated time spent on processing OregonSaves registration and contributions as OOP costs.

Firms that did payroll internally were asked if they used a payroll software product; employers who said they used such software were more likely than those who said they "figured it out on their own" to say that they had incurred OOP costs for the OregonSaves program. It is not clear why this would be the case, although it's possible the software didn't include a module for OregonSaves contributions and firms needed to process these separately or even create work-arounds in their software.

Figure 2

Type of Payroll Processing Does Not Affect Occurrence of Out-of-Pocket Costs



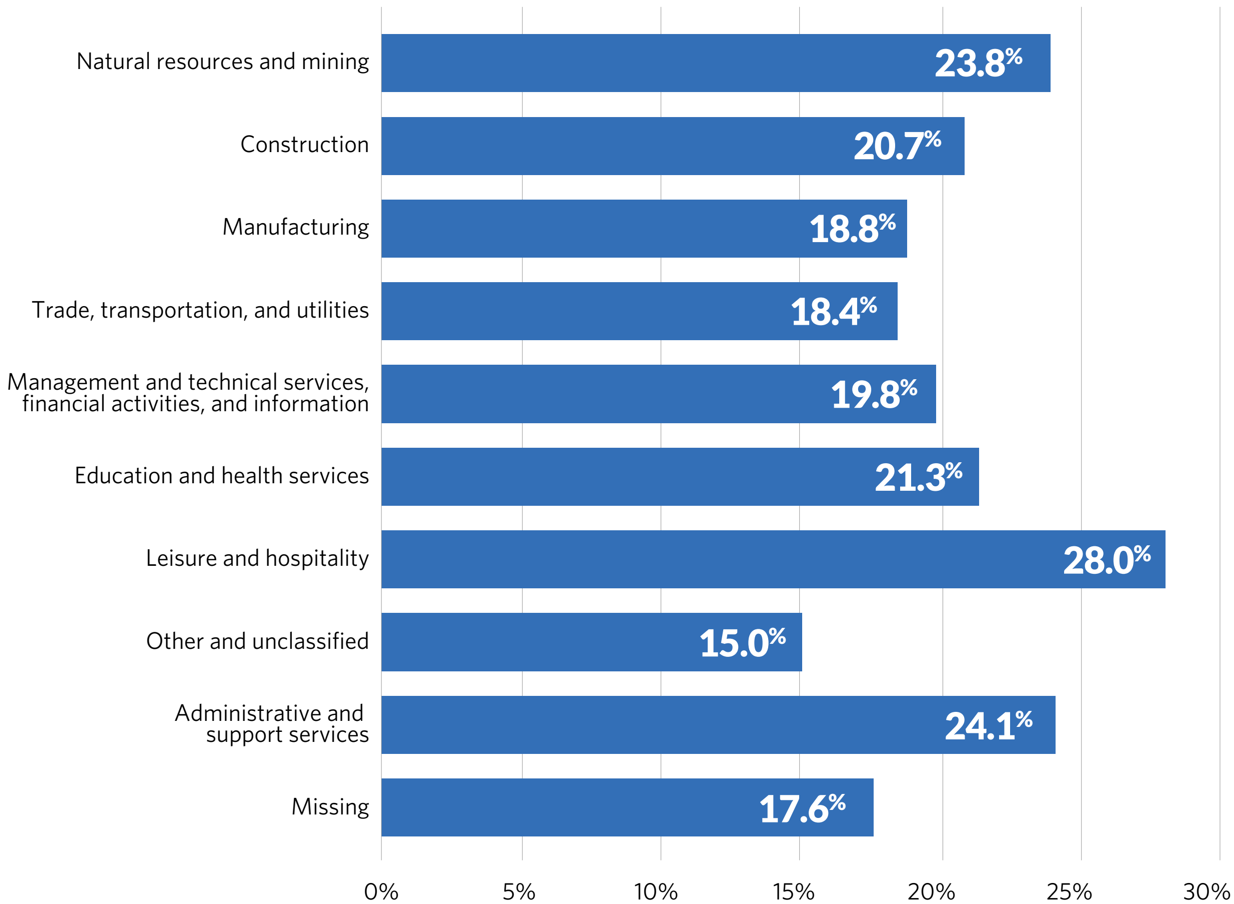
Note: Sample size for internal vs. external payroll = 2,373. Sample size for software vs. figure it out = 1,075.

Source: Pew's survey of employers registered with the OregonSaves retirement savings program, 2019-20

Firms in certain industries—leisure and hospitality, natural resources and mining, and administrative and support services—were more likely to report having incurred OOP costs during registration or while processing contributions than other firms (Figure 3). The difference was statistically significant for firms in the leisure and hospitality industry relative to all other industries. Although the reasons are not completely clear, industries such as leisure and hospitality that rely more on seasonal labor tend to have higher rates of employee turnover,[6] which may create more administrative and payroll processing work.

Figure 3

Industries and Their Percentages of Out-of-Pocket Costs



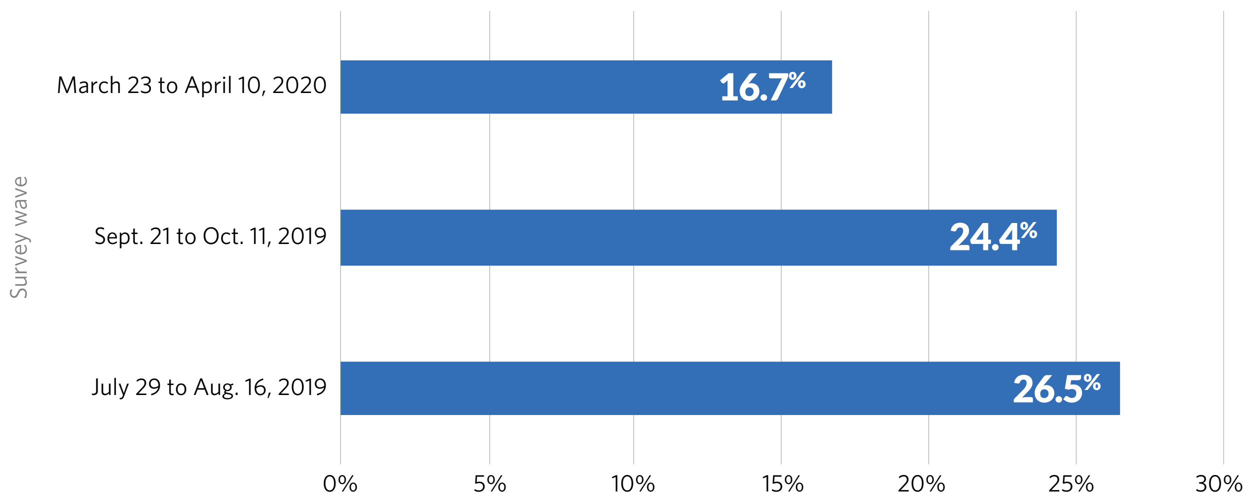
Note: Sample size = 2,385.

Source: Pew's survey of employers registered with the OregonSaves retirement savings program, 2019-20

Reports of OOP costs declined over each round of the survey. In 2017, the program enrolled the first wave of workers—generally from the largest businesses, although a number of small firms entered the program early—and has enrolled successively smaller firms over the course of several years (Figure 4). To capture newly enrolled firms' views, the survey was fielded online over three rounds. Employers in the first survey round, who generally had 20 or more workers, were the most likely to report OOP costs. Fewer employers in the second survey round, which was for businesses with 10 or more workers, reported OOP costs. And employers in the third survey round, with five or more employees, were the least likely of all to report OOP costs. Therefore, the declining reports of OOP costs through successive survey rounds are likely related to firm size, at least in part.

Figure 4

Employers Enrolled Earlier Were More Likely to Report Out-of-Pocket Costs



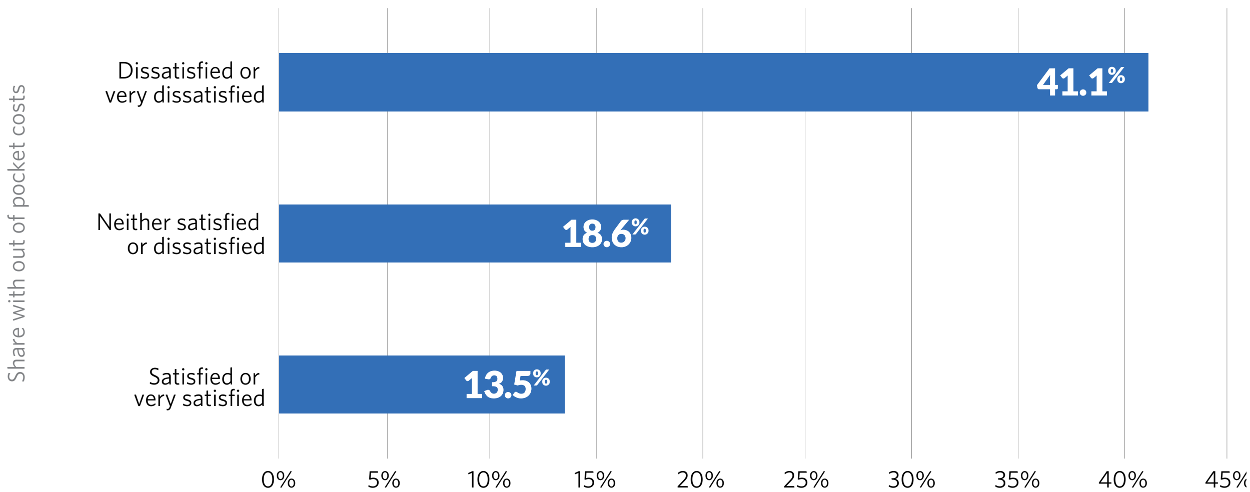
Note: Sample size = 2,385.

Source: Pew's survey of employers registered with the OregonSaves retirement savings program, 2019-20

Overall satisfaction with OregonSaves was linked to whether or not the firm had OOP expenses (Figure 5), with just 13.5% of firms that identified as “satisfied” or “very satisfied” with the program also reporting OOP costs. By comparison, among firms that reported being “dissatisfied” or “very dissatisfied” with the OregonSaves, 41.1% reported having OOP costs.[7]

Figure 5

Overall Satisfaction With OregonSaves Linked to Incurring Out-of-Pocket Expenses



Note: Sample size = 2,253.

Source: Pew’s survey of employers registered with the OregonSaves retirement savings program, 2019-20

Conclusion

Auto-IRA programs such as OregonSaves have the potential to help employees who lack access to an employer-sponsored retirement plan put aside funds for retirement. An important issue for the success of these programs is whether participating employers experience additional costs. While the survey found that having OOP costs is strongly linked to employer dissatisfaction with the program, the overwhelming majority (80%) of firms reported incurring no OOP costs in the form of money or time.

Among those that reported having OOP costs, some said their external payroll processing firms had charged additional amounts to enroll workers or to process worker contributions. Other employers included as costs the uncompensated time they devoted to administrative tasks such as enrolling employees and processing contributions; consequently, the share of firms making cash outlays is likely lower than the overall figure of 21.5% reporting OOP costs. Firm size and industry type had a direct impact on the incurrence of OOP costs with OregonSaves.

With programs like OregonSaves under consideration around the country (auto-IRA bills have been introduced in 21 states), future research could explore several issues raised by this study. For example, additional studies could examine whether the ability to outsource the work of registering for the OregonSaves program and processing workers' payroll deductions is a voluntary choice of some large employers, and whether firms' service providers are charging extra fees for helping firms comply with OregonSaves. As auto-IRA programs mature, employers and administrators of such programs may be able to work with payroll and bookkeeping service providers to reduce or eliminate processing costs. In addition, the decline in reports of OOP costs over the course of the survey rounds may suggest that OregonSaves or employers are gaining experience and efficiency with program tasks such as facilitating payroll contributions, both of which lower costs.

Prior Pew research found that the major reason many small businesses did not offer retirement benefits was the cost of starting a plan.[8] Given the variety of firms surveyed in terms of size, workforce, industry, age, and other factors, an important takeaway of this report is that OregonSaves does not result in costs for the vast majority of employers. The implication is that employers can, at no cost to most of them, offer a retirement benefit through a state-facilitated auto-IRA.

Appendix

Qualtrics collected this data in Pew's Survey of Employers Registered With the OregonSaves Retirement Savings Program. The target population was business representatives who were familiar with their organization's experience with OregonSaves. Pew obtained a list of businesses maintained by the OregonSaves program administrator, Ascensus. Study participants were contacted using the email address on file with the program administrator. The survey was fielded online in three rounds during 2019 and 2020. OregonSaves registered participants over a series of deadlines, and each survey round was designed to capture newly registered businesses. The first round, conducted July 29 to Aug. 16, 2019, included all businesses that had registered on or before April 1, 2019. The second round, conducted Sept. 21 to Oct. 11, 2019, included all businesses that registered on or before May 31, 2019. The third and final round, conducted March 23 to April 10, 2020, included businesses that registered on or before Dec. 1, 2019.

Because all unique contacts received an invitation, this survey was a census and has a response rate of 21.8%. All analyses presented in this report are unweighted because the survey responses are representative across nine industry categories.

Endnotes

1 A defined contribution plan is a type of retirement plan in which a worker contributes a percentage or a share of each paycheck to an account that is held in the worker's name. Employers generally contribute matching percentages as an incentive to participate. The accounts are intended to be used in retirement, and restrictions apply to pre-retirement withdrawals.

2 Research by The Pew Charitable Trusts found that 42% of full-time, full-year private sector employees ages 18 to 64 lack access to a retirement plan at their job. See The Pew Charitable Trusts, "A Look at Access to Employer-Based Retirement Plans and Participation in the States: Who's in, Who's Out" (2016), https://www.pewtrusts.org/en/research-and-analysis/reports/2016/01/a-look-at-access-to-employer-based-retirement-plans-and-participation-in-the-states.

3 Any amounts that a participant contributed (with the exception of certain "conversion" contributions) that are being returned to the participant will be distributed tax and penalty free but any earnings on the account that are distributed may be subject to tax and penalty. See OregonSaves, "Withdrawals," accessed Dec. 8, 2020, https://saver.oregonsaves.com/home/savers/withdrawals.html.

4 U.S. Bureau of Labor Statistics, "Annual Total Separations Rates by Industry and Region, Not Seasonally Adjusted," accessed Dec. 7, 2020, https://www.bls.gov/news.release/jolts.t16.htm. Administrative and support services are a subcategory of the professional and business services supersector; we combined categories to improve statistical significance. See also U.S. Bureau of Labor Statistics, "Industries at a Glance: Natural Resources and Mining," accessed Dec. 7, 2020, https://www.bls.gov/iag/tgs/iag10.htm.

5 For more discussion of employers' satisfaction with OregonSaves, and additional drivers of satisfaction, see https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/04/oregonsaves-auto-ira-program-works-for-employers. For survey methodology and toplines, see https://www.pewtrusts.org/-/media/assets/2020/06/oregonsaves-retirement-savings-program-methodology.pdf and https://www.pewtrusts.org/-/media/assets/2020/06/oregonsaves-retirement-savings-program-topline-results.pdf.

6 U.S. Bureau of Labor Statistics, "Annual Total Separations Rates." Administrative and support services are a subcategory of the professional and business services supersector; we combined categories to improve statistical significance. See also U.S. Bureau of Labor Statistics, "Industries at a Glance: Natural Resources and Mining."

7 For more survey findings concerning employer satisfaction with OregonSaves, see https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/04/oregonsaves-auto-ira-program-works-for-employers.

8 The Pew Charitable Trusts, "Employer Barriers to and Motivations for Offering Retirement Benefits" (2017), https://www.pewtrusts.org/-/media/assets/2017/09/employer_barriers_to_and_motivations.pdf.

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