REPORT ON THE PROCEEDINGS OF THE
PENNSYLVANIA TREASURY DEPARTMENT PRIVATE SECTOR

Retirement Security Task Force

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Executive Summary

Large numbers of Pennsylvanians are seriously unprepared for the financial challenges of retirement, and their insufficient savings will have consequences for both their own lives and for our Commonwealth. Lack of retirement savings would add on average nearly $1 billion in costs annually to the state's already strained General Fund budget. While this situation is not unique to Pennsylvania, the demographics of our aging state mean greater fiscal consequences for Pennsylvania than for many other states.

The lack of access to a retirement savings plan for individuals at their places of employment is a particularly damaging contributor to this state of affairs. In fact, it may be the single factor most clearly related to lack of savings activity. National statistics reveal that more than three-quarters of employees who are offered retirement plans at their jobs elect to participate. This level of participation in financial preparation for retirement is roughly fifteen times greater than that exhibited by workers who cannot save through their workplaces.

Unfortunately, more than 2.1 million Pennsylvanians work for employers that do not offer retirement plans. Although a number of these employees labor for small firms, there is a significant – and surprising – concentration of workers without plans in medium and large firms. More than 500,000 are in companies with 50 to 499 employees; another 703,000 work for businesses with 500 or more employees.

The Commonwealth faces a number of other aggravating factors that are likely to intensify the significance of this level of unavailability of workplace options. For one thing, it attracts (and retains) senior citizens – it has the fifth highest percentage of population over 65 in the United States. As the Baby Boomer generation continues to age, Pennsylvania faces a large increase in the total senior population. It also has higher than national average costs for housing and health care, increasing the burden of those essential needs on fixed income individuals.

As retirees find themselves financially unprepared to maintain a minimum quality of life, government's fiscal well-being will be strained by two different - but cumulative - forces. Research prepared for the Pennsylvania Treasury Department Private Sector Retirement Task Force ("Retirement Task Force") projects that financially unprepared retirees will place demands for state social services costing Pennsylvania an additional $14 billion during the period 2015 – 2030. At the same time, reduced consumer spending activity by this group will depress Commonwealth tax collections by roughly $1.4 billion over the time frame.

Pennsylvania Treasurer Joe Torsella convened the bipartisan Retirement Task Force of knowledgeable and interested government, private and non-governmental leaders to consider implications of significant numbers of financially unprepared individuals living their retirement years in Pennsylvania. Over the course of four hearings, the Retirement Task Force heard testimony from retirement experts, traditional economists, behavioral economists, employers, financial advisors, a legal specialist, and other experts regarding the nature and scope of the looming problem. The Retirement Task Force also heard from officials from other jurisdictions, who described a number of innovative approaches to increase retirement savings activity by workers that have been authorized by state legislatures and are now being implemented.

Despite the severity of the problem, there is strong foundation for optimism. Employers currently not offering any retirement plans through their businesses testified to the Retirement Task Force of their desire to help employees prepare for their financial futures, citing it as both the right thing to do for workers and also a valuable tool for them in maintaining loyal and talented employees. They also expressed a strong interest in and support for a state program that could make it easier for them to provide this benefit, confirming the findings of prior surveys that reported the same attitudes.

Although the various state programs being introduced around the country offer several different basic structures, the Retirement Task Force also found a high degree of consensus—both within the Retirement Task Force and among experts—about the core elements that are essential for any initiative to substantially improve retirement savings activity. Many of these elements have been identified by studies in the field of behavioral economics and can be incorporated in program design relatively easily.

While no single program design commanded universal support for every one of its details from all Retirement Task Force members, at the end of the Retirement Task Force's work there was broad and bipartisan consensus around a Pennsylvania version based on the Auto-IRA model that incorporates income stream distribution options as well as more conventional asset-allocation investment choices. The Retirement Task Force was not convened with the intention of proposing or agreeing to specific legislative solutions, and this report does not speak for Retirement Task Force members in their individual capacities. Some Retirement Task Force members, for example, would prefer establishing a program that returned to the defined benefit structure and required employer contributions, while others would favor creating incentives for employers to offer workplace savings opportunities rather than requiring businesses to participate in a state-sponsored program. But the recommendations here represent a broad consensus in principle of the Retirement Task Force.

Pennsylvania should move with all deliberate speed to enact legislation authorizing the Treasury Department to create an Auto-IRA program through which it can partner with private employers not currently offering any retirement savings opportunities to provide access to safe and inexpensive retirement savings products to their workers. Any program would be administered by Treasury, but – similar to 529 career and college savings accounts, or the more recently enacted ABLE accounts for Pennsylvanians with disabilities – run by a private sector vendor or vendors, and, while requiring support for start-up costs, would be ultimately self-funding. The program should be designed to maximize the number of employers who make available the products to their employees, automatically enrolling them and making automatic deductions for them from their pay unless they affirmatively choose not to participate. The program should bring about this result while imposing no costs or liabilities, and only minimal administrative burdens, on employers. The program should be coupled with a comprehensive statewide effort to improve financial literacy generally. This element should include providing employers and employees effective and accurate information about the challenges of retirement and the benefits of early and regular contributions to retirement savings accounts. It should also provide specific information about investment products that can be used to secure income streams throughout retirement and encourage inclusion, where appropriate, of such products in each individual's retirement planning.

The private sector retirement savings crisis affects us all, even those who have begun to save for retirement. If left unchecked, the cost to our state budget will only snowball over time, threatening to crowd out funding that would otherwise support other important government services. It is not only new state expenditures that will be demanded, but also a diminishing tax base from which to fund them, as retirees will see their spending power reduced. This type of crisis does not occur in a vacuum—it threatens businesses and individuals, children and adults. But it doesn't have to. Initiatives in other states show that by taking simple steps to make it easier for working people to save their own money, we can get ahead of this issue, help both businesses and their workers, and help ensure a brighter future for our great Commonwealth.

Introduction

Pennsylvania Treasurer Joe Torsella convened the bipartisan Private Sector Retirement Security Retirement Task Force in September 2017 in response to growing recognition that many Pennsylvania workers lack access to retirement savings opportunities in their workplaces, and approach the end of their careers poorly prepared financially to maintain quality of life during retirement. The Retirement Task Force consisted of the Treasurer and the following legislators and representatives from key stakeholder groups or organizations:

- State Senator Scott Hutchinson, Senate Finance Committee Chair;
- State Representative Bernie O'Neill, House Finance Committee Chair;
- State Senator John Blake, Senate Democratic Finance Committee Chair;
- State Representative Jake Wheatley, House Democratic Finance Committee Chair;
- Kevin Shivers, National Federation of Independent Business of Pennsylvania;[1]
- Sarah Gill, AARP;
- Frank Snyder, Pennsylvania AFL-CIO; and
- Bob Jazwinski, Pennsylvania Institute of Certified Public Accountants.

Between October 2017 and February 2018, the Retirement Task Force held four public hearings and several meetings to examine issues related to financial preparedness for retirement. The goals of the hearings were to raise awareness concerning the nature and scope of the savings crisis; identify factors and circumstances that impede individuals from saving for their retirements and employers from offering savings opportunities; develop a record of national best practices or possible solutions to facilitate increased employee savings activity; and explore solutions to bring one or more of these ideas into Pennsylvania.

This is the final report of the information developed by the Retirement Task Force, its observations, and its recommendations.

(1) Bernie O'Neill retired from the General Assembly between completion of hearings and release of this report. Kevin Shivers transitioned to a new organization shortly after the last hearing.

Problem Statement

Too Many Pennsylvanians Are Unprepared for Retirement

> "Pennsylvania's population of senior citizens is among the largest in the country, and its healthcare and housing costs are higher than the national average."

There is a serious and growing retirement insecurity crisis in the United States. According to the National Institute on Retirement Security (NIRS), the typical balance for those workers lucky or diligent enough to actually have accumulated retirement savings is a modest $40,000. Unfortunately, more than 100 million working age Americans neither own any assets in retirement accounts (whether in their own IRAs or in an employer-sponsored 401(k) plan) nor are protected by a defined benefit retirement plan. Thus, when all these working Americans are considered – meaning those without any retirement assets as well as those with any form of accounts or plans with balances – the median retirement savings value is $0, a number that is as troubling as it may be hard to accept. Even when their entire net worth is included, more than three-fourths of Americans fall short of generally accepted conservative retirement savings goals for their ages. The median member of the much discussed "Baby Boomer" generation has one dollar saved for retirement. In terms of mean retirement assets among 55-64 year olds (near retirees), close to one third have nothing at all saved.

This widespread lack of preparedness for retirement portends dire financial consequences not only for individuals leaving the workforce but also for the demands they are likely to place upon the Commonwealth government and the resources available to the Commonwealth to meet these demands. It has been projected that eligibility for means-tested social benefits will grow among financially unprepared Pennsylvania retirees more than $1 Billion annually by 2030 while tax revenues to the Commonwealth from this cohort will shrink each year by more than $100 Million by 2030. This financial double whammy will put significant new strains on the Commonwealth's already stressed fiscal condition.

Retirement security in the US has traditionally been based upon three pillars: Social Security, employer-sponsored retirement savings plans, and individual savings. The Government Accountability Office reports that due to shifting demographics, the rising cost of healthcare, and net interest on the public debt, Americans could face a reduction in Social Security benefits as early as 2035. That looming potential increases pressure on employees to save for retirement, and casts a bright light on the large number of workplaces without any retirement savings opportunities for their workers.

Pennsylvania has slightly higher average retirement balances than the national average. The average defined contribution account in Pennsylvania has close to $41,000, or about $10,000 more than the national average. This seeming advantage, however, is relative, not absolute. The average Pennsylvania balance still falls significantly below the common recommendation that a starting account balance be at least eight times the relevant annual income to assure a comfortable retirement for most people (per the US Census Bureau 2013-2017 American Community Survey five year estimates, the Commonwealth's average annual household income is about $78,000).

Furthermore, there are considerations that make Pennsylvania more vulnerable to damaging impacts from this problem than elsewhere. Pennsylvania's population of senior citizens is among the largest in the country. Pennsylvania's healthcare and housing costs are also somewhat higher than the national average, according to NIRS, which means retirees can expect to spend a greater portion of their savings to meet these costs.

Limited Workplace Savings Opportunities is a Key Factor Contributing to Retirement Insecurity

The crisis did not develop overnight, and it does not result from a single cause. The variety of factors that have combined to bring about the situation include:

- Many employers do not offer a retirement program of any sort in their workplaces.
- Among employers that offer a retirement plan, there has been a widespread shift from providing defined benefit plans to offering defined contribution plans.
- Among workers who do not have a retirement savings plan through work, few open their own individual retirement accounts.
- Fewer workers remain at the same job and participate in a single retirement plan for the majority of their careers.

Retirees are also enjoying increased longevity, which extends the period of time during which they must rely on private savings and retirement accounts to supplement often modest Social Security benefits.

To begin, many employers do not offer a retirement savings plan option. Although different sources offer slightly different figures, it is safe to say that roughly one-half of private sector workers in the United States lack access to a workplace retirement savings plan. Pennsylvania rates are consistent with this statistic, according to a report from AARP: it found that 44% of private sector workers are employed by firms that do not offer any retirement opportunity.

Business owners testifying at the Retirement Task Force hearings acknowledged the importance of offering retirement benefits in order to reward existing staff as well as to attract and retain highly-qualified new staff. Employers also explained, however, that they face considerable barriers in doing so. For example, administration of plans can be costly, and, especially for small employers, it can be time-consuming and overwhelming to learn about plan types and how to establish one. Responsibility to comply with the requirements of ERISA, the federal statute that protects the interests of employees who save through employer plans, constitutes a major challenge. According to Robert Yelenovsky of Fragasso Financial Advisors in Pittsburgh, employers must also engage with many actors in providing a plan, such as financial advisors and insurance agencies, who ultimately bear no fiduciary responsibility to plan participants. The prospect of being responsible to insure that their employees' retirement savings are invested soundly can be daunting.

There has been some recent movement at the federal level. On August 31 of 2018, President Donald Trump signed an executive order calling for reforms to federal requirements regulating the workplace retirement savings environment. Shortly thereafter, the Department of Labor published proposed rules intended to encourage employers to offer plans for their employees. A central component of the executive order, and then the proposed regulations, was a call for changes making it easier for employers to participate in what are called multiple employer plans, or MEPs. MEPs are ostensibly attractive because employers can somewhat lower costs and burdens through pooling of activity, and may reduce investment fees through economies associated with the greater scale of aggregated assets.

While a welcome development, it is not at all clear that these rules will dramatically alter the employer participation environment. Many of the barriers that MEPs were designed to lower have been largely removed by market and other forces without significantly increasing the number of employers offering their own 401(k) structures. Thus, it seems likely that easier MEP participation may make a marginal difference, but not substantially increase the number of employers offering plans.[2]

Over time, employers that do offer retirement savings opportunities have moved away from providing defined benefit plans towards offering defined contribution plans instead. This sea change in the retirement security landscape has shifted the burdens of decision-making and risk-taking from the employer to the individual. Individual employees are, if anything, even more likely than their employers to be overwhelmed by the scope and complexity of the decisions necessary to engage in prudent saving and investment activities. The challenge of navigating investment options, setting salary deduction levels, estimating unknown future needs, and weighing financial risk can easily lead to decision paralysis.

Lack of access to payroll deduction retirement plans at workplaces is a key driver of retirement insecurity for employed individuals. According to the US Bureau of Labor Statistics, 77% of workers who are offered retirement plans at their jobs (combined public and private employees) choose to participate in them. In contrast, only about five percent of workers who lack access to retirement savings opportunities at their places of employment actually open any form of private, independent retirement plan. According to AARP, this results in employees with access to plans at work being 15 times more likely to have retirement savings than workers who lack access.

Unfortunately, more than 2.1 million Pennsylvanians work for employers that do not offer retirement plans. Although a number of these employees labor for small firms, there is a significant – and surprising – concentration of workers without plans in medium and large firms. More than 500,000 are in companies with from 50 to 499 employees; another 703,000 work for businesses with 500 or more employees.

(2) *Eric Droblyen, "How Trump's Executive Order on Retirement Plans Falls Short," Employee Fiduciary, September 19, 2018. https://www.employeefiduciary.com/blog/trump-executive-order-on-retirement-plans-falls-short.*

While the retirement insecurity crisis will affect millions of workers, its impacts will not strike everyone equally. Some Pennsylvania workers are more vulnerable than others. Researchers at Pew Charitable Trusts found that access varies rather widely by industry, with fewer retirement options offered by employers in construction, retail, leisure, and hospitality. Pew also found that part-time workers are less likely to have access, meaning that women – who work part-time more than men – will be disproportionately disadvantaged. In addition, racial and ethnic minorities have less access to workplace plans than white workers. Fifty percent of blacks and 56 percent of Hispanics do not have workplace retirement benefits, compared to 42 percent of white non-Hispanic workers.

Unfortunately (as the BLS statistics demonstrate), very few individuals open their own IRAs when no retirement savings options are available at their places of employment. The Retirement Task Force heard presentations from behavioral economists and others who confirmed that procrastination is a common, and powerful, human behavior. Even when there is the will to save, individuals confront difficult challenges such as slow wage growth and high levels of household debt, which impose competing, immediate demands on workers' paychecks. Meanwhile, changing jobs several times throughout an individual's career is now more commonplace, with problematic implications for the ability to accumulate wealth and effectively take advantage of compound interest earning. Even though compounding is more meaningful the longer funds are maintained in accounts benefitting from its effects, too many workers persuade themselves they can make up for putting off starting to save by increasing contributions later. Rarely does this strategy succeed.

Inadequately Prepared Retirees Will Present Significant Challenges for the Commonwealth, Including Fiscal Strain

Pennsylvania is in the early surge of a large wave of workers entering retirement. The baby boomer generation – commonly described as encompassing people born from 1946 to 1964 – constitutes a particularly large cohort of the state's population. It offers an example of the potential scale of the challenge that unprepared retirees can present, not only for the size of this group, but because people enjoy greater longevity today than ever before. The number of seniors in the Commonwealth population – defined as people aged 65 to 74 – increased by 303,000, or 31%, between 2010 and 2017. Their number will increase by another 270,000 by 2025, to a total of 1.55 million people. If these individuals are not financially prepared for retirement, they will place great demands on the Commonwealth for services while simultaneously weakening sources of revenue that government relies upon to fund those services. Cohorts that follow will present similarly heavy demands on our state government absent well-designed efforts now to make saving for retirement more convenient, and much more common, for those currently in the work force and for those who join it in the future.

> **"Retirees unprepared financially for life after they stop working will need an additional $14 billion in social services during a 15-year period but their reduced consumer spending will lower Commonwealth tax revenues by $1.4 billion over the same time span."**

Econsult Solutions conducted, at the request of the Treasury Department, a rigorous investigation into the quantitative fiscal impacts on the Commonwealth over the next 15 years from retirees who have inadequate savings. Its report to the Retirement Task Force identified two kinds of significant financial implications for Pennsylvania's fiscal health and its economy. First, retirees whose diminished incomes make them eligible for means-based assistance resulted in increased costs for social services of $702 million in 2015, an amount that grows to $1.12 billion in 2030. The aggregate cost of increased demand for these services over this 15-year period is projected to require more than $14 billion in additional state expenditures for retirees. Second, the reduced incomes of these retirees will translate into lower consumer spending, shrinking economic activity in the Commonwealth by more than $55 billion over the same period. The lower consumer spending directly reduced tax revenue to the Commonwealth by $70 million in 2015, an annual drop that will grow to $106 million in 2030. This will mean a cumulative loss of $1.4 billion in Pennsylvania tax revenues over the period from reduced consumer spending.

While the magnitude of the retirement crisis outlined here is great, responsive and effective public policy has the potential to make genuinely meaningful improvement. A worker who accumulates a balance of, for example, $40,000 by retirement age might put off beginning to draw Social Security benefits for a year or more, a strategy that can significantly increase the monthly amount that the federal government will eventually pay. More substantial account balances may provide reliable income throughout retirement to supplement Social Security. For an individual otherwise facing retirement with no savings, an innovative savings opportunity that allows the accumulation of even a modest balance of $10,000 through small regular payroll deductions could provide the means to address one or two large unexpected expenses during retirement – a car repair or furnace replacement or medical costs – in a manner that prevents falling into a downward financial spiral. Further, there is some evidence suggesting that savings in one area of life is associated with improved financial habits and financial health in other areas. [3]

In surveys and in the Retirement Task Force hearings, employers have demonstrated interest and willingness to participate in a state-supported solution to assist employers and employees alike in reaching the goal of improving long-term financial security for individuals presently without any workplace opportunity to save for retirement. A state-supported program that enables employers to achieve the goals of preserving their competitive position against other firms and providing their workers the benefit of access to a savings opportunity would constitute a new and constructive form of public/private partnership. Such a partnership would combine and leverage distinct advantages of the private and public sectors to deliver positive outcomes for individuals, individual businesses and the Commonwealth's economy.

(3) Aliza Gutman, Thea Garon, Jeanne Hogarth, & Rachel Schneider. "Understanding and Improving Consumer Financial Health in America." Center for Financial Services Innovation, 2015. https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/24183123/Understanding-and-Improving-Consumer-Financial-Health-in-America.pdf.

Overview of Common State-Supported Retirement Security Models

The Retirement Task Force devoted substantial time to gaining an understanding of the various models that are being examined, and in many instances, deployed, by states around the country in their efforts to enhance retirement savings opportunities for workers. The following thumbnails describe these models.

The Automatic-IRA (Auto-IRA)

History: The Automatic-IRA model, or "Auto-IRA," as it is more commonly known, has gone through many iterations and refinements as it has moved from a think-tank brainchild to full-fledged implementation. Much of the credit for the creation of the Auto-IRA concept can be attributed to the work of David C. John on behalf of the Heritage Foundation, partnering with J. Mark Iwry on a seminal paper proposing this structure.[4] The Brookings Institution has also reported favorably on this approach. By 2015, the Auto-IRA had gathered significant momentum in a number of states, and legislative action soon took off in a number of jurisdictions. Illinois was the first state to enact legislation; its Secure Choice program was signed into law in 2015 and officially launched in May 2018. In total, five states have enacted some sort of Auto-IRA legislation. The state of Oregon, through the enactment of OregonSaves, is the first state to implement an Auto-IRA program statewide. The states and cities listed below have enacted variations of an Auto-IRA program.

States with Enacted Legislation: California, Connecticut, Illinois, Maryland and Oregon

Policy Components: The program requires certain defined employers that do not currently provide retirement savings availability to automatically enroll employees into either a traditional or Roth IRA and to transmit employee payroll deductions to that plan. The following components are consistent in every state model thus far:

- No employer contributions under federal law
- Employees have the right to opt-out
- Employer role limited by federal law to ministerial activities, including:
    - Collecting payroll deductions and remitting to the program
    - Maintaining record of payroll deductions
    - Providing information to the state
    - Distributing information to employees
- In the absence of a different employee direction, default contributions generally 3%-6%
    - Contribution percentages automatically increase over time (employee may opt out)
- IRA total annual contribution limits apply
    - $5,500 yearly max contribution for individuals under age 50
    - $6,500 yearly max contribution for individuals over age 50

ERISA Applicability: Congress, with President Trump's approval, in 2017 effectively rescinded the 2016 Department of Labor (DOL) Safe Harbor rule that was intended to promote the introduction of state run Auto-IRA programs. However, legal experts on ERISA and Auto-IRAs, including David Morse of K&L Gates, maintain that properly designed programs that comply with the provisions of the earlier 1975 DOL Safe Harbor rule, which was unaffected by the disapproval of the 2016 rule, will not be subject to ERISA. [5]

(4) David C. John and J. Mark Iwry. "Pursuing Universal Retirement Security through Automatic IRAs." The Heritage Foundation, 12 Feb. 2006. www.heritage.org/social-security/report/pursuing-universal-retirement-security-through-automatic-iras.

(5) David E. Morse. "State Initiatives to Expand the Availability and Effectiveness of Private Sector Retirement Plans." Georgetown University, McCourt School of Public Policy Center for Retirement Initiatives, December 2014. https://cri.georgetown.edu/wp-content/uploads/2014/12/Morse_CRIPaper.pdf. See Appendix B for more information on the Employee Retirement Income Security Act of 1974 (ERISA).

Highlighted Efforts

OREGONSAVES

Program Components: Oregon was the first state to begin implementing an Auto-IRA plan. The plan, OregonSaves, was enacted in 2015 and completed its first employer registration phase in November 2017 (the program, which used a phased implementation approach, is now open to covered employers of all sizes). The default contribution level for employees is currently set at 5% (employees can opt to adjust) and increases automatically by 1% each year to a 10% maximum. The first $1,000 of contributions goes to a capital preservation fund while all savings over $1,000 are diverted to an age-based Target Retirement Fund (unless an employee selects from one of the other investment vehicles offered by the program). Administrative fees are netted from returns daily, currently at a rate of $1 for every $100 on an annual basis. The structure of the account is a Roth IRA, and is subject to all Roth IRA regulations.

Current Status: As of November 2018, combined assets for the OregonSaves program totaled over $9 million, somewhat more than 45,000 Oregon workers had enrolled and were making regular contributions to their accounts, and 1,721 employers were registered.[6] OregonSaves completed the third phase of its rollout in December 2018 and as a result all employers with 20+ employees should now either offer their own retirement plan or participate in the program.

Like virtually every Auto-IRA program, OregonSaves is designed to be self-funding, utilizing fees collected from participants' accounts to pay not only for all administrative and operating costs but also for the costs charged by the providers of the investment products that the program offers. Although OregonSaves has enjoyed a well-planned and successful roll-out, the pace of asset accumulation in this state of 4 million people has raised some concerns about the viability of the self-sustaining vision in the near term. OregonSaves' assets (as of November 2018) of $9 million will generate, at a one percent fee, only $90,000 for the first program year. A significant portion of that will be transferred to the investment providers, leaving the program limited funds to cover all remaining costs and expenses. The program administrators believe that this challenge will be solved with the passage of time, as all employer categories are incorporated, and as the asset base grows from annual deductions.[7] In anticipation of this challenge now, however, smaller states such as Oregon, Washington and others are discussing the formation of multi-state consortia that can share administrative and operational costs. Such strategies would empower states to collectively engage investment managers in order to reduce product prices by making greater total assets available for management.

(6) Assets and employee enrollment numbers come from: Johnathan Bach, "Retirement plan OregonSaves Popular with Young Workers, Now Available Statewide," Salem Statesman Journal, November 13, 2018. https://www.statesmanjournal.com/story/news/2018/11/13/oregonsaves-retirement-program-now-available-workers-statewide/1977996002/; Employer registration numbers are from: "Oregon Retirement Savings Board Meeting 12/11/2018," Master Page 44 of 116. https://www.oregon.gov/retire/SiteAssets/Pages/Meetings/DecemberORSBBoardBook12.11.18.pdf.

(7) Pennsylvania, a substantially more populous state, would likely not encounter this problem. Many program costs are relatively inelastic – they will not vary greatly regardless of the size of the participant base – allowing the Commonwealth's larger employee base and expected resulting greater total account balances to more easily defray those and other administrative costs.

OregonSaves recently introduced modifications to its program to enable individuals who do not work for a covered employer (covered employers are those required by the OregonSaves program to automatically deduct amounts from their employees' pay) to participate in the Auto-IRA scheme. These individuals – independent contractors, sole proprietors, so-called gig economy workers, employees of firms below the OregonSaves threshold, etc. – can participate so long as the individual can establish periodic automatic electronic deposits to OregonSaves, either through automatic transfers from his or her bank or through an employer who voluntarily agrees to take salary deductions and remit those amounts to the program.

MARYLAND$AVES

Program Components: Maryland's Auto-IRA program was enacted with bipartisan support in 2016. The program functions similarly to other states' Auto-IRA initiatives, wherein the state will sponsor one or more payroll deposit IRA arrangements available to employers who do not currently offer a qualified plan. The Maryland program is mandatory for all employers that pay employees through a payroll system or service, with a two-year deferral for new businesses. Employers retain the option of providing a plan available through the private market. The legislation additionally establishes The Maryland Small Business Retirement Savings Board, whose members select default contribution rates, evaluate employers, and select the range of investment options. Maryland law now incentivizes employers to offer a retirement savings plan, either on their own or through participation in Maryland$aves, by waiving an annual fee that Maryland businesses must otherwise pay. The fee is waived each year that the employer demonstrates participation in Maryland$aves or another federally compliant retirement savings program.

Current Status: The Maryland program is not yet operational. A pilot version of the program is expected to launch in summer 2019, and full program implementation is slated for 2020.[8]

(8) *"Maryland," CRI Partners Homepage, Georgetown University McCourt School of Public Policy Center for Retirement Initiatives, updated January 4, 2019.*

The Multiple Employer Plan (MEP)

History: Multiple Employer Plans or MEPs have existed prior to the passage of ERISA and predate the current tax code. A MEP is a 401(k) plan – an employer defined-contribution retirement plan into which employers and employees may make tax-deductible contributions from their wages – and is thus subject to the full scope of ERISA and the Tax Code "qualified" plan rules. According to IRS ruling, any combined plan of unrelated employers is defined as a MEP if, "the program's assets are combined in one pool, without any employer-by-employer segregation."[9] Several developments from the federal government have opened MEP usage up to the states. In 2015, DOL released an Interpretive Bulletin regarding state sponsoring saving options that helps facilitate private sector retirement savings, relaxing certain restrictions if the state wishes to sponsor a MEP. As previously noted, DOL recently proposed new rules that will make it easier for all employers to join MEPs. A government-supported MEP may be "open," which permits any business employing state residents to join the program; this removes the common bond requirement (i.e. in the same industry) that federal law imposes on most other MEPs.[10]

Policy Components: As all MEPs are established as 401(k) plans, they are subject to ERISA regulations applicable to such plans. Additionally, state-supported MEPs require:

- The state or designated governmental agency be the plan sponsor under ERISA and also act as the plan administrator and fiduciary
- Investment options be determined by the state or other governmental entity
- Employer participation be voluntary
  - Must meet certain eligibility criteria regarding employer size; may also be limited by business sector
  - Employers required to execute a participation agreement
  - An individual employer would not be considered to have established its own "single employer" ERISA plan
- Employer role, should they choose to participate in the plan, is to enroll employees in the state plan and forward contributions
- Employer contributions permitted but not required
- 401(k) contribution limits apply
  - $18,000/year for those under 50; $24,000/year for those 50+
- Automatic enrollment is permitted

ERISA Applicability: All rules, regulations, and standards set forth by ERISA apply to any MEP.

(9) *Treas. Reg. § 1.413-2 (as amended in 1979) and Treas. Reg. § 1.414(l)-1 (1979).*

(10) *David E. Morse and Angela M. Antonelli, "Multiple Employer Plans (MEPS): An Overview of Legal, Regulatory, and Plan Design Considerations for States," Georgetown University, McCourt School of Public Policy Center for Retirement Initiatives, August 2017. https://cri.georgetown.edu/wp-content/uploads/2017/08/CRI_MEP_PolicyReport17-2.pdf.*

Highlighted Efforts

Vermont Green Mountain Secure Retirement Plan

Program Components: The Vermont Green Mountain Secure Retirement Plan was enacted in 2017. The plan will be voluntary for employers and only employers with 50 or fewer employees will be eligible for participation. Once the employer opts-in, all employees will be automatically enrolled with the ability to opt-out. The plan will be open for self-employed workers such as contingent workers, gig workers, independent or contract workers. Employee contributions will be the primary source of initial funding, with future optional employer contributions permitted by the statute. No default contribution level is currently specified. The plan will be overseen by a board that will assist the Vermont Treasurer's Office with vendor selection, approval of plan documents, and the adoption agreement.[11]

Current Status: The Vermont Green Mountain Secure Retirement Plan, which was preparing to launch statewide in January 2019, has delayed moving forward pending clarification of the potential effect of the new federal regulations upon state administered MEPs.

Marketplace

History: A Marketplace is a state-supported online informational hub that provides a portal to match businesses and individuals, including sole proprietors and other "gig" workers, with financial service providers offering retirement plans. It helps small business owners identify approved retirement plan providers, but in the Marketplace model the state plays no role in aggregating funds or overseeing a retirement plan provider for a business or individual.

Policy Components: As a Marketplace plan is not its own retirement plan per se, there are fewer policy considerations and regulations involved in implementation. The state's involvement is relatively low in comparison to the other plan models, with the exception of start-up costs. The state contracts with the private sector to establish an online program (the Marketplace) that connects eligible employers with qualifying savings plans that are already available in the private sector. Employer participation is completely voluntary; the portal is meant only to ease simplify the process of finding a suitable plan. Other factors such as employer contribution, employee contribution, and the type of investment options available are variable and contingent on the type of product that is being offered by the private sector service provider.

ERISA Applicability: ERISA does not apply to a Marketplace, but does apply to employer plans offered through a Marketplace.

Legislation creating a Marketplace plan was enacted in May 2015 in Washington State and enacted in January 2016 in New Jersey. The Washington State program has since been implemented online, opening for business in March 2018.[12]

(11) Green Mountain Secure Retirement Plan," State of Vermont Office of the State Treasurer. https://www.vermonttreasurer.gov/content/green-mountain-secure-retirement-plan.

(12) "Washington Retirement Marketplace Offers Small Business Owners and Individuals a Simple Way to Shop for State-Verified, Low-Fee Retirement Savings Plans," State of Washington Department of Commerce, March 19, 2018. www.commerce.wa.gov/news-releases/washington-retirement-marketplace-offers-small-business-owners-and-individuals-a-simple-way-to-shop-for-state-verified-low-fee-retirement-savings-plans/.

Highlighted Efforts

Washington and New Jersey Marketplaces

The states of Washington and New Jersey each enacted legislation calling for the implementation of a retirement savings program based on the Marketplace model. Both have struggled to develop functioning platforms that might bring about meaningful improvement in workplace savings activity within their jurisdictions.

Washington's experience since enactment of its legislation illustrates the challenges Marketplaces can face in reaching operational viability, let alone scale. The state's law, effective as of May 2015, contained various provisions regarding the structure and operation of the actual Marketplace that were intended to provide consumer protections and exert downward pressure upon fees to participants. Initial plans called for the Washington State Small Business Retirement Marketplace to be implemented in January of 2017. Ultimately, the Marketplace did not go live with specific investment plans for potential participants until late March of 2018. Unfortunately, following launch the platform did not attract substantial interest from investment providers, employers or employees.

New Jersey's efforts were arguably even more still-born. As of January of 2019, there had been no New Jersey Marketplace portal servicing the state's employers or employees implemented online.

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More significantly, the political sentiments in both states regarding the appeal of the Marketplace model have shifted discernibly. In late February of 2019, the New Jersey General Assembly passed legislation to create an auto-IRA retirement savings program in the state, following the model adopted by Oregon, Illinois, California, and other states. The legislation is expected to be signed by Governor Phil Murphy.

Washington is following a similar path. State Senator Mark Mullet, who sponsored the Marketplace legislation, is now leading the effort to pass a bipartisan bill to set up a state auto-IRA plan that would have Washington partner with the nearby OregonSaves program, which is already fully implemented and has an established asset base. The two programs would realize savings and efficiencies by operating from a common bookkeeping platform and sharing investment managers.

Senator Mullet, a Democrat, has said that he is "genuinely excited about moving forward. The hope is that if we can show how this partnership works, I think other states will follow." Mullet says he has been able to convince Republican senators to embrace the switch to an auto-IRA plan "because it didn't cost anything to get a program up and running. We are hopefully showing the red states a path."

With these recent developments, there appears to be only one state that currently utilizes a standalone Marketplace model to encourage workplace retirement savings (although the Vermont MEP may at some point be supplemented by a Marketplace for employees whose employers do not participate in the MEP).

USA Retirement Plan

History: The USA Retirement Plan was developed in response to a request from then Senator Tom Harkin for a fully operational design to address America's looming retirement income crisis. In response, a volunteer group of professionals convened to develop a comprehensive program from Senator Harkin's concept. Originally conceived in 2014 as a national model, the plan has been refocused for state level implementation.

Policy Components: Innovative and thoughtfully designed, the USA Retirement Plan combines key features of traditional defined benefit and defined contribution plans. The program was designed with the aim of providing predictable retirement income for life more effectively than is possible in a defined contribution (DC) plan and without the risks typically associated with defined benefit (DB) plans. With few exceptions, all benefits are paid over to the participant's and spouse's lifetimes; plan assets are invested by financial professionals; there is no unfunded liability exposure to taxpayers, employers, local, state or the federal government; and the Plan provides complete portability for participants throughout their working careers. The USA Retirement Plan is essentially a "cash balance" plan.

A USA Retirement Plan may be implemented by an individual state, by a consortium of multiple states, or by a municipality. The developers of the plan urge that each plan be administered by an independent private Board of Trustees, appointed by the relevant jurisdiction, whose operations would be completely transparent and subject to oversight by the appointing authorities.

The suggested default participant contribution rate is 3% of pay, although states could set a higher rate. Contributions are credited with a plan's investment return, subject to a collar of not more than 8% and a floor of not less than 0% each year to reduce the volatility of participants' account balances. Employers can make voluntary contributions to participants' accounts on any reasonable basis – matching contributions, percent of pay, or specified dollar amount.

The overall investment objective for a USA Retirement Plan is to achieve a meaningful investment return with less uncertainty than is typically associated with DC plans. At retirement, the account balance is converted to lifetime retirement benefits. The targeted income is materially higher than that available from insurance companies providing lifetime annuities.

A USA Plan can be designed to allow participants to make early withdrawals against their notional account balances to respond to certain emergencies, hardship situations, and other exigencies. The size of withdrawals allowed by a plan's design will determine the impact upon projected lifetime retirement income.

ERISA Applicability: From its outset, the USA Retirement Plan has been designed to operate under ERISA. This is a distinguishing feature of the USA Plan in contrast to certain other state initiatives.

Current Status: The USA Retirement Plan model has been evaluated by a number of states as they consider various approaches to retirement security challenges. It is not currently being implemented in any jurisdiction.

Despite not having been adopted, at least to this point, by any state as the underlying model for an enacted program, the USA Retirement Plan's structure presciently features a key element that is increasingly attracting attention from experts and policy makers around the country. Concern for the shortfall in savings by individuals approaching retirement has been joined by growing recognition that the challenges of managing retirement are not necessarily solved simply by the existence of a substantial account balance.

Even financially sophisticated individuals can be confused by the myriad factors and considerations they need to take into account in determining how to prudently draw down from a relatively fixed balance to sustain themselves for what, ever more frequently, could be several decades of retirement.

Critics have raised several concerns about the USA Retirement structure. They have expressed reservations about its rigidity, including skepticism that a lifetime income model for all participants will be relevant to retirees whose accumulated balances are so modest that any resulting monthly amount might be too low to be of much actual benefit (as opposed to a lump sum that, even if small, could be conserved until needed for an important specific expenditure or used to defer drawing on Social Security, thereby increasing the amount of those payments). There are also lingering political and substantive reservations about any new state-supported program that makes, at the program level, a commitment to provide a defined benefit for an uncertain length of time.

Despite these criticisms, the USA Retirement Plan is built around resolving the numerous questions about withdrawal strategies by, essentially, changing the nature of the conversation. Rather than offering to only help workers amass funds to provide a savings balance at the time of their retirement, this model's structure is designed to provide retirees with an income guaranteed for the entirety of retirement. The plan's developers argue they have designed a model whose savings and investment principles will provide reliable and predictable income – at levels somewhat higher than would be available through conventional annuity products – for participants.

This same goal has been recognized as vitally important by others. TIAA, for example, has released a white paper entitled, "Closing the Guarantee Gap – How Policymakers can Restore the Role of Lifetime Income in Workplace Retirement Plans" that addresses this very problem.[13] The Connecticut Retirement Security Program – an Auto-IRA model – includes a provision calling for designation of a lifetime income investment for the program designed to provide participants a source of retirement income for life so long as the program administrator determines such a feature to be feasible and cost effective.

This report contains a number of recommendations for a Pennsylvania program that are similarly intended to directly support retirees throughout their retirement by making lifetime income streams much more available.

(13) *"Closing the Guarantee Gap: How Policymakers Can Restore the Role of Lifetime Income in Workplace Retirement Plans," TIAA, 2017. https://www.tiaa.org/public/pdf/closing_the_guarantee_gap_whitepaper.pdf*

Observations from the Retirement Task Force Hearings

The Retirement Task Force identified a number of central themes and critical insights regarding the retirement crisis and the efforts currently underway to address it.

There is a serious and growing retirement insecurity crisis in the United States. Pennsylvania, with a large population of senior citizens, may be more vulnerable to damaging impacts from this problem than many other states. The crisis did not develop overnight, and it does not result from a single cause. The variety of factors that have combined to bring about the situation include:

- Many employers do not offer a retirement program of any sort in their workplaces.
- Among employers who offer a retirement plan, there has been a widespread shift from providing defined benefit plans to offering defined contribution plans.
- Fewer workers are remaining at the same job and participating in a single retirement plan for the majority of their careers.
- Among workers who do not have a retirement savings plan through work, few open their own individual retirement accounts.
- Retirees are enjoying increased longevity, which extends the period of time during which they must rely on private savings and retirement accounts to supplement often modest Social Security benefits.

Lack of access to payroll deduction retirement plans at workplaces is a key driver of retirement insecurity for employed individuals. Approximately 77% of workers who are offered retirement plans at their jobs choose to participate in them. In contrast, only about five percent of workers who lack access to retirement savings opportunities at their places of employment actually open any form of private, independent retirement plan. According to AARP, this results in employees with access to plans at work being 15 times more likely to have retirement savings than workers who lack access. Unfortunately, more than 2.1 million Pennsylvanians work for employers that do not offer retirement plans. Although a number of these employees labor for relatively large firms, there is a significant concentration of workers without plans in small and medium-sized firms. More than 921,000 are in companies with fewer than 50 employees and another 226,000 work for businesses with 50 to 99 employees.

The number of seniors in the Commonwealth population – defined as people aged 65 to 74 – will increase by 573,000 between 2010 and 2025, to a total of 1.5 million people.

The very low rate of individuals who open their own IRAs when no retirement savings options are available at their places of employment is unsurprising and unlikely to change. The Retirement Task Force heard presentations from behavioral economists and others who confirmed that procrastination is a common human behavior. The tendency to put things off is exacerbated in the context of desirable, self-motivated retirement savings activity, where another typical human trait creates an additional layer of resistance: for most individuals, there is strong preference for pursuing immediate gratification at the expense of supporting longer term benefits. Putting a small amount each week into retirement savings for use perhaps 30 years later can appear unappealing, especially compared to myriad spending alternatives that provide instant rewards. The remoteness of retirement for many workers, especially those still early in their careers, is retirement savings' toughest adversary: it tempts delay with the false promise of future opportunities to make up for funds not set aside earlier. Economists, however, demonstrated to the Retirement Task Force that the maximum benefit from compounding interest over time is realized only when workers start saving early.

Pennsylvania is in the early surge of a large wave of workers entering retirement. The baby boomer generation – commonly described as encompassing people born from 1946 to 1964 – constitutes a particularly large cohort of the state's population. It offers an example of the potential scale of the challenge that unprepared retirees can present. The number of seniors in the Commonwealth population – defined as people aged 65 to 74 – increased by 303,000, or 31%, between 2010 and 2017. Their number will increase by another 270,000 by 2025, to a total of 1.55 million people. If these individuals are not financially prepared for retirement, they will place great demands on state government for services while simultaneously weakening sources of revenue that government relies upon to fund those services. Cohorts that follow will present similarly heavy demands on our state government absent well-designed efforts now to make saving for retirement more convenient, and much more common, for those currently in the work force and for those who join it in the future.

Econsult Solutions conducted, at the request of the Treasury Department, a rigorous, first-of-its kind investigation into the quantitative fiscal impacts on the Commonwealth over the next 15 years from retirees who have inadequate savings. Its report to the Retirement Task Force identified two kinds of significant financial implications for Pennsylvania's fiscal health and its economy. First, retirees whose diminished incomes made them eligible for means-based assistance resulted in increased costs for social services of $702 million in 2015, an amount that grows to $1.12 billion in 2030. The aggregate cost of increased demand for services over this 15-year period is projected to require more than $14 billion in additional state expenditures for these retirees. Second, the reduced incomes of these retirees will translate into lower consumer spending, shrinking economic activity in the Commonwealth by more than $55 billion over the same period. The lower consumer spending will directly reduce tax revenue to the Commonwealth by $70 million in 2015, an annual drop that will grow to $106 million in 2030. This will mean a cumulative loss of $1.4 billion in Pennsylvania tax revenues over the period from reduced consumer spending.

Several positive notes provide a basis for optimism that the rising tide of the retirement crisis can be addressed successfully. For one thing, employers who currently offer no opportunity told the Retirement Task Force that they would very much like to provide at least some basic kind of retirement plan to their employees. They were open to approaches that would make it easier and less costly for them to have an available savings option. They understand that benefit to be, to some extent, a business necessity. They compete every day with other employers to attract the best workers, and they worry they are at a disadvantage compared to other firms that can describe available retirement options to prospective new hires. Moreover, most employers discussing this issue expressed the belief that helping workers take affirmative steps to secure their financial futures was, regardless of any benefits inuring to the firms, simply the right and appropriate thing to do to assist their employees.

Many employers who currently offer no retirement savings opportunities express the view that they would very much like to provide at least some basic kind of retirement plan.

Anecdotal reports that employers would welcome a state-supported retirement program were confirmed by a survey conducted by the AARP soon after the Retirement Task Force's last hearing. An outreach directed exclusively to Pennsylvania employers (100 or fewer employees) elicited a strikingly enthusiastic reception for the prospect of assistance in introducing retirement savings programs for employees. More than four out of five employers agree that Pennsylvania lawmakers should support creating a Pennsylvania retirement savings option that they could offer to their employees. Confirming that these employers are interested in what would in effect represent an important public/private partnership, they favored a basic ready-to-go state-supported savings option over an approach that required them to pick a plan and bear setup and maintenance costs.

Even more importantly, a significant number of states are defining affirmative roles for themselves to help ameliorate the problem of inadequate preparation for financial security. These jurisdictions have either enacted or are considering legislation to create government-supported programs that support increased retirement saving opportunities in workplaces that do not presently make them available. Independent experts and senior officials associated with leading state programs gave presentations to the Retirement Task Force about innovations underway in other parts of the country. They reviewed current perspectives regarding the critical elements a government-assisted workplace retirement plan should include and described the status of efforts by early plan adopters.

There is in fact substantial consensus about the components that government-supported programs should include to effectively remove barriers impeding participation by both employers and employees. These elements include the following:

- Mechanisms that maximize the number of employers who offer opportunities to participate in workplace savings plans, including only minimally intrusive obligations on employers in providing the programs to their employees.
- Automatic enrollment by employers of employees and automatic payroll deductions, with an opt-out structure for employee participation (thus preserving voluntariness while maximizing actual employee participation).
- Simple, easy to understand, plan design and easy to implement investment options.
- Low or no costs to employers and employees.
- A self-sustaining funding structure that does not require – or risk – continued state financing.
- Due attention to educational measures and investment strategies or vehicles that facilitate the conversion, at low costs, of account balances accumulated during an employment career into a reliable stream of income throughout retirement.

The need for greatly improved financial education generally – not simply in relation to lifetime income decisions – was emphasized on numerous occasions and by multiple presenters and members of the Retirement Task Force. Enhanced financial literacy was recognized as a necessary – but not sole – objective of any program intended to enable Pennsylvanians to engage in effective savings prior to their retirement and sound management of their available assets during retirement. A comprehensive state-supported program would be well-positioned to achieve such an objective. The program's financial literacy effort would be especially effective if it seized the opportunity to provide information and assistance at i) the initial decision to begin saving for the future, during the employment period while asset accumulation is occurring, and ii) the transition from salaried employee to retiree, when critical – and complex – budgeting decisions need to be made.

Presentations to the Retirement Task Force characterized states implementing workplace retirement savings programs as following one of three models (or as having combined elements of several models):

- Auto-IRAs (long encouraged by experts from both the Heritage Foundation and the Brookings Institution), in which employers make payroll deductions to IRA accounts set up through financial services providers selected and engaged by the state.
- Multiple employer plans, which are essentially 401(k)s where the state assumes the role of plan administrator for multiple employers.
- Marketplaces, where the state helps promote investment options that meet certain state-designated standards

A fourth model, the USA Retirement Plan, is effectively a type of defined contribution plan that incorporates a projected lifetime income stream. This feature can provide significant benefits by aiding individuals in understanding how to anticipate, and then manage, their finances throughout their lives. Although no state has chosen to this point to move forward with a program modeled on the USA Retirement Plan, the lifetime income stream that the plan features is drawing increasing recognition as an essential element of a comprehensive approach to long-term income security.

The record compiled from the hearings can be synthesized into three independent, but related, challenges that a program to transform current workplace savings opportunities must meet in order to significantly enhance the future financial security of employees. First, any response to the situation must significantly increase access: as many workers as possible must have the opportunity to participate in a convenient, easy-to-understand retirement savings plan at their places of employment. Next, the program must be designed to make it simple for employees to realize meaningful accumulation in their accounts: it must be easy for employees to become enrolled in a savings or investment vehicle into which a portion of their salaries is routinely deposited, the portion deposited should increase over time, and the available investment vehicles must be highly efficient so that the lion's share of gains are returned to the employees, not the managers of their investments. Finally, the program must provide information and investment tools that offer critical assurance to workers: it must provide them, when they do stop working, with the ability to generate a predictable income from their account balances that will last throughout their retirements.

Access, accumulation and assurance are the key pillars of any program intended to assist workers in preparing for and managing their financial security in retirement.

Cardinal Principles for a State-Supported

RETIREMENT SAVINGS PROGRAM

The experience of experts and policy makers in other jurisdictions who have considered the retirement savings security issue strongly suggests that programs responding to this challenge should embrace the following principles:

- The program should impose no costs and few obligations, in order to help employers achieve program objectives.
- To maximize participation, employers should enroll employees unless they elect to opt-out of the program.
- Employees enrolled in the program should have defined default deductions from their salary contributed by their employers to their retirement accounts unless they elect to opt-out of the program or select a different amount to be deducted and contributed.

"A state-supported retirement savings plan should impose little or no costs or other obligations on employers.

The program should be designed to be financially self-sustaining without long-term reliance upon state funding."

- Default deduction percentages should automatically increase over time to a fixed cap.
- Employers should not be required to contribute to employee retirement accounts.
- Individuals who do not have employers should be eligible to enroll in the program.
- Program design should be as straightforward as possible, investment and other decisions should be kept simple, and funds should be pooled and managed to prudently maximize returns and minimize participation fees.
- Program accounts should be portable, able to move with employees and – when appropriate – capable of continuing to receive employee contributions after a job change.
- The program should promote financial literacy among employees, especially with regard to the benefits of long-term investing and to the challenges of managing an account balance to provide a reliable income stream throughout retirement, and should be accompanied by broader financial literacy efforts at the state level.
- The program should offer, and encourage the use of, investment options that provide an assured retirement income for the remainder of an individual's life once he or she retires.
- The program should, after a start-up period, be financially self-sustaining, with administrative and operational costs paid from employee contributions and/or retirement accounts.
- While the state may serve as fiduciary for participants in certain contexts (if it administers a multiple employer plan, for example), it will have no responsibility for assuring or providing any specific investment performance for employee retirement ccounts.
- The program, which could be expected to accumulate substantial account balances due to the Commonwealth's large workforce, should be authorized to enter into relationships with similar programs in other jurisdictions where such collaboration can provide efficiencies in operations and lower investment management fees. As in the instance of the recently created ABLE program consortium, this kind of collaboration would enable the Commonwealth to even further reduce its costs through the greater scale of assets and partnership fees while providing other states the ability to contract to make use of its cost-effective administrative platform.

Recommendations for Addressing the Private Sector Retirement Security Crisis

The paramount objective of any policy and legislative response to the growing private sector retirement crisis described in this report must be to make it as effortless and automatic as possible for each one of the 2.1 million Pennsylvanians who currently lacks access to a workplace retirement savings plan to begin preparing for his or her future financial security. In this context, workers prepare not only by maximizing savings opportunities in their workplaces during their active careers, but also by becoming sufficiently informed to take prudent advantage of investment vehicles that can provide income throughout their retirements.

"To take fullest advantage of the extraordinary behavioral influence associated with workplace access, a state-supported retirement program must promote automaticity at three points."

Workers who enjoy access to retirement savings opportunities at their jobs are far more likely to actually save than workers who do not. To take fullest advantage of the extraordinary behavioral influence associated with workplace access, a state-supported retirement program must promote automaticity at three points.[14]

First, the greatest number of employees will have access to retirement opportunities if the program automatically incorporates employers into it (unless a business otherwise offers an IRS-qualified employee plan or is so small that it falls below an employment floor prescribed by the program). Second, employers in the program should automatically enroll each of their qualifying employees for payroll deductions unless they opt-out of saving for their futures. Third, the program should establish automatic default contribution levels for employee deductions (and increases in deduction amounts over time) to insure that even employees who – having chosen not to opt-out – fail to designate a specific amount have contributions regularly deducted from their pay.

Employers, both in presentations to the Retirement Task Force and in response to the AARP survey, expressed strong support for a state-supported retirement savings program so long as it did not impose costs and burdens comparable to those already preventing them from offering workplace plans. It is therefore critical that the program place only essential responsibilities on employers, and even those tasks must be minimal. Employers should only have to i) provide employees with informational materials developed by the state, including content that explains their ability to opt-out of contributing and ii) enroll employees in order to make payroll deductions from the salaries of those who do not opt out. The program should allow use of existing payroll systems wherever feasible. Employers must not be required to make any matching contributions to employees savings accounts (although the program should authorize voluntary employer contributions where permitted by law).

(14) We use the term "state-supported" here to signify a program in which the state's role is one of oversight and administration, and where the state neither provides any funds directly to accounts to augment employee savings nor assumes any responsibility for the accumulation or growth of funds in participants' accounts. Additionally, the state should ideally absorb no internal costs associated with performing its oversight and administrative functions; the program should be run economically enough that modest charges against participants' accounts will be sufficient to cover its actual costs.

To fully prepare workers to address the financial challenges of retirement, the program should assist them in managing their assets in the face of myriad uncertainties and risks they will confront when they begin retirement. Even individuals sophisticated about money can be overwhelmed by the puzzle of how much they should withdraw each year from a relatively fixed account balance while assessing imperfect information about inflation, interest rates, longevity, and other factors affecting their finances for the remainder of their lives.

Accordingly, the state program should, in addition to typical investing options for accumulation phases, also feature investment structures and vehicles that convert savings into predictable, reliable, and inexpensive sources of income during retirement. These may include lifetime annuities, annuities to enable retirees to put off beginning to take Social Security benefits in order to enlarge monthly payments, deferred annuities to hedge longevity risks, and other vehicles. In evaluating such vehicles, the program should take advantage of economies of scale, use of in-plan annuities, and other effective strategies to maximize the return on retirees' accounts. Regardless of the ultimate composition of investment options, the program should be structured to qualify for advantageous state and federal tax treatment of contributions.

To educate workers about planning for their futures, the program should make available to employers educational materials to share with their employees describing the advantages of long-term savings activity, compounding interest, and prudent use of income products. Periodic account statements provided to participants in the program should contain information about both balances and projected annual income streams that may be available based on such balances.

The program should offer flexibilities in a number of areas. For example, it should be open to workers who do not have conventional employers, such as the self-employed, independent contractors and so-called gig workers, as well as to individuals who may be unemployed seasonally or for other reasons, but who have assets they want to transfer to their retirement accounts to maintain the discipline of regular contributions (and to enable their balances to continue to grow). The program's accounts should also be portable, allowing participants to take them from one job to the next.

In order to effectuate these objectives, the Pennsylvania General Assembly should enact legislation to accomplish the following:

1. Create within the Treasury Department a state-facilitated private sector retirement program through which all employers above a certain threshold, (e.g., with five or more employees and not otherwise providing retirement savings opportunities) will automatically enroll workers unless they choose to opt-out and, for those not choosing to opt-out, automatically deduct from each employee's pay a default percentage except in instances where the employee elects a different amount. The default percentage should automatically increase upon the anniversary of each employee's enrollment in prescribed increments to an identified maximum percentage. The program should also incorporate provisions making it possible for workers not employed by employers covered by the statute to participate in the Auto-IRA program as individuals in order to facilitate their retirement savings activity.
2. Recognize the Auto-IRA model as the basic structure that most completely and clearly incorporates best practices and expert recommendations likely to increase employees' savings activity in their places of employment.

3. Authorize the establishment of a private sector retirement savings program based upon the Auto-IRA model, similar to the structure in place at the Treasury department for other consumer savings programs such as 529 or ABLE accounts, encompassing all employers above an employment complement threshold who are currently not offering any retirement savings opportunities, and require, in consultation with an advisory board and outside experts, the development of necessary parameters for an effective, low-cost program that can substantially increase the number of Pennsylvanians who are saving for retirement at their workplaces.
4. Constitute an advisory board to evaluate and make recommendations about specific programmatic details not encompassed within the legislation in consideration of the foregoing observations and recommendations, similar to the advisory board for the PA 529 College and Career Savings Plan.
5. Authorize the establishment of policies and rules regarding waiting periods and other subjects of concern to employers, participation in the plan by workers without employers, default savings percentages and periodic increases, selection of investment products, and other program operational provisions in consideration of the foregoing observations and recommendations.
6. Encourage, in consultation with the advisory board and to the maximum degree feasible and prudent, the incorporation of retirement savings vehicles that provide for an income stream for the lifetime of the participant and make available to participants educational content and account information regarding lifetime income streams.
7. Empower the program to enter into contractual relationships with other similar programs in order to realize economies in operations and fees.
8. Appropriate adequate start-up funds to enable the program to achieve financial self-sufficiency through investment returns and/or fees on accounts.

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APPENDIX A

Synopsis of Presentations to the Retirement Task Force

Hearing One: The Retirement Savings Crisis

Thursday, October 26, 2017, Lehigh County Government Center, Allentown, PA

The goal of this hearing was to provide a general overview of the private sector retirement security crisis and to discuss individual-level barriers to retirement saving.

National Trends in Retirement Savings

> "Looking at average "mean" retirement assets for those near retirement age (aged 55 to 64), almost one third have nothing at all saved, while an additional third have less than one times their pre-retirement annual income saved."

The first witness, Diane Oakley, Executive Director at the National Institute on Retirement Security (NIRS), provided a broad overview of the retirement crisis with emphasis on the national picture using current data on retirement savings by US households. Ms. Oakley also discussed NIRS' public opinion research poll gauging how Americans currently feel about retirement and what role they feel public policy should play in altering the retirement landscape.

Ms. Oakley opined on the crisis-level savings scarcity facing near-retirement households, explaining that "The median baby boomer, who is what we could consider a working class household, has one dollar saved for retirement... When we really look at this in terms of the real working class individuals in our workforce, the retirement security crisis is something that is real and something we need to worry about." Looking at average (mean) retirement assets for those near retirement age (aged 55 to 64), almost one third have nothing at all saved, while an additional third have less than one times their pre-retirement annual income saved. Only about ten percent of people in the 55-64 age cohort have four times or more of their annual salary saved; even those who have saved the most are generally falling short of the established standard of eight times annual income saved. The 55-64 year old group is one of several cohorts depicted on an illustration Ms. Oakley presented (Figure 9, next page).

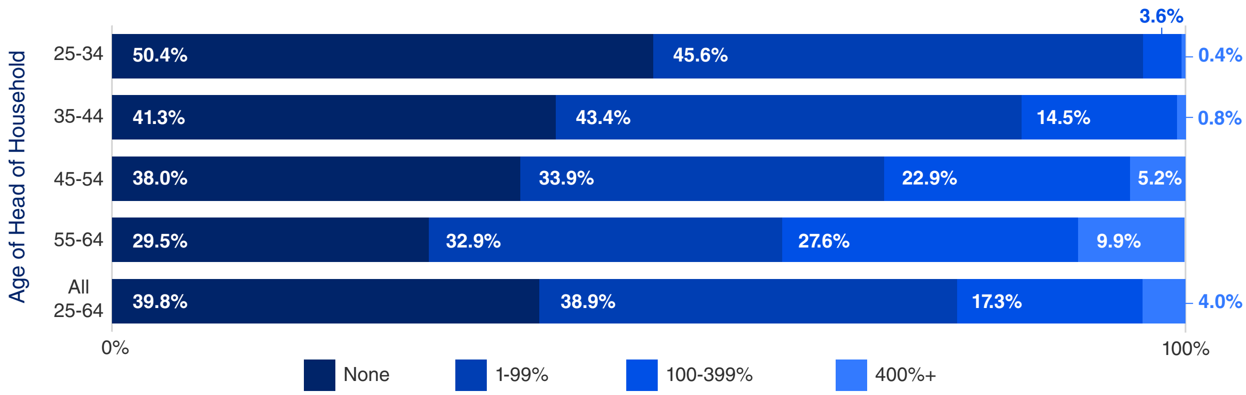


Figure 9: **Nearly Four out of Five Working Households Have Retirement Savings Less than One Times Their Annual Income**

Retirement account balance as a percentage of income among working households, 2013

Source: Author's analysis of the 2013 SCF. Universe is households with heads age 25-64, with total earnings over $5,000 and under E500,000 and total incomes greater than zero and less than $1 million.

(National Institute on Retirement Security presentation for PA Treasury Retirement Task Force)

Next, Ms. Oakley discussed retirement security specifically in Pennsylvania. In general, Pennsylvania ranks slightly higher than the national average in terms of financial security for future retirees. Currently, retirement savings in the average defined contribution account held by Pennsylvanians is $40,719, roughly $10,000 more than the national average. It is important to note, however, that this still remains much less than even one times the average annual working income for Pennsylvanians ($61,240) (many experts recommend that individuals start retirement with savings of at least eight to ten times their annual salaries). NIRS also looked at levels of major retiree costs, including healthcare and housing, and found them to be somewhat higher than the national average.

Finally, Ms. Oakley summarized the contents of a recent opinion poll on retirement security conducted by NIRS. The key takeaways are that Americans on both ends of the political spectrum experience anxiety about economic security through retirement and feel as though national leaders must do more to improve existing programs and/or develop new solutions. Ms. Oakley provided results from a survey asking people if they would take part in a state-administered, payroll-deduction retirement savings plan; 81 percent of individuals polled indicated that they would participate in such a plan if it were available. Conclusion: individuals desire to save more, especially if their participation in a program is made simple and easy.

State of Retirement: Employer Plan / Employee Focus

Next, the Retirement Task Force heard testimony from Dan Eck, Executive Director of Employee Financial Services for Ernst & Young. Mr. Eck discussed the variety of investment/retirement savings programs and vehicles available to workers, their strengths and weaknesses, and how effective they have been in enabling individuals and families to save for retirement. Mr. Eck's presentation conveyed that individuals on their own are confronted by a bewildering array of complex options that often frustrate their best intentions of making smart long-term decisions.

Mr. Eck presented an overview of retirement savings products currently available on the market, primarily focused around the 401(k) and IRA, and discussed pros and cons of each. The advantages of a 401(k) plan are employer matching contributions, a powerful advantage which allows for faster accrual of retirement savings assets, and a higher maximum annual contribution than that of an IRA. An obvious disadvantage of the 401(k) is in its exclusivity; employers must be willing and able to offer a 401(k) plan to their employees as well as bear the high cost of set-up and administration. Conversely, IRA's are available to anyone with earned income, yet offer no vehicle for employer contributions and have a lower annual contribution limit. Both plan options offer opportunities for tax advantages, either through tax deductions at the front end (Traditional IRA) or a tax exemption upon withdrawal (Roth IRA).

Mr. Eck moved on to address what he dubbed the "alphabet soup" of available retirement options for self-employed workers. These plans include the Simplified Employee Pension (SEP) IRA, the Savings Incentive Match Plan for Employees (SIMPLE) IRA, and the Solo 401(k), among others. All of these plans are complex to establish and operate. In response to a Retirement Task Force member's question regarding the barriers to access inherent to these plans, Mr. Eck offered, "The hardest part of setting this up is understanding what I call the alphabet,... that list [of plans] and which one fits my circumstances. Some are only if it's just you and a spouse. Others are only if you have employees, some require employer contributions. The hardest part of that is understanding the landscape and which one fits my business scenario."

Concluding his testimony, Mr. Eck urged that solutions to retirement security revolve around saving early, easing perceived barriers, and gaining a stronger grasp on personal finances: "If you can get a true picture of your annual cash flow, and you know where the nickels and dimes go and twenties go, now you have amazing power to make some personal decisions." Mr. Eck acknowledged that loan debt is a substantial barrier to saving for retirement among Millennials. His response was that federal repayment options and trends towards more employer student loan assistance programs provide relief. Mr. Eck finished his presentation with a handful of plan design takeaways for employers, including auto-enrollment for new hires, auto-escalation of contributions, matching contributions, employee financial wellness programs, and payroll deduction (highlighting this as the key feature to any employer plan).

The Behavioral Economics of Retirement Savings

Next, Ellen Magenheim, Professor of Economics at Swarthmore College, and Keith Weigelt, Professor of Management at The Wharton School of Business, presented an overview of the field of behavioral economics and how certain common behaviors influence retirement savings.

Dr. Magenheim first explained how behavioral economics rejects traditional economic theory. According to classic economic theory, individuals are rational and will attempt to maximize their benefit through calculated decision making. However, behavioral economists observe that human behavior commonly fails to conform to expectations based on purely economic considerations and that apparently sub-optimal decisions are routinely made. Behavioral economics attempts to identify various heuristics, biases, tendency for procrastination, power of inertia, and other influences on individuals' actual decisions and actions that policymakers can take into account when designing programs to help people follow through with desired behavior.

"We note that many believe wealth is a function of income. However, it more a function of investing behavior."

Demonstrating the power of compound interest, Dr. Weigelt quoted estimates that for every one percent reduction in fund fees, an investor gains an additional ten years of retirement income.

Dr. Magenheim provided behavioral economic insights as to why retirement savings rates are low. Individuals face great complexity in selecting a retirement plan, particularly in the absence of an employer-supported plan, and choose not to act. Further complicating the decision to save is the presence of time-inconsistent preferences: the tendency to choose immediate over delayed gratification, pushing the decision to start saving to a perpetually later date. Individuals also tend to favor the status quo, meaning they are more comfortable doing what they have always done – not save for retirement – and will thus routinely delay the decision to save.

Dr. Magenheim provided an academic construct for what are beginning to be identified as core principles of improving retirement savings opportunities in order to make saving as easy as possible for individuals. These principles involve modifying default choices, such that a decision to do nothing produces a socially optimal outcome. In terms of retirement, optimizing defaults generally manifests itself in automatic enrollment of new hires, automatic payroll deduction of contributions, and automatic increases in savings contributions from year-to-year.

Dr. Keith Weigelt presented observations from his work to increase financial empowerment and wealth accumulation among West Philadelphia families. While the previous testimony identified intrinsic behavioral patterns that deter saving, Dr. Weigelt chose to focus on specific societal and structural factors that inhibit retirement savings.

Dr. Weigelt identified the largest causes of reduced retirement savings for low-income individuals as deficient financial education and lack of opportunities to save or build wealth: “We note that many believe wealth is a function of income. However, it is more a function of investing behavior.” The ability to identify and access investment opportunities with moderate-to-high returns is the key to savings accrual. Additionally, a lack of financial education also manifests itself in distrust of financial institutions, further exacerbating the savings problem.

In discussing challenges to savings on the employer side, Dr. Weigelt cites selection of 401(k) managers as a primary cause of insufficient savings, drawing the conclusion that high fees lead to poor performance and thus lower returns: “Recent research supports the idea that it is very difficult for active fund managers to consistently beat the market, despite the fact that actively managed funds have higher costs. The recent trend of index funds outperforming actively managed funds is largely due to the lower cost structure of index funds.” Demonstrating the power of compound interest, Dr. Weigelt quoted estimates that for every one percent reduction in fund fees, an investor gains an additional 10 years of retirement income. Dr. Weigelt also acknowledged that the mathematics of compounding make it difficult for individuals who do not start early to catch up; even meager savings early on in life produce more substantial savings than someone who saves more but chose to save later.

Budgeting Challenges for Modest Incomes (The Story of Retirement Savings)

The final witness was Patricia Hasson, President of Clarifi, a Philadelphia-based non-profit agency focusing on hands-on financial literacy. Ms. Hasson provided perspective on the difficulties facing younger individuals who are planning for their financial future, and the services/needs of older adults who do not have adequate savings.

According to many young people, the difficulty in retirement savings comes in learning to effectively budget their money, often with lower or inconsistent incomes. Attempting to balance rent, groceries, credit card payments, and student loan payments on top of finding room to save for retirement is difficult without a financial background or third-party planning assistance. Ms. Hasson cited success that Clarifi has had with holding financial boot camps targeted towards Millennials, for whom retirement savings is a concern. In conclusion, Ms. Hasson noted that savings are a challenge for all generations: many older adults struggle with retirement savings being absorbed by housing debt.

Hearing Two: Employer Perspectives on Barriers to Workplace Savings Plans

Friday, November 17, 2017, Allegheny County Courthouse, Pittsburgh, PA

The second hearing held by the Retirement Task Force highlighted employers' experiences in offering their employees retirement savings vehicles. The hearing featured survey data from the Pew Charitable Trusts, testimony from employers discussing the challenges to and benefits associated with offering retirement benefits, and financial professionals who have advised employers about administering plans.

Research on Retirement Savings

John Scott, Director of the Retirement Savings Project for The Pew Charitable Trusts, presented the results of two national surveys:

(1) Pew's national survey of employers (encompassing more than 1,600 private sector, small and midsize businesses), including an analysis of the plans that are currently offered and plan characteristics; obstacles to/motivations for offering plans; and employer reactions to various policy ideas.

(2) Pew's national survey of workers regarding their perspectives on barriers to savings, with a closer look at workers without workplace retirement plans and their reactions to state plans intended to encourage saving activity.

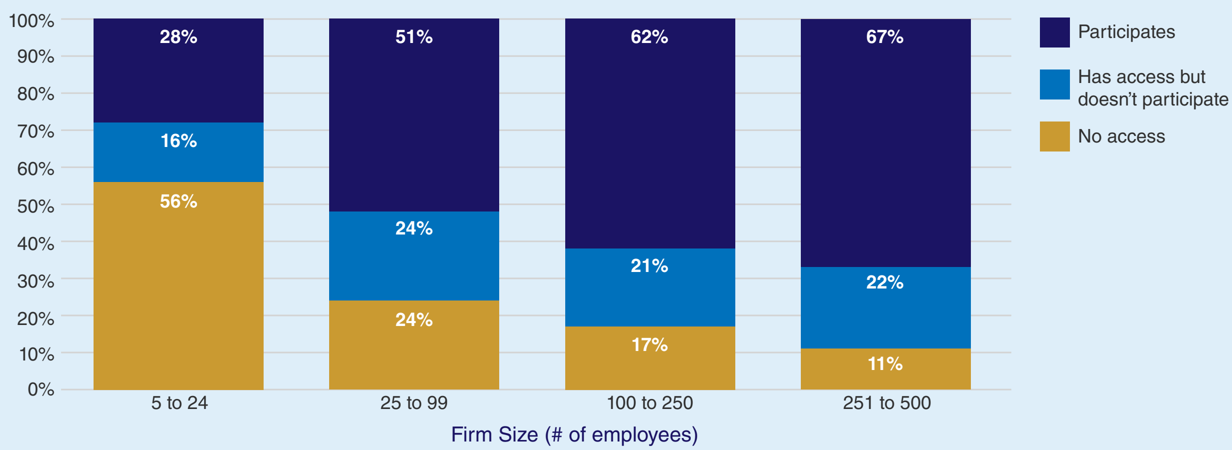
Mr. Scott's presentation showed that of the 1,639 businesses surveyed in the first study (most of which were small and midsize (average size 28 workers)), a little over half (53 percent) offered retirement plans. Among the 47 percent that did not offer retirement plans, cost and lack of resources were cited as the primary obstacles. Additionally, an important takeaway from Mr. Scott's testimony was that plan complexity presents a barrier not only to employees but to employers as well: "Small business owners are wearing a lot of different hats. And so taking up something relatively complex like a 401(k) plan, it's a big step for them." Although the complexity of managing investment, fiduciary and administrative/regulatory obligations is significantly problematic, it seems increasing the availability of information does little to move the needle; in fact, the vast majority of businesses claimed that only an increase in business profits or an increase in available business tax credits for starting a plan would incentivize them to offer retirement benefits.

Main Reason Cited by Employers for Not Offering a Retirement Plan

(Pew Charitable Trusts Presentation for PA Retirement Task Force)

The second portion of Mr. Scott's presentation focused on retirement plan participation from the employee oriented survey. Over a third (34 percent) of all workers nationally do not have access to an employer-sponsored retirement plan. For part-time workers, the proportion without access increases to 60 percent. Additionally, Pew found access differed across racial and ethnic lines; nearly half of all full-time Hispanic workers had no access to retirement benefits compared to about a quarter of workers of any other race or ethnicity. Business characteristics, in particular firm size, correlated to levels of access. Over half of firms with 5 - 24 employees offered no retirement plan, while three quarters of firms with more than 25 employees offered retirement benefits in some form.

Figure 3
Access and Participation by Firm Size
Workers are more likely to have access and participate at larger businesses



Note: Numbers may not add to 100% because of rounding.
© 2017 The Pew Charitable Trusts
(The Pew Charitable Trusts presentation for PA Retirement Task Force)

Mr. Scott concluded his testimony to the Retirement Task Force by offering a brief overview of employer and employee reactions to the leading retirement policy initiatives. Among employers, an Auto-IRA plan seemed to be the most attractive option, with 87 percent of all employers surveyed in support. In response to a question regarding how employers might respond to state innovation, half of businesses that are non-plan sponsors would start their own plan in response to Auto-IRA adoption by the state. Support for other policy initiatives was similarly strong: 61 percent of employers without plans said that they would be interested in participating in a Multiple Employer Plan (MEP) and 56 percent said an online marketplace exchange would encourage them to start a plan. Pew's insight into employers' perspectives provides some encouragement in finding remedies to the retirement crisis: despite current deficiencies in access, businesses are receptive to policy solutions and remain relatively open to state innovation.

Setting Up a Workplace Savings Plan

Robert Yelenovsky, Senior Vice President at Pittsburgh-based Fragasso Financial Advisors, offered the Retirement Task Force an in-depth look at the intricacies of establishing a savings plan on the employer side. Mr. Yelenovsky described his experience helping businesses in Southwest PA select, set up, and administer their retirement savings plans, with particular attention to the IRA v. 401(k) debate.

Mr. Yelenovsky emphasized that while there are some very obvious and clear questions to ask while setting up a retirement plan, like plan type (IRA v. 401(k)), many questions are far more complicated. Prior to setting up a retirement plan, an employer is faced with many considerations, including selecting the type of investment management (active vs. passive); deciding if the plan manager's compensation should be fee-based or commission-based; and choosing to automatically enroll employees or not. Further complicating these matters is the fact that many actors in the retirement plan supply chain - record keepers, third-party administrators, payroll companies, insurance agencies, and financial advisors – are not required to act as fiduciaries for plan participants. Instead, their only obligation is to do what can be considered "suitable" in regards to operation of the plan, potentially raising costs for employers and leaving the door open for dishonest practices.

In closing, Mr. Yelenovsky outlined components of an efficient and effective retirement plan, stressing the importance of transparent and reasonable fees, investments that are selected and monitored by fiduciaries, and clear communication of all financial items to participants.

Jeff Rosenberger, PhD, is the Chief Operating Officer for Guideline Technologies, a small financial services technology company that offers subscription-based 401(k) software to employers in combination with third-party payroll services. Dr. Rosenberger discussed his research on the landscape of workplace retirement options, and explained his firm's unique approach to cutting costs and other barriers to entry for their employer clients. Guideline acts as a fiduciary to its employer clients – but also to the plan participants.

Dr. Rosenberger noted that not all businesses can be serviced effectively by Guideline's software: "There is a big element of looking at which small businesses are still using the pen and paper or manual approach to bookkeeping and payroll. Those will be harder to reach in our offering, and might be a better market for the different state programs." Guideline's primary method of cutting costs for businesses is by reaching them while they are in the process of outsourcing payroll to a third-party online based vendor. At that stage, Guideline can ensure that their software properly interfaces with payroll and that efficiencies are achieved in implementation of a 401(k).

The testimony of this panel reflects the view that complexity is a significant barrier for employers wishing to offer retirement benefits. Even the plan that employers are generally the most familiar with – the 401(k) – has nuances and inherent difficulties in implementation.

Perspectives on Improving Savings Options

This panel of financial services providers gave their perspectives on savings behavior by employed Pennsylvanians who do not have a work-based retirement saving option. Two experts representing i) large financial institutions, which offer a wide variety of investment and savings offerings, and ii) the insurance industry, which offers various non-traditional retirement savings options, discussed measures or services that could help employers in offering savings options to their employees.

Matt Forester, Chief Investment Officer and Director of Investments, Lockwood Advisors Inc., spoke primarily about the 401(k) industry and challenges faced by firms who are engaged in 401(k) plans. Nine out of ten employers involved in the 401(k) market have fewer than 100 employees. For these small employers, investment fees are a large portion of total cost associated with operating a plan. Mr. Forester noted that over the past 20 years, the 401(k) market has been experiencing downward trending fees, likely due to the ongoing discussion around fiduciary standards. Mr. Forester concluded that moving towards lower fee passive management is a likely solution for smaller employers struggling with high investment costs.

Damon Colusci, Vice President, Bridger Financial Group, presented additional perspective on the challenges facing small employers. Turnover of employees, particularly for smaller firms, is the most costly aspect of running a business. For this reason, plans and policies outside of typical retirement benefits that serve to attract and retain workers are incredibly important towards long-run cost savings for small employers; insurance policies are a common example. Mr. Colusci opined that workers should have more than just their retirement account as a savings vehicle; saving only in a retirement account before opening up a nonqualified investment account presents potential risk to financial wellbeing. In closing, Mr. Colusci offered the concern that auto-enrollment based solutions could conflict with the need for a more personalized approach to an individual's retirement savings practice.

Employer Panel

The Retirement Task Force heard from local business leaders' firsthand experiences in dealing with issues relating to retirement savings plans. This panel was made up of employers in the Southwest PA region who testified about why they do or do not offer retirement savings plans; recounted their experiences in selecting a retirement plan; and offered recommendations as to how their experiences could be improved and what role they believe the state should play in ensuring private sector retirement security. The panel comprised:

- Timothy M. Steitz, Executive Vice President, Sauer Holdings, Inc. & Sauer Building Solutions, Inc.
- Kelli Robbins, President, Contact One Communications & President, National Association of Women Business Owners, Pittsburgh Chapter
- Donald J. Huber, President, Allegheny Plywood
- Steve Rennekamp, President and Founder, Energy Swing Windows
- Daniel C. Focht, President, Bioptechs Inc.

The members of the panel all had different perspectives, given the variation in experience and firm size (their firms ranged from 15 employees to over 1,000).

Many of the panelists commented that there is significant room for intervention in regards to retirement, and requested that the state play a role in innovating the current retirement landscape. Ms. Robbins of Contact One Communications acknowledged and quickly debunked a common myth surrounding retirement: that educated and successful individuals know better and are taking the correct steps to save for their retirement. Ms. Robbins, in regards to her retirement, remarked "I can talk to my nephews about how to keep on with the business. I'm hoping they'll write me a big fat check every month and then take over the business, or [if not] I will be in a situation that I will cash in my chips. My retirement funding is my business." Ms. Robbins, in her position as President of the Pittsburgh Chapter of the National Association of Women Business Owners (NAWBO), urged that the state intervene in the form of financial literacy education. She characterized her organization as being 70,000 women business owners who do not have access to a program and are all asking for education to help them address the retirement challenge. This financial education element "could be part of a government-supported program."

Panelists from the smaller firms, particularly Mr. Rennekamp and Mr. Huber, cited difficulty in administering plans. Many felt as though monetary incentives, such as tax incentives, would help offset high administration costs associated with retirement plans.

Mr. Rennekamp, President and Founder of Energy Swing Windows, represented the smallest firm in the employer panel and reiterated the difficulties in administering a retirement plan as a smaller business: "The complexity of doing it [offering a plan] as an organization on the side without resources is just – it's overwhelming. You know, fiduciary responsibilities and all those things that were mentioned today, it's really hard for a small business. So the options that are available now and could be available in the future would be good for my business, for me." Mr. Rennekamp, at the time of his testimony, did not have retirement benefits available to his employees.

While no consensus was found on specific policy initiatives, all firms cited retirement plans as a method to not only reward current employees but attract and retain high-skilled workers, reinforcing retirement benefits as a tool for businesses to remain competitive.

HEARING 3: FISCAL IMPACTS OF RETIREMENT INSECURITY

Thursday, January 25, 2018, in Senate Hearing Room 1, Harrisburg, PA

The goals of the third hearing were to identify the impacts of the retirement crisis and survey the landscape of possible solutions. This hearing featured the Independent Fiscal Office (IFO), discussing Pennsylvania's aging population and the impacts of this change in demographics; Econsult Solutions Inc., with a first-of-its-kind analysis, commissioned by PA Treasury, to identify the costs to the state of insufficient retirement savings; and The Georgetown University Center for Retirement Initiatives (CRI), presenting an overview of state legislative action in response to the retirement security crisis.

Aging and the Pennsylvania Economy

The Retirement Task Force called upon Dr. Matthew Knittel, Director of the IFO, to report on the aging of Pennsylvania's population, particularly focusing on increases among the retirement aged population. Dr. Knittel also discussed the IFO's research on the economic and fiscal impacts to the state of a growing retiree population.

As the following table describes, the IFO predicts that in the next decade Pennsylvania will experience a dramatic increase in the 65 and older population – as well as a slight decrease in the school and working age populations. The cause of the shift in 65+ population is attributed to the Baby Boom generation reaching retirement age.

"At least two factors will contribute to a downshift in economic growth: first, an increase in healthcare costs will cause a drag on the Commonwealth's GDP; and second, the working age population bears the greatest majority of the overall tax burden, causing an expected decrease in tax revenue due to this demographic shift. The projected decline in younger population, coupled with large increases in the senior populations, will have serious consequences for the Commonwealth."

Recent Demographics 2010 to 2017

Age Group		PA Residents (00s)		Change (00s)	
		2017	2025	Number	Percent
0 to 19	School	3,010	2,981	-29	-1.0%
20 to 64	Working	7,510	7,407	-103	-1.4%
65 to 74	Seniors	1,286	1,556	270	21.0%
75 to 84	Retiress	665	905	240	36.1%
85 or older	Elderly	335	360	25	7.5%
Total		**12,806**	**13,209**	**430**	**3.1%**
65 or older		2,286	2,821	535	23.4%

Source: U.S. Census Bureau. Data for 2017 and 2025 are estimates from the IFO Economic and Budget Outlook (Nov. 2017).
(Independent Fiscal Office (IFO) analysis for PA Treasury Retirement Task Force)

The IFO further predicts that the projected decrease in the younger population, coupled with a large increase in the senior population, will have serious fiscal consequences for the Commonwealth. According to Dr. Knittel, at least two factors will contribute to a downshift in economic growth: first, an increase in healthcare costs will cause a drag on the Commonwealth's gross domestic product (GDP); and second, the working age population bears the majority of the overall tax burden, causing an expected decrease in tax revenue due to the decrease of that population.

Future Challenges for State Budget

	2017	2015	2020	2025	2030
Ratio: Working Age/Age 65+	3.9	3.5	3.0	2.6	2.4
Share PA Population Age 65+	15.4%	17.0%	19.0%	21.4%	23.0%
Approximate Share of State Taxes Paid by Age 65+					
Personal Income	15% to 18%				
Sales and Use	20% to 24%				
Property (homeowners)	29% to 34%				

Note: Working age is age 20 to 64. Sales tax figures assume businesses pass tax to consumers.
Sources: U.S. Census Bureau (American Community Survey). PA Department of Education, PA Department of Revenue, U.S. Bureau of Labor Statistics (Consumer Expenditure Survey) and Internal Revenue Service. All computations by the IFO.
(Independent Fiscal Office (IFO) analysis for PA Treasury Retirement Task Force)

Dr. Knittel also observed that seniors are increasingly working into retirement age. According to the IFO's analysis of labor participation rates, senior participation in the workforce has increased almost 10 percent over the past decade at the same time that overall participation has decreased by two percent. While Dr. Knittel caveats it would be difficult to determine the share of those who work past traditional retirement age out of desire versus necessity, trends in spending and increased debt accumulation among senior populations suggest that increased workforce participation is at least in part a response to economic pressures. Senior spending dedicated to housing – including mortgage and property tax – has increased as a proportion of income. Both of these trends seem to indicate that costs for older citizens are rising, forcing seniors to work longer and use home equity to finance expenses (most notably healthcare). This trend calls into question current standards of "sufficient" retirement savings and whether they may be underestimated. Dr. Knittel commented that two common rules of thumb used by financial advisors as targets for sufficient retirement savings – eight times pre-retirement income as a lump-sum payment, or 75 percent of pre-retirement income annually for each year in retirement – are too conservative an estimate. Dr. Knittel concludes "If it [savings] was sufficient, seniors wouldn't be pulling equity from their homes, relying on their homes to pay bills, and running up mortgage debt."

The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania

The Pennsylvania Treasury commissioned Econsult Solutions Inc. (ESI) by to quantify the fiscal and economic impacts of insufficient retirement savings. Ethan Conner-Ross, Director and Economic Impact Analyst at ESI, presented the results of this study for the Retirement Task Force's consideration.

Mr. Conner-Ross highlighted the importance of considering both micro- and macro- level effects of retirement security, noting "Retirement security is often thought of from the consequences of private citizens and their individual preparedness and quality of life. But it's important we understand it as a public policy issue in terms of consequences to the government and its fiscal position." ESI's analysis examines Pennsylvania's retirement crisis from two sides: an increase in state assistance spending and a decrease in revenue due to lowered household spending. [15]

"Projected out to 2030, the cost per year by 2030 was estimated to be 1.1 billion, with a cumulative additional cost to the state of $14.3 billion.

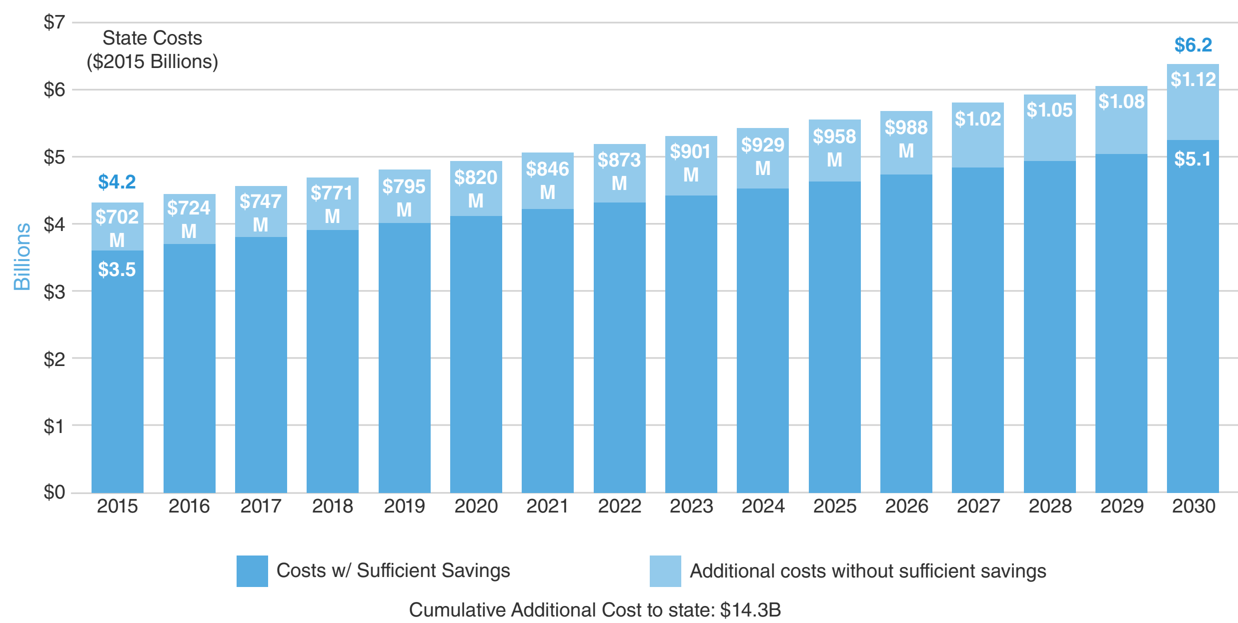
Insufficient savings are projected to reduce household spending by $40 billion cumulatively from 2015-2030, with a resulting loss of tax revenue of $1.4 billion. "

(15) *Previous studies have included only the increase in state assistance spending. See Trostel (2017), The Fiscal Implications of Inadequate Retirement Savings in Maine." University of Maine, https://mcspolicycenter.umaine.edu/wp-content/uploads/sites/122/2017/03/final-aarp-report.pdf*

ESI used the framework of annual replacement income to define "sufficient" retirement savings, identifying 75 percent of individuals' working age (50-64) annual income as a sufficient income in retirement (including savings, Social Security, asset, wage and salary, and all other sources of income). Minor adjustments were made to this scenario to address sufficiency for low-income and moderate-to-high income individuals.[16] ESI modeled what sufficient incomes would be in 2015 based on working age income data from 2000, producing an income distribution across the entire elderly population which was then compared to actual retirement incomes. The conclusion: for elderly residents with an annual retirement income of less than $75,000, the average savings gap in annual income was $4,200.

ESI analyzed means-tested programs targeting seniors or the elderly, funded from both the general fund and supplemental funds, to determine the costs borne by the state due to insufficient retirement savings. In 2015, ESI determined that state assistance expenditures would have been $700 million less had individuals had sufficient savings. While the vast majority of these assistance costs came in the form of Medicaid programs, the analysis also included PennCARE service providers, Property Tax / Rent Rebates, PACE/PACENET prescription drug coverage, and Free and Reduced Fare Transit. Projected out to 2030, the cost per year by 2030 was estimated to be $1.1 billion, with a cumulative additional cost to the state of $14.3 billion.

State Assistance Costs Due to Insufficient Savings, 2015-2030

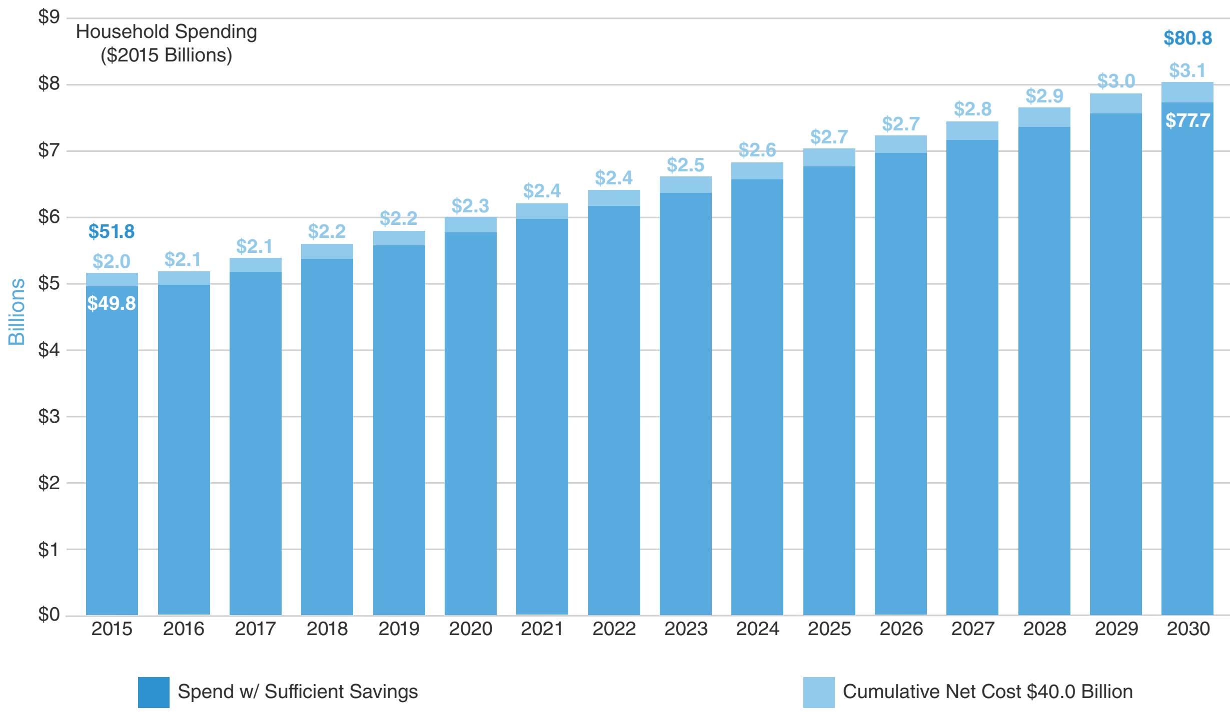


(Econsult Solutions Inc. presentation for PA Treasury Retirement Task Force)

(16) *In judging sufficiency from low working-age income, if annual retirement income is equal to or less than the federal poverty line, the savings (sufficiency) gap is assessed as the difference between the federal poverty line and their annual retirement income. Conversely, all annual retirement incomes above $75,000 are determined to be sufficient regardless of annual working age income.*

According to ESI, insufficient savings are also linked to reduced economic activity in the form of household spending. In 2015, household spending by elderly households was $50 billion; ESI estimates seniors would have spent $52 billion if the retiree-age population had sufficient savings. This spending “gap” of $2 billion dollars will grow to $3.1 billion dollars in 2030. Insufficient retirement savings are projected to significantly slow the growth of household spending in the period from 2015 to 2030. ESI’s graph illustrates the predicted $40 billion cumulative reduction in household spending during these years, with a resulting loss of tax revenue of $1.4 billion.

Reduced Household Spending Due to Insufficient Savings, 2015-2030



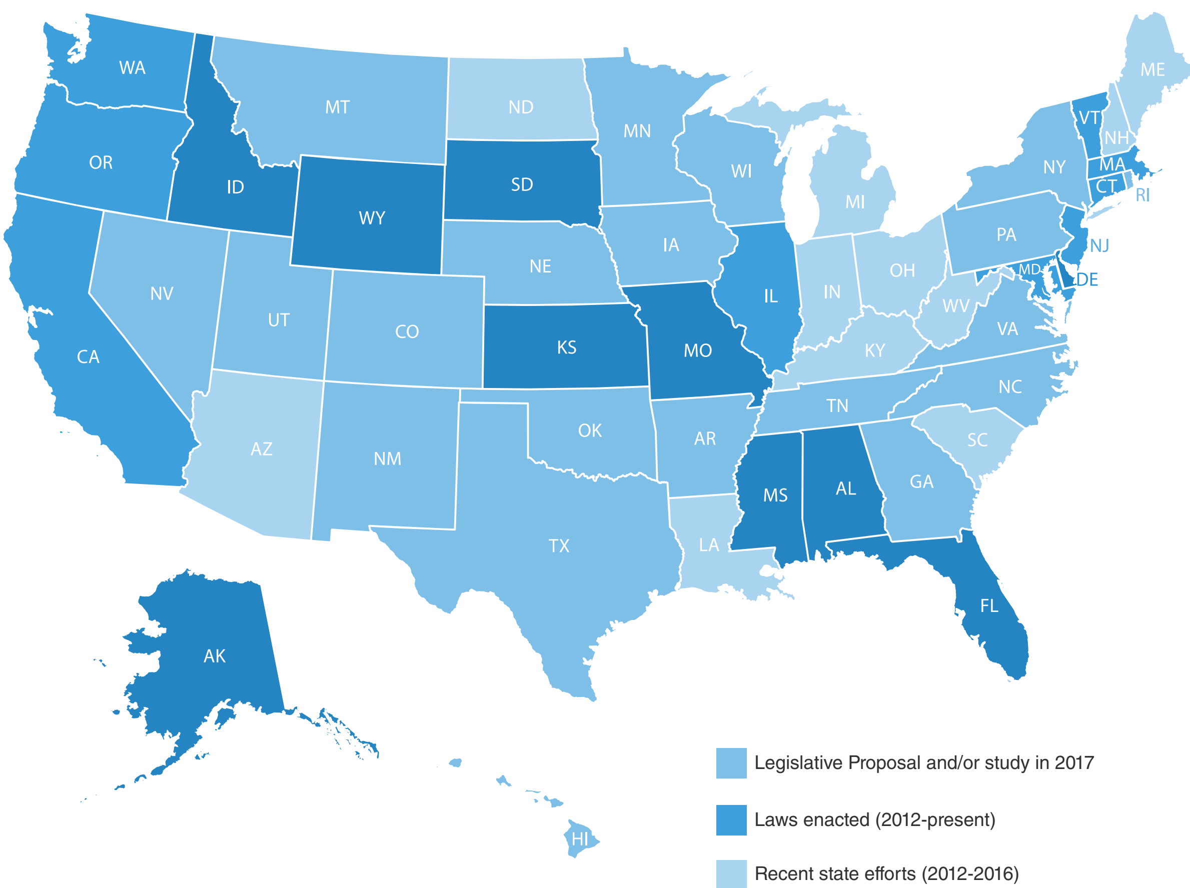
(Econsult Solutions Inc. presentation for PA Treasury Retirement Task Force)

State Level Policy Solutions to the Retirement Crisis

Angela Antonelli, Executive Director at the Georgetown Center for Retirement Initiatives and Professor at the Georgetown McCourt School of Public Policy, offered her perspective as a national leader in the field of retirement studies. Ms. Antonelli reaffirmed the scope of the retirement crisis as a public policy issue and addressed scarcity in retirement savings: "People are very afraid of outliving their savings . . . The reality is that folks are not saving enough for their retirement. One-person households have no defined obligation, no defined benefit plan. Those aged 55 and over, a third of us, have no defined contribution savings, no defined benefit plan".

Ms. Antonelli reiterated findings from previous testifiers – including that access to savings options is low and that there are significant budgetary benefits to be reaped by helping an aging population save for retirement. Ms. Antonelli urged the Retirement Task Force to look to other states for ideas to resolve the retirement crisis. Among the 22 states that have passed or are considering policy solutions, the three models include automatic-IRA (CA, CT, IL, MD, OR), the multiple employer plan (Massachusetts and Vermont), and an online marketplace of products (Washington).

From her work with other states and at the federal level, Ms. Antonelli has developed a list of lessons learned and key plan design considerations. These lessons involve acknowledging the strength of certain behavioral tools, such as auto-enrollment and auto-escalation, the importance of simplicity on the employer and employee side, and the importance of assuring lifetime retirement income.



(Georgetown University Center for Retirement Initiatives Presentation for PA Treasury Retirement Task Force)

Hearing 4: Options to Expand Private Sector Workplace Savings

Wednesday, February 14th, 2018, in Senate Hearing Room 1, Harrisburg, PA

The goal of this hearing was to inform the Retirement Task Force of current state initiatives aimed at addressing the retirement crisis, including pros and cons, challenges, and lessons learned in the implementation of each of these state-supported plans. The Retirement Task Force heard testimony from a legal expert discussing Auto-IRA in the context of the Employee Retirement Income Security Act (ERISA), as well as high-level officials operating plans in three states.

Legal Implications of an Auto-IRA

David Morse is an attorney specializing in employment benefits and compensation at K&L Gates, a law firm that includes corporate and governance counseling among its practice areas. Mr. Morse briefed the Retirement Task Force on the Employee Retirement Income Security Act (ERISA). ERISA was implemented by the Department of Labor (DOL) in 1974, with the primary aim of establishing minimum standards for pension plans in private industry. ERISA imposes an employer mandate to operate retirement plans in the best interest of the employee, requires disclosure of financial information to participants, and provides for access to federal courts to remedy employee grievances.

The Safe Harbor ruling promulgated by the DOL in 1975 and supplemented in 2016 stipulated that Individual Retirement Accounts (IRAs) must comply with specific criteria for the IRA to be independent of ERISA regulation. First and foremost, for a plan to be independent of ERISA regulation, the employer is not permitted to make any contributions. Additionally, the employee's participation must be completely voluntary; any element of coercion on the part of the employer for employee participation brings the plan under the ambit of ERISA regulation. Employer involvement is limited to providing information about the plan without endorsement, processing payroll withholding deductions, and answering questions. The final stipulation is that the employer must not be paid to offer the program.

Mr. Morse explained that additional support for state Auto-IRA programs was provided by an additional Safe Harbor rule that DOL enacted in 2016. Although that rule was subsequently undone by Congress and the Trump Administration, the original criteria established by the 1975 Safe Harbor rule are still in place and still provide a basis for IRA plans not to be subject to ERISA. In terms of the Auto-IRA, the most common ERISA issue is that the auto-enrollment component infringes on the rule that employee participation must be completely voluntary. Mr. Morse addressed this in his testimony by stating, "The DOL's concern about auto-enrollment is gone because it's not in the [2016] regulations that have been repealed. Second of all, I think the Department missed the fact that auto-enrollment in the private sector in 401(k)'s, 403(b)'s, and even some 457s is becoming the gold standard ... most larger plans have auto enrollment, most new plans have an auto-enrollment, and it's really how a 401(k) works."

In summary, Mr. Morse concludes that states can sponsor Auto-IRA plans, free from ERISA consideration, as long as the design of those plans does not violate any of the previously outlined requirements. Mr. Morse does, however, clarify that ERISA independence should not preclude automatic-IRA plans from maintaining rules of conduct; most notably consumer protections regarding how contributions are withheld and safeguarding custodian or trustee withdrawals.

Washington State's Retirement Marketplace

Carolyn McKinnon, Marketplace Director and Policy Advisor for the Washington Department of Commerce, outlined Washington's need for a retirement savings intervention. Washington's current workforce includes 2 million uncovered workers, very similar to Pennsylvania, yet they represent 61% of Washington's entire workforce. In total, 131,000 business units in Washington State do not offer retirement plans.

The Washington Marketplace is a state managed centralized website, or "portal," where employees can review and select a retirement plan from a list of options reviewed and approved by the state. This allows the state to connect eligible employers to qualifying private sector retirement plans. Plans are generally pre-screened for quality and assessed for relatively low participation fees. Additionally, marketplace providers tend to look for plans that are suitable to smaller employers as they face the largest barriers to access. The laws enacting marketplace plans in both Washington and New Jersey permit a variety of plans ranging from IRAs to 401(k)s. An advantageous facet of a marketplace plan is that the sponsoring state assumes no regulatory or legal obligation in the operation of plans; those duties remain with each plan provider. The state's role is to vet and register financial institutions that are featured on its marketplace for consideration by employees looking for retirement savings options. Personal information from employees who select one of the approved plans goes to the private institution offering that plan. This structure preserves a relatively clear delineation of the responsibilities falling respectively upon the state and the approved private institutions.

Ms. McKinnon outlined the components of the Washington Marketplace plan and explained the role that the state has in administration of the portal, noting that the marketplace is designed for not only workers with employers but individuals as well. This opens the door for sole proprietors, day workers, and contract workers to have access to approved savings plans. Ms. McKinnon in conclusion also underlined the possible utility of treating a marketplace style solution as one component of a broader state policy surrounding retirement security.

Financial Sector Perspective on State-Supported Pension Programs

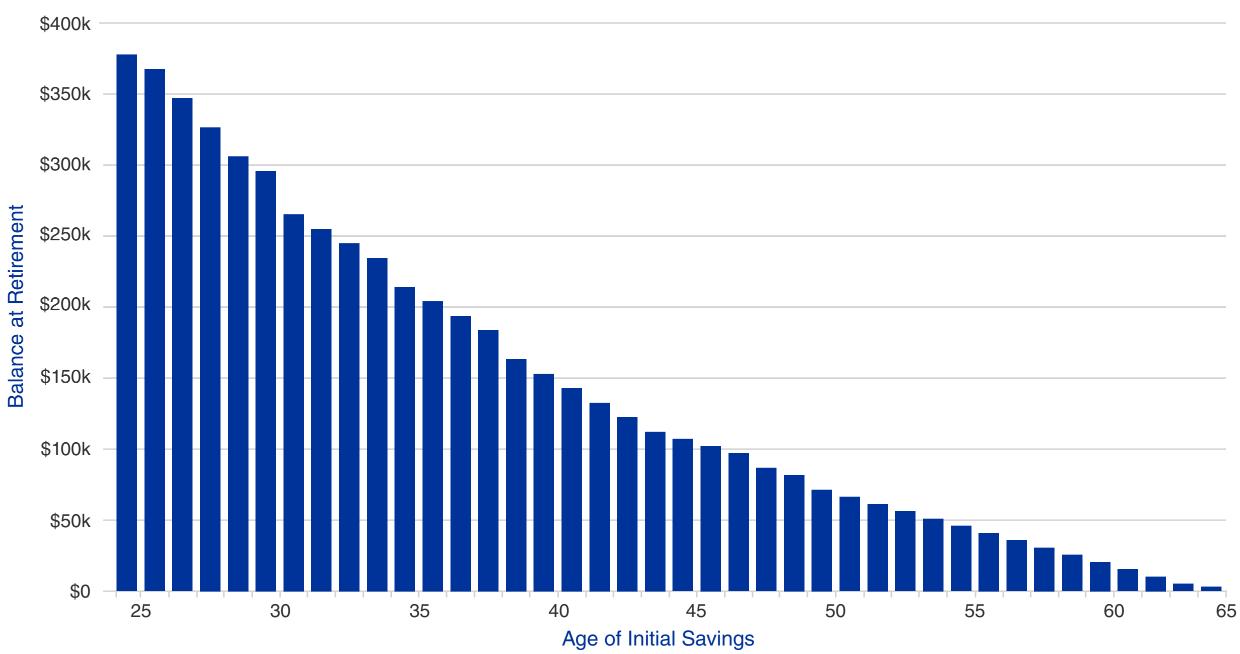
State Street Global Advisors Managing Director, Melissa Kahn and Vice President, Brian Murtagh offered the next testimony of the hearing. State Street, which manages $2.8 trillion in retirement savings assets, offered a unique perspective to the Retirement Task Force from the point of view of the financial sector. Their analysis began with calculations of a retirement savings gap, followed by an explanation as to what factors are set to exacerbate the existing retirement savings problem. They identified two variables as those most likely to worsen retirement security: longer life-spans and lower and longer investment returns. State Street then articulated different behaviors as well as public policy action that can help narrow the retirement savings gap.

The Employee Benefit Research Institute (EBRI) supplements many of State Street's conclusions regarding the current status of retirement security. According to EBRI, U.S. households in aggregate are running a savings deficit of $4.13 trillion. Breaking it out to the micro level, those categorized into Generation X (commonly generalized as those aged 35 to those in their early 50's) run an average retirement savings deficit of $129,000 for single men and $132,000 for single women. The effect of diminished savings rates for those nearing retirement age is compounded by the previously identified variables, including projected mid-single digit investment returns and longer lifespans. Noting the time value of money and the power of compound interest, State Street advises retirement solutions that encourage individuals to begin saving earlier in life.

State Street cited results from the UK's shift to a mandated combined contribution program for all employers to strengthen their argument. The conclusion from the UK case study is that certain design elements, such as target date months, auto-enrollment, and auto-escalation of contributions are important design components to ensure that socially optimal outcomes are achieved.

State Street expressed support for state-supported private retirement plans and discussed two elements they believe have been successful in other programs: (1) auto-enrolling workers into a defined contribution plan will give workers the time they need to build assets; and (2) auto-escalating contributions into default investments (higher contribution rates were found to close the coverage gap more successfully than a lower

The Power of Starting Early



contribution rate, even with higher incidence of opting-out). Additionally, State Street urges that plan designs keep choices simple and limit the size of investment menus offered to participants. These design components are characteristic of many initiatives brought to the Retirement Task Force's attention, most similarly aligning with components of the Auto-IRA.

Green Mountain Secure Retirement Plan

Testifying on behalf of the state of Vermont's retirement initiatives, Vermont State Treasurer Beth Pearce and Tim Lueders-Dumont, Policy Director, Vermont State Treasurer's Office, appeared via remote conferencing to discuss Vermont's response to issues of retirement insecurity. Treasurer Pearce first gave a brief history of the Green Mountain Secure Retirement Program and addressed the need for retirement intervention, citing 104,000 Vermont workers without access to retirement savings plans through their employers.

Two states – Massachusetts and Vermont – have enacted legislation permitting the creation of a state "open" Multiple Employer Plan (MEP). A MEP is a 401(k) plan and thus is subject to ERISA regulations and Tax Code "qualified" plan rules. As the sponsor of the plan, the Vermont Treasurer's Office is accepting responsibility to comply with these requirements. MEPs, due to their 401(k) status, allow for employer contributions as well as employee contributions. Participation in the MEP is a voluntary choice by an employer. These differentiate the MEP from the Auto-IRA and, in the eyes of many, is a strong argument for preferring the MEP model. Government-supported MEPs of the kind currently being implemented by Vermont and Massachusetts offer a greater degree of operational freedom. These programs allow any business employing state residents to join the program, regardless of industry, in turn offering employees a portable retirement plan that can follow them from job-to-job.

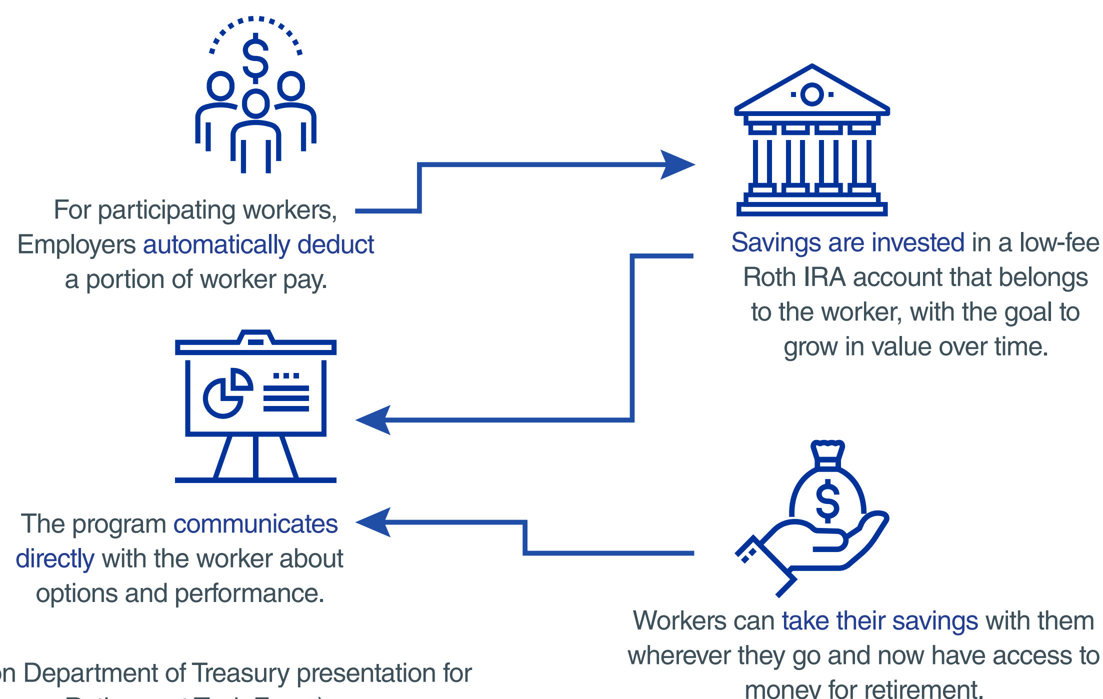
Treasurer Pearce and Mr. Lueders-Dumont discussed the Green Mountain Secure Retirement Program, the first state-facilitated MEP. The Green Mountain Program was created after a multi-year feasibility analysis conducted by the Vermont Public Retirement Study Committee. The Public Retirement Study Committee recommended a MEP for a few reasons, including the fact that it is voluntary for employers, allows for an employer contribution, and has higher contribution limits than an IRA. The voluntary (for employers) program will be open to employers with 50 or fewer employees, and will be auto-enroll for employees with an option to decline ("opt-out"). The program is expected to launch statewide in January 2019.

Oregon Saves

Oregon Treasurer Tobias Read and Oregon Saves Director Lisa Massena joined the hearing via remote video and audio conferencing to discuss the development and design points of Oregon's newly implemented Auto-IRA plan. The legislation permitting Oregon Saves was passed in 2015, with the first pilot program starting in 2017 and statewide implementation beginning this year. The state of Oregon and Treasurer Read identified a gap in access to savings for approximately 4,000,000 Oregon workers. At the time of presentation, 4,500 employees across 300+ employers had enrolled and contributed a combined $750,000.

Oregon Saves offers a Roth IRA to employees aged 18+ who do not otherwise have a way to save at their workplace. The program is mandatory for certain employers specified in the state law, with auto-enroll and auto-payroll deduction features. The standard deduction for contributions is 5%, which automatically increase to 10% over time. The program emphasizes simplicity in implementation and operation. On the employee side, Oregon Saves offers a limited investment offerings menu, minimizing options and simplifying the decision making process. On the employer side, the employer must go through a simple registration process and undertake the administration of the Auto-IRA payroll deductions. Components of Oregon Saves that are waiting to be rolled out include opt-in capability for contingent workers and independent contractors.

Simple and portable



(Oregon Department of Treasury presentation for PA Treasury Retirement Task Force)

Treasurer Read concluded the presentation of Oregon Saves by indicating how popular the initiative is among those in the private sector and small businesses, remarking that many small business owners wished to offer retirement plans to their employees but lacked the resources to do so, and seemed optimistic towards the prospect of Oregon Saves achieving scale in the coming years.

USA Retirement Plan for the Commonwealth of Pennsylvania

Dick Sawhill presented the USA Retirement lifetime annuity benefit plan, a state-level retirement plan based on a universal federally-sponsored model developed by Sawhill and several colleagues in 2014 at the request of Sen. Tom Harkin, former chair of the US Senate Committee on Health, Education, Labor & Pensions. The USA Retirement plan differs from the other three state-supported plans in a number of ways.

All workers with a Social Security number are able to participate in the USA Retirement Plan, regardless of age. The Plan mandates that all employers enroll employees at a minimum 3% contribution (payroll deduction) rate, which employers are allowed to match. Participants can contribute up to 15% of pay, or $15,000 annually. Each contribution accrues into a participants "notional" account that tracks contributions; notional accounts are then used to determine lifetime retirement income. Investment returns on contributions are smoothed at a maximum return of 8% and a minimum return of 0%. All benefits of the USA Retirement Plan are paid as annuities. Among the most significant components of the USA Retirement plan is its level of autonomy from the state in regard to its operation; the management of the plan is overseen by a board selected by the state, but the state is otherwise not involved in the operation of the system.

The key takeaway from the USA Retirement plan is its emphasis on providing lifetime retirement income. Many experts on retirement security agree that those entering retirement often have difficulty making their savings last, and suggest that currently agreed-upon standards of savings sufficiency might be underestimating the amount needed, particularly due to an increase in average lifespan. The USA Retirement plan strives to guarantee lifetime retirement income in the form of monthly payments. Additionally, Mr. Sawhill made clear that the USA Retirement plan involves no unfunded liability exposure to taxpayers. While the USA Retirement plan is not yet adopted by any states, its integral tenet of assured lifetime income is a design component that distinguishes it from the other models currently being implemented around the country.

APPENDIX B

ERISA Thumbnail

ERISA is the acronym for the Employee Retirement Income Security Act of 1974. This federal law – and accompanying regulations – create standards for retirement, health and pension plans in order to protect the interests of employees participating in such plans and their beneficiaries.

ERISA does not require an employer to establish a retirement or pension plan, or a health plan, for its employees. Employers that do elect to offer such plans, however, are obligated to meet the applicable ERISA requirements. As a general rule, the law does not require a minimum level of benefit. Instead, it regulates the operational details of a plan once it is established. ERISA oversees the operation of both defined benefit and defined contribution plans.

One key component of ERISA's protection of plan participants involves information requirements. ERISA mandates that plan sponsors (generally, employers) provide certain kinds of information, such as plan features and nature of funding, to participating employees. It also sets out a schedule of required distribution of the information.

Imposition of fiduciary responsibility on those charged with running plans is another critical element of ERISA. Those managing plans must act solely in the interests of their participants (and their beneficiaries), incur administrative and management costs prudently, diversify investments, avoid conflicts of interest, and conduct themselves in a number of other prescribed ways intended to protect assets from misuse. Fiduciaries may be held personally liable for losses associated with actions in conflict with these obligations.

APPENDIX C

Comparison of State-Supported Retirement Security Programs

The information on the following page is included here with the generous permission of the **Georgetown University Center for Retirement Initiatives (McCourt School of Policy).** The following more detailed charts comparing existing state-sponsored private sector retirement plans can be accessed by contacting Angela M. Antonelli, the Executive Director of the Center (ama288@georgetown.edu)

"Comparison of State-Facilitated Retirement Plan Design Features, by State: Illinois, Oregon, Maryland, Connecticut, California and Seattle: State Brief 18-01," Georgetown University McCourt School of Public Policy Center for Retirement Initiatives, May 31, 2018; and

"Comparison of Retirement Plan Design Features, by State: Massachusetts, Washington, New Jersey, Vermont and New York: State Brief 18-02," Georgetown University McCourt School of Public Policy Center for Retirement Initiatives, May 31, 2018.

Overview of State Program Characteristics

Secure Choice* Payroll Deduction IRAs					
	Year Enacted	Employers Covered	Default Contribution Level	Structure of Accounts	Implementation Timeline
Illinois Secure Choice Savings Program	2015	25 or more employees	5%	Roth IRA	Pilot program in May 2018 followed by phased rollout until March 2020
Oregon Saves	2015	Employers that do not currently offer qualified plans	5% with annual auto-escalation of 1% until 10%	Roth IRA	Open; phased rollout to be completed by May 15, 2020
Maryland Small Business Retirement Savings Program and Trust	2016	Employers that do not currently offer qualified plans	Not specified	To be determined	To be determined; not specified in statute
Connecticut Retirement Security Authority	2016	5 or more employees	3%	Roth IRA	January 1, 2019, with a phased rollout
CalSavers	2016	5 or more employees	5% with annual auto-escalation of 1% until 8%	Roth IRA as default, option for traditional IRA	Anticipated pilot launch by the end of 2018
Seattle Retirement Savings Plan	2017	Employers that do not currently offer qualified plans	Not specified	To be determined	By law, contributions to begin between January 1, 2019, and January 1, 2021
Open Multiple Employer Plans (“MEPs”)					
	Year Enacted	Employers Covered	Default Contribution Level	Structure of Accounts	Implementation Timeline
Massachusetts Defined Contribution CORE Plan	2012	Nonprofits with 20 or fewer employees	5% 6% with annual auto-escalation of 1-2% until 12%	Defined contribution 40l(k) plan	Program launched in October 2017 and open for enrollment
Vermont Green Mountain Secure Retirement Plan	2012	Employers with 50 employees or fewer	Not specified	Defined contribution 40l(k) plan	Program to launch on or before January 15, 2019
Marketplaces					
Washington Small Business Retirement Marketplace	2015	Employers with 100 employees or fewer	Not specified	Currently offers 401(k) and IRA products	Opened for enrollment on March 19,2018
Vermont Green Mountain Secure Retirement Plan	2016	Employers with 100 employees or fewer	Not specified	SIMPLE IRA, payroll deduction IRA, and others	Not specified in law
Voluntary Payroll Deduction IRA					
New York Secure Choice Savings Program	2018	Employers that do not currently offer qualified plans	3%	Roth IRA	To be open for enrollment within 24 months after law is effective; board may delay by additional 12 months

*Require employers meeting certain criterial to offer their employees the state's retirement savings program unless they choose to offer another type of retirement plan.

Source: Angela M. Antonelli, and John, David C. “The Benefits of Achieving Economics of Scale in State-Sponsored Retirement Savings Programs: The Case for Multi-State Collaboratiion,” *working paper,* June 2018.