The Working Poor Families Project

Policy Brief ■ Fall 2016

States Increasing Access to Workplace Retirement Savings Plans

By Rich Jones, The Bell Policy Center[1]

Introduction

America faces a retirement crisis, as a substantial number of working families are not saving enough to meet their needs in retirement. Several national studies show that anywhere from half to two-thirds of working families are at risk of not being able to maintain their pre-retirement standard of living. Low-income working families are most at risk.[3]

The best way to save for retirement is to participate in a workplace savings plan and put away a portion of each paycheck. However, about 40 percent of all workers in the U.S. work for employers that do not sponsor a retirement savings plan. Low-income workers are twice as likely not to have access to a workplace retirement savings plan, as are high-income workers. In addition, the retirement savings landscape has changed dramatically over the past 40 years with fewer employers offering traditional pensions and most offering defined contribution plans such as 401(k)s. This change has shifted retirement savings risks from employers to workers.[4]

To help more workers save for retirement, five states are creating public-private partnerships to design and operate workplace retirement savings plans for private sector workers who do not have access to one. Two states are setting up state operated marketplaces to make it easier for employers to find and purchase retirement savings plans for their employees.[5]

These actions are occurring against a backdrop in which Americans rank "not having enough money for retirement" as their top financial concern.[6]

The Working Poor Families Project (WPFP), a national initiative that seeks to strengthen state policies on behalf of low-income working families, supports states' efforts to provide workers with secure, low-cost and portable retirement savings plans. These plans will help low-income families better prepare for a financially secure retirement where they can support themselves and their families. Helping low-income families save for retirement will reduce state and local government spending on safety net services for seniors. It will also help foster a Two Generation approach to savings among low-income working families as more are better able to pass assets on to their children and grandchildren just as upper income working families do, thus helping multiple groups of younger generations get a leg up financially.

The Working Poor Families Project

Strengthening State Policies for America's Working Poor

Millions of American breadwinners work hard to support their families. But, despite their determination and effort, many are mired in low-wage jobs that provide inadequate benefits and offer few opportunities for advancement. In fact, nearly one in three American working families now earn wages so low that they have difficulty surviving financially.[2]

Launched in 2002 and currently supported by The Annie E. Casey, Ford, Joyce and W. K. Kellogg foundations, the Working Poor Families Project is a national initiative that works to improve these economic conditions. The project partners with state nonprofit organizations and supports their state policy efforts to better prepare America's working families for a more secure economic future.

For more information: **www.workingpoorfamilies.org**

Many Americans are Not Financially Prepared for Retirement

There is considerable research that shows we face an impending retirement crisis as a substantial number of families lack enough savings to meet their needs in retirement. These studies measure whether families' have enough saved so that when combined with other sources of income they will be able to maintain their standard of living in retirement. This is particularly true for low-income families. The Working Poor Families Project estimates there are over 10.5 million low-income working families in the U.S., which represents about one-third or all working families.[7]

However, determining an exact amount of income needed is complicated. Most retirees generally do not need as much to maintain their standard of living because of reduced expenses including paid off mortgages and no work-related costs such as professional clothing, office supplies and commuting costs. On the other hand, the costs of health care and long-term care could be greater than during their working years.[8]

Most recent studies find that large numbers of Americans are not financially prepared for retirement. For example, **The Center for Retirement Research at Boston College** publishes the National Retirement Risk Index (NRRI) that compares the projected retirement income for current working families with target rates that would allow them to maintain their standard of living in retirement. The Center then calculates the percentage of families at risk of not having sufficient retirement income.

The Center determined that in 2013 just over half (52%) of all households in the U.S. are at risk of not having enough saved to maintain their standard of living in retirement. This is about the same percentage as they calculated in 2010 but up from 44 percent in 2007. The index was at 30 percent in the 1980s and around 40 percent in the 1990s.

Low-income working families are at a higher risk of falling short. Six out of ten households in the lowest third of the income distribution are at risk compared to 43 percent of those in the highest income level. Access to an employer provided retirement savings plan reduces the percentage of households at risk. About seven out of 10 households without any employer sponsored plan are at risk compared to about half of those with access to a defined contribution plan and 20 percent of those with a defined benefit plan, as defined below.

The Center shows that 62 percent of households aged 30-39 are at risk compared to 55 percent of households aged 40-49 and 44 percent of those aged 50-59.[9]

The Center also used the Federal Reserve's 2013 Survey of Consumer Finances (SCF) to assess the amount of retirement savings American families had socked away. The Center calculates that about half (52%) of working households aged 55-64 had a 401(k) account and the median combined balance in their 401(k) and Individual Retirement Account (IRA) was $111,000. The Center estimates this would provide less than $400 per month in retirement income. However, only 22 percent of households with incomes less than $39,000 had a 401(k) account and the median balance in their combined 401(k) and IRA was $39,000.[10]

The Employment Benefits Research Institute (EBRI) calculates the percentage of households whose retirement savings and other sources of income are not sufficient to meet minimum expenditures in retirement. Based on their Retirement Security Projection Model, EBRI estimates that about 44 percent of all households will run short of money in retirement.[11] EBRI's model shows that low-income households face a higher risk of falling short. For those closest to retirement, almost nine out of 10 (86.8%) households in the lowest income quartile are at risk compared to about one in 10 (12.5%) at the highest income quartile.[12]

The National Institute on Retirement Security (NRIS) compared the net worth of workers based on data in the Federal Reserves' 2013 Survey of Consumer Finances with the amount of retirement savings people should have as recommended by the financial services industry. NIRS determined that two-thirds of working households aged 25-64 do not meet conservative retirement savings benchmarks for their age, even when counting their entire net wealth.[13]

The Federal Reserve reported in their 2015 Economic Well Being of U.S. Households that 31 percent of non-retired adults nationwide said they have neither pension nor any retirement savings. This increases to two-thirds for those households making less than $40,000 per year.[14]

On the other hand, there are some **economists** that argue that Americans are saving enough and that most will have sufficient income in retirement to maintain their standard of living. These analyses use a lifecycle model that shows that as families grow older and their children leave home, the costs of maintaining pre-retirement lifestyles decline. While they are generally more optimistic about families having enough money to fund their retirements, these economists also find that low-income families are at risk.

A 2006 lifecycle study shows that only 16 percent of households have too few savings to maintain their lifestyles. However, it estimates that about 30 percent of households in the lowest income decile do not have enough savings compared with 5 percent in the highest decile. Another study using the lifecycle model determined that those households with less education, which also tend to have lower incomes, are more likely not to have enough money in retirement.[15]

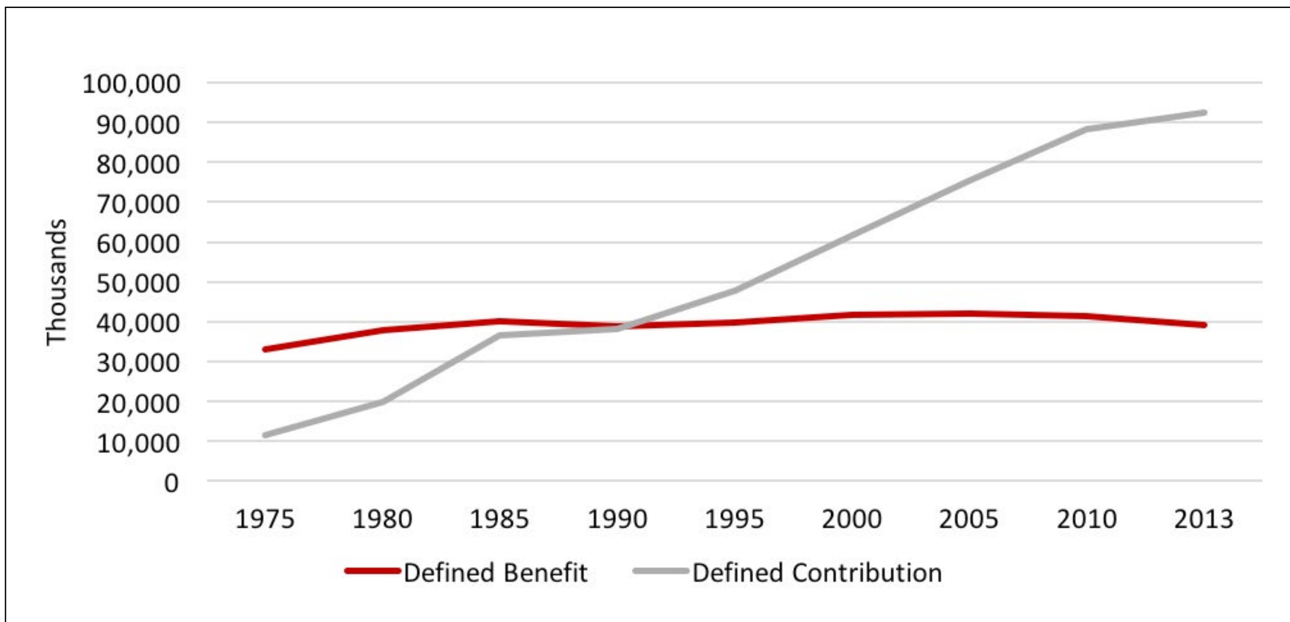
Overall, most analyses point to the need for families, particularly low-income families, to save more for retirement or risk not being able to make ends meet.

Retirement Savings Landscape Has Changed Over Time

Over the past forty years, the type of retirement plans sponsored by employers has changed dramatically.[16] As Figure 1 shows, there has been a shift away from defined benefits plans toward defined contribution plans. The effect of this change has been to shift the risk associated with retirement savings from employers under the defined benefit plans to employees under the defined contribution plans.

In 1975, most plans offered by employers were defined benefit plans. Eligible employees were automatically enrolled and received a portion of their average earnings throughout retirement. These plans are sometimes referred to as traditional pensions and provide generous benefits for workers who spend their entire career with a single employer but are less helpful for workers who change jobs frequently or who leave the employer before they become eligible for the retirement benefits. By 2013, most employers offered defined contribution plans. Under these plans, 401(k)s are an example, workers generally need to actively enroll, decide on an amount to

Figure 1. Employers currently cover twice as many participants through defined contribution retirement plan than defined benefit plans, a complete reversal from 1975.



Source: Private Pension Plan Bulletin. Historical Tables and Graphs, Table E5, 1975-2013, U.S. DOL, September 2015.

contribute and determine where to invest their savings. As a result, not all employees participate in these plans when they are offered and many do not save enough or make appropriate investments when they do.

Although this shift has not reduced the total amount of retirement assets in the nation, it has affected how the amount of retirement savings are distributed among workers based on income and education levels. For example, the ratio of pension wealth for those in the lowest income percentile compared to those in the top income percentile is higher under defined benefit plans than defined contribution plans. Other measures show that the wealth contained in defined contribution plans is skewed toward those with more education and higher earnings.[17]

In addition to employer sponsored plans, pretty much anyone who has earned income can save for retirement in an Individual Retirement Account (IRA). There are several types of IRA's—Traditional, Roth and those sponsored by employers. There are differences among them in terms of the amount that employees can contribute, how these contributions are taxed and the amount and when contributions can be withdrawn. The traditional IRA was created in 1974 and the Roth IRA in 1997. In addition to IRAs that individuals can fund on their own, employers were authorized to offer IRAs as part of their retirement savings plans in 1978, 1986 and 1996.[18]

However, very few workers contribute to an IRA and less than one-third of U.S. households owned one in 2015. The traditional IRA is the most popular with 25 percent of the households owning one, followed by the Roth and workplace IRAs.

In 2014, only 14 percent of U.S. households contributed to a IRA, a rate that has remained constant from 2007 through 2014. Another 18 percent owned an IRA but did not make any contributions to one in 2014. Rollovers from other workplace retirement savings plans such as 401(k)s are a major source of investments in IRAs.

Ownership of IRAs is skewed to those with higher incomes. In 2014, 7 percent of households with incomes below $25,000 and 6 percent of households with incomes between $25,000 and $34,900 owned an IRA. By comparison, 33 percent of households with incomes between $100,000 and $199,000 and 11 percent of households with incomes over $200,000 owned an IRA.[19]

Without Adequate Savings Workers Face Challenges in Retirement

The move from defined benefit pension plans to defined contribution savings plans has shifted the responsibility for retirement savings from employers to workers and their families. It also increases the need for the federal, state and local governments to ensure there are adequate safety net programs to provide support for low-income seniors.

The lack of sufficient retirement savings is concentrated among low-wage workers. As a result, many of them depend on Social Security for the majority of their retirement income. However, Social Security is designed to replace only about 41 percent of pre-retirement earnings for low-wage workers who retire at 62.[20]

A Government Accountability Office (GAO) analysis found that 27 percent of current households aged 65 to 74 have no defined benefit pension plan nor retirement savings. Their median income is about $19,000, one-third as much as other households in the same age group. One quarter have wage income and almost half (45%) rely on Social Security for over 90 percent of their income. Only about 3 percent of households in this age group that have some retirement savings or a defined benefit plan rely on Social Security for more than 90 percent of their income.[21]

This is consistent with an analysis of low-income retirees in Colorado that shows those in the lowest two income quartiles depend on Social Security for over 80 percent of their income.[22]

Because the amount of earned income replaced by Social Security will shrink under current law, it is even more important that Social Security remains solvent over the long-term and that benefit levels are maintained.

When people retire without adequate savings it is likely that they will turn to government programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income, property tax abatements and other state and local programs that assist low-income seniors. A study conducted by economists at Brigham Young University determined that if one-third of Utah's retirees with the lowest amounts of savings could increase their savings by just 10 percent over their working careers—or about $14,000—it would save $194 million in federal and state government spending over 15 years.[23]

Best Way to Save for Retirement is Through a Workplace Plan

Having access to a workplace retirement savings plan increases the likelihood that workers will save for retirement. Although most workers can open an Individual Retirement Account (IRA) on their own, most do not. Less than 10 percent of workers without a workplace plan contribute to a retirement savings account on their own.[24] A EBRI analysis found that only about 5 percent of workers earning between $30,000 and $50,000 contributed regularly to an IRA.[25] Those that do contribute appear to have higher incomes as 55 percent contributed the maximum amount allowed.[26]

The value of having access to a workplace plan is evident by the amount that workers with one have saved for retirement. Almost two-thirds (61%) of workers with a workplace plan report having saved $25,000 or more and 35 percent report having saved over $100,000. This compares to two-thirds of those without a plan that report having saved less than $1,000 and only 5 percent that report having saved over $100,000.[27]

Workplace plans make it easy for workers to put aside a portion of each paycheck for retirement. Employers' human resources departments provide information and can help workers sign up. Once started, workers get used to the regular contribution and can budget for it, thus making saving for retirement a habit.

Behavioral nudges such as automatic enrollment and automatic escalation of contribution amounts can also be used to increase workers' savings rates under workplace plans. Automatically enrolling workers in a workplace plan with the option to drop out has been found to increase the number of people participating by as much as 50 percentage points with especially large gains for young and low-wage workers. When combined with approaches that automatically increase the contribution rate over time, these efforts can boost savings by low-wage workers, people of color and younger workers who generally have smaller retirement savings balances.[28]

Congress authorized employers to use automatic enrollment and automatic escalation as part of the federal Pension Protection Act in 2006. While it did expand participation in the workplace retirement savings plans, particularly among low-wage workers, less than half of all workplace plans have automatic enrollment and a smaller portion have automatic escalation of contribution levels.[29]

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Vanguard is a fund management company that serves more than 5,900 employers offering workplace defined contribution plans to more than 4.9 million participants. Data on their plans shows that the number of plans with automatic enrollment has grown from 10 percent in 2006 to 41 percent in 2015. Because a greater number of larger employers offer plans with automatic enrollment, 62 percent of workers participate in these types of plans.

Vanguard's data also shows that 88 percent of workers in plans with automatic enrollment participate in their workplace retirement plan compared to 58 percent of workers in plans without this feature. This is even more striking for lower-income and younger workers. For those earning $30,000 a year or less, 82 percent with automatic enrollment participate in their retirement plan compared to 29 percent for those without automatic enrollment. For plans with automatic enrollment, 81 percent of workers aged 25 and younger participate compared to 25 percent of these workers in plans without automatic enrollment.[30]

Increasing the number of plans with automatic enrollment and automatic escalation of contributions will help expand the number of people saving for retirement, particularly low-income and younger workers, but only if they have access to a retirement plan at work.

The lack of a workplace retirement savings plan is the major barrier limiting workers, particularly low-wage workers, from saving for retirement. The GAO found that the major reason about half of private sector workers are not participating in

a workplace retirement savings program is they lack access to one. In fact, they found that "among workers who are least likely to participate—such as lower income, service sector and younger workers—the majority did so when they had workplace access." Almost two-thirds (63%) of workers in the lowest income level and three quarters (74%) of those in the second lowest income level participated in a plan if offered to them.[31]

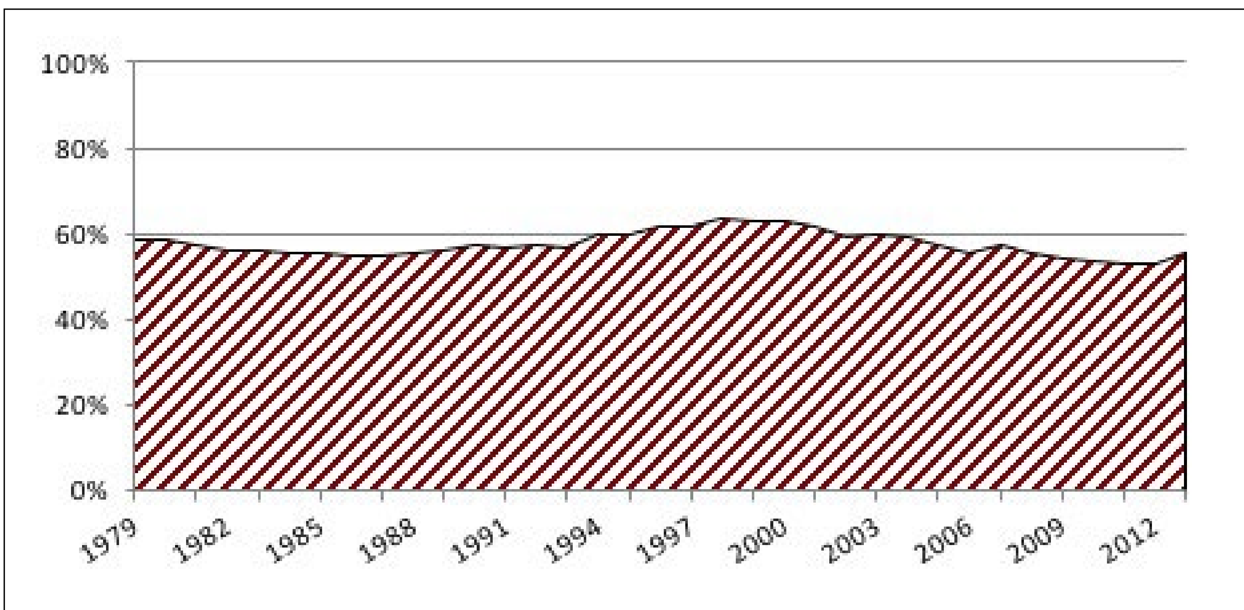
Many Workers Do Not Have Access to Workplace Retirement Savings Plans

There are different estimates of the number of workers without access to workplace plans depending on the age of the workers studied and whether they work full- or part-time. However, there is a consensus that a significant segment of the workforce has no access to a retirement savings plan at work and that this gap has existed for many years. Figure 2 below, contains data from the Center for Retirement Research at Boston College that shows the percentage of private sector workers offered any type of employer sponsored retirement plan has not increased at all since 1979.[32]

The Working Poor Families Project publishes data on indicators that describe the status of working poor families in the U.S. One of the indicators it tracks is the number and percentage of workers aged 18 and over that lack access to an employer provided retirement savings plan. This data includes those that work full- and part-time. As Figure 3 on page 7 shows, the percentage of workers without access nationwide has grown slightly from 54 percent to 59 percent between 1999 and 2013. The lack of access varies among the states. In 2013, Minnesota and West Virginia had the lowest percentage of workers without access at 52 percent. Nevada and Florida had the highest percentage of workers without access at 67 percent.[33]

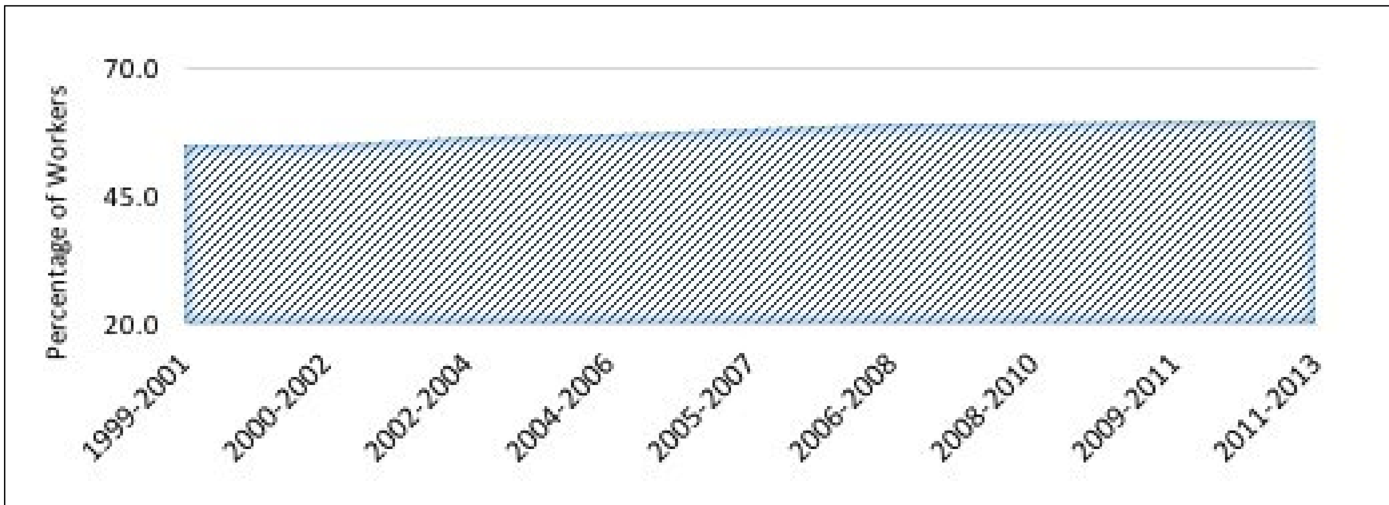
The Pew Charitable Trusts also analyzed the number and type of private sector workers that lack access to workplace retirement savings plans. The Pew analysis looked at full-time, full year private-sector workers aged 18 to 64 and found that 42 percent nationally lacked access to a plan. They also found that of those that had access, 9 percent did not participate in a plan that was offered.

Figure 2. The percentage of private sector workers ages 25-64 offered an employer-sponsored retirement plan remained fairly constant between 1979-2013.



Source: Calculations conducted by the Center for Retirement Research at Boston College from U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement, 1980-2014.

Figure 3. Percentage of workers 18 and over without access to an employer retirement savings plan grew slightly between 1999-2001 and 2011-2013.



Source: Author's calculations based on WPFP data from U.S. Census, Current Population Survey Annual Social and Economic Supplement, 1999 to 2013.

This is a somewhat more conservative estimate of those without access than the WPFP because it focuses only on full-time, full-year workers. Pew also found that the percentage of workers without access varied by state and region. Wisconsin and Minnesota had the highest percentage of workers with access to a workplace retirement savings plan at 70 percent and 69 percent respectively. Florida and New Mexico had the lowest percentage of workers with access to a plan at 46 percent and 49 percent respectively.

As Figure 4 on page 8 shows, access to workplace retirement savings plans varies depending on the demographics of the workers. Pew found that access to a workplace plan varied substantially by employee income. Only 32 percent of those earning less than $25,000 per year had access to a plan compared to 56 percent of those earning between $25,000 and $49,999. Three quarters of those earning over $100,000 had access to a plan.

Access to a workplace plan also varied by the education level of the workers. Only 29 percent of those with less than a high school diploma had access to a plan. By comparison, 51 percent of those with a high school diploma or equivalent, 59 percent of those with some college or an associate's degree and 69 percent of those with a Bachelor's degree or higher had access to a plan.

Workers aged 18 to 29, those working in firms with less than 49 employees and those in the leisure and hospitality and construction industries were less likely to have access to a workplace plan. Access also varied by race and ethnicity with 38 percent of Hispanics, 55 percent of Asians, 56 percent of Black non-Hispanic and 63 percent of whites having access to a workplace plan.[34]

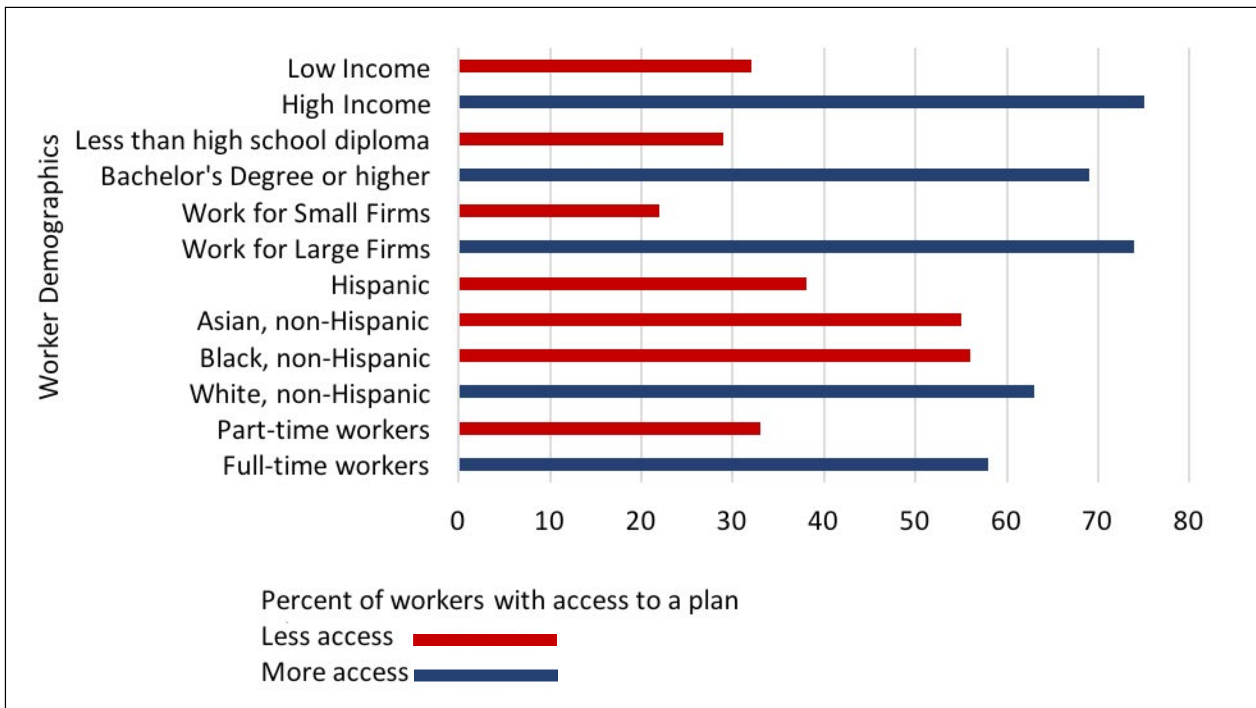
Pew's calculations also showed that only 33 percent of part-time workers nationwide have access to a workplace plan.

A number of studies have been conducted to calculate the number and percentage of workers covered by workplace plans in specific states. These studies vary somewhat but generally arrive at similar results.

The Center for Labor Research and Education at the University of California, Berkley determined that 55 percent of private sector workers aged 25-64 in California lacked access to an employer sponsored retirement plan. Those most likely not to have access to a plan earned less than $26,000 annually, worked for small firms and were people of color, particularly Latinos.[35]

In Colorado, the Bell Policy Center found that 45 percent of private sector workers aged 25 to 64 lacked access to a workplace retirement plan.

Figure 4. Access to workplace retirement savings plans varies considerably depending on worker demographics.



Source: Pew Charitable Trusts, data from their Who's In, Who's Out report, June 2016.

Workers earning less than $22,000 annually, small business employees and Hispanics were those most likely not to have access to a workplace plan.[36]

About four in ten (41%) Connecticut workers aged 25 to 64 lacked access to workplace retirement savings plans. An analysis conducted by the Schwartz Center for Economic Policy Analysis at the New School found that lower income workers, those working in small firms and African Americans were most likely not to have access to a workplace plan.[37]

The Schwartz Center conducted a similar analysis for Maryland and found that 41 percent of private sector workers aged 25 to 64 lacked access to a workplace retirement savings plan. Workers in small firms, the construction and personal services industries, self-employed and Latino workers were most likely to lack access to a plan.[38]

In Oregon, 45 percent of private sector workers aged 25 to 64 lack access to a workplace retirement savings plan. Low-wage workers, those working in small firms and Latinos were most likely to lack access to a workplace plan. The average wage of those without access was $22,000 annually compared to $47,000 for those workers with access.[39]

This lack of access will be compounded as the nature of work changes and increasing numbers of workers are engaged in the new "sharing economy" or "gig economy" that relies on independent contractors. Large segments of the United States' social safety net, such as retirement benefits, are tied to traditional employment relationships. As the number of people working in the new economy increases, fewer will be considered employees as we have traditionally defined the term and more will lack access to workplace benefits such as retirement savings plans. This creates a growing need to rethink and redesign how access to these benefits is provided.[40]

Americans are Worried About Their Retirement Security and Support Efforts to Address It

Americans rate "not having enough money for retirement" as their top financial concern in the 2016 Gallup Economy and Personal Finance Survey with almost two-thirds saying they were "very worried" or "moderately worried" about it. This is up four percentage points since 2015. Retirement Security has been Americans' top financial concern for the past 16 years that Gallup has been conducting the survey with over 60 percent of Americans rating it as their top financial concern since 2008.[41] These worries stem in part from the changes in the retirement savings landscape that limit many American's ability to save for retirement.

A 2014 survey conducted for the National Institute on Retirement Security found that 86 percent of Americans agree the nation faces a retirement crisis with 57 percent strongly agreeing. When asked about how they feel about state efforts to create "Secure Choice" type workplace retirement savings plans for private sector workers like those being developed by several states, 71 percent thought they were a good idea. Three-quarters of them said they would consider participating in one if available.[42]

States Have Taken Actions to Create Workplace Retirement Plans

A broad range of groups including President Obama, members of Congress, several states and public policy groups, including the conservative Heritage Foundation and liberal Center for Economic and Policy Research, have all proposed approaches that the federal government and states could take to expand access to workplace retirement plans.[43] Many of these proposals focus on removing the barriers that employers, particularly small employers, face in providing plans for their workers.

Workplace IRA Plans

Five states—California, Connecticut, Illinois, Maryland and Oregon—have enacted legislation to provide workplace IRA plans for their private-sector workers who do not have access to one. These states are in various stages of establishing public-private partnerships to create and run voluntary, low-cost, automatic enrollment, workplace retirement savings plans. In each state, boards comprised of public officials and private citizens will oversee the plans and be responsible for hiring professionals to manage the plans' investments, establish and track the accounts and communicate with workers who are participating in the plans. Although authorized by the state, the plans are set up outside of state government. The states have no obligation to fund them and do not guarantee the investments in them. The states only require employers to tell their employees about the plans and to send the employee's payroll contributions to the plan.

Five states—California, Connecticut, Illinois, Maryland and Oregon—have enacted legislation to provide workplace IRA plans for their private-sector workers who do not have access to one.

Each state will automatically enroll workers who are not covered by a workplace retirement savings plan at a set contribution rate. The workers will have the option of not participating or participating at a lower or higher contribution rate. The funds invested in the plan will be professionally managed and there will be limited investment portfolios from which workers could choose. The fees charged to workers participating in the plans will be capped at rates below current charges in the market and workers will be able to continue contributing to the plans if they change jobs within the state. If they take a job with an employer that offers a workplace retirement plan or move out of state, they will retain ownership in their "workplace IRA plan", but will not be able to continue making contributions to it. (See Appendix A, Table 1 for background on these plans)

California enacted legislation in 2012 (SB 1234) that created a nine-member California Secure Choice Retirement Savings Investment Board to develop the details for a Secure Choice Retirement

Savings Plan and determine the plan's market and financial feasibility. The board completed a thorough market analysis and feasibility study showing that between 70 to 90 percent of eligible workers would participate in the plan and that the plan is "financially viable and self-sustaining even under adverse conditions with poor investment returns and high opt-out rates."[44] In September 2016, the legislature passed and the governor signed legislation (SB 1234) authorizing the state to implement its Secure Choice Retirement Savings Plan that contains the recommendations resulting from the board's market and financial feasibility study. The plan will ultimately provide a workplace IRA for all private sector employees in firms with five or more employees who are not covered by a workplace retirement plan. It will be phased in with firms having 100 or more employees being required to offer the plan within 12 months of implementation. Firms with 50 or more employees are required to offer it within 24 months and firms with five or more employees are required to offer it within 36 months of implementation. Final details are being worked out and implementation is expected to begin on January 1, 2017.

Connecticut passed legislation in 2014 (Public Act 14-217) to create the Connecticut Retirement Security Board charged with assessing the feasibility of creating a workplace retirement savings plan for private-sector workers who do not have access to one and to "submit evidence-based recommendations to the Legislature on the creation of a retirement program." The Board determined that a retirement savings plan that automatically enrolled employees at 6 percent of their salaries, with the option to decrease or increase their level of contribution or to drop out altogether, and invested these funds in professionally managed Individual Retirement Accounts (IRAs) would be "financially feasible under a range of market scenarios."[45]

In May 2016, the legislature passed and the governor signed a bill (HB 5591) to establish the Connecticut Retirement Security Authority, a public-private entity, to create and operate a workplace retirement savings plan for private sector workers in firms with five or more employees without access to one, as recommended by the Board.[46] As part of a broad budget bill (SB 502), the legislature made a number of changes to the plan, including reducing the employee's automatic contribution amount to 3 percent of salary and directing the authority to select multiple vendors to offer IRAs under the plan. Employees will determine which type of fund and which vendor to invest their money. If they did not select a specific type of fund or vendor, the authority will invest their funds in an age appropriate target date fund and the vendor will be assigned on a rotating basis.

In 2015, Maryland created a task force to examine the issues surrounding the retirement security of private sector workers and make recommendations "to ensure that every private-sector employee in Maryland has the opportunity to enjoy a secure retirement." The task force appointed by Gov. O'Malley issued its report, which described the challenges Marylanders face in saving for retirement and recommended the state take action to provide access to an automatic payroll deduction retirement savings plan through their employer.[47] In 2016, the legislature passed and the governor signed legislation to create the Maryland Small Business Retirement Savings Program (SB 1007) to provide a workplace retirement plan for private sector employees. Workers in firms that have been in business for at least two years, pay employees through a payroll system and do not offer a workplace retirement plan would be required to automatically enroll their employees in a workplace IRA plan. The amount of contribution and range of investment options will be determined by the Maryland Retirement Savings Board, a public-private entity charged with operating the plan. Annual state filing fees totaling about $300 per firm, will be waived for corporations and business entities that participate in the program.[48]

Created in 2015, the Illinois Secure Choice Savings Board (SB 2758) is comprised of public officials and private citizens and charged with designing and operating a retirement savings plan. The plan will automatically enroll employees in the plan who work for private for-profit and nonprofit entities that have 25 or more employees, have been in business for at least two years and do not offer a workplace retirement savings plan. Employees will contribute 3 percent of their wages to the plan and can contribute less, contribute more or opt out of the plan.[49] The Illinois plan will offer Roth IRAs with the employee contributions pooled and managed by a professional investment firm selected by the board. The administrative costs are capped at 0.75 percent. The board is currently developing rules for the Secure Choice

plan, conducting a financial and market feasibility study and evaluating proposals from professional investment advisors. The goal is to have the plan open for initial enrollment by 2018 for employees in larger firms and by 2019 for all employees.[50]

The Oregon Retirement Savings Task Force (HB 3436) was created in 2013, to study how financially prepared Oregonians are for retirement and make recommendations for increasing the percentage of them participating in retirement savings plans. The Legislature created the Oregon Retirement Savings Board (HB 2960) in 2015, and charged it with developing a defined-contribution retirement plan for workers in any sized private employer who are not covered by a workplace retirement savings plan. Eligible employees will be automatically enrolled at a contribution rate to be set by the board with the ability to opt out of the plan. The board completed a market and financial feasibility study and determined that the Oregon Retirement Savings Plan would be financially self-sufficient. The board is working through the final details of the plan and is considering phasing in implementation of the plan beginning with a voluntary pilot in the second quarter of 2017, followed by firms with 100 or more employees on July 1, 2017. Firms with more than 10 employees would be required to participate on January 1, 2018, and employers with 10 or fewer employees on July 1, 2018.[51]

Small Business Marketplace Plans

Another strategy adopted by two states—Washington and New Jersey—is to create "marketplaces" where small businesses can more easily obtain information about retirement plans available in the market and identify providers of retirement savings plans for their workers. These marketplaces are designed to be easy to use and contain a wide range of plans. Certain fees will be capped for businesses that buy plans for their employees through the marketplaces. In addition, the Illinois Secure Choice Savings Board is required to develop a website that allows businesses to identify retirement plans available on the market. (See Appendix A, Table 2 for background on these plans).

After numerous attempts over several years to create a workplace retirement plan for private sector workers, Washington enacted the Washington Small Business Retirement Marketplace in 2015 (SB 5826). The Marketplace, open to employers with fewer than 100 employees, will be administered by the Department of Commerce, which will hire a private firm to create and operate the Marketplace website. Financial firms listing products on the Marketplace must offer at least a Target Date Fund and a Balanced Fund. The Marketplace must also offer myRA. The firms cannot charge employers an administrative fee on Marketplace plans and fees for employees enrolled in plans purchased through the Marketplace are capped at 1 percent. The director of the Department of Commerce must approve a diverse array of retirement plan options and at least one SIMPLE IRA plan and one workplace deduction IRA plan must be available on the Marketplace. The Marketplace is expected to launch in January 2017.

> Another strategy adopted by two states—Washington and New Jersey—is to create "marketplaces" where small businesses can more easily obtain information about retirement plans available in the market and identify providers...for their workers.

In 2016, New Jersey legislation (A4275) that would have created a workplace IRA type plan similar to Illinois' Secure Choice Savings plan was vetoed. However, in its place the state created a virtual marketplace where small businesses could shop for private retirement plans. The Small Business Marketplace, which is based on a similar plan in Washington, will be administered by the Treasurer's Office and will be open to employers with fewer than 100 employees. Employers would voluntarily participate in the Marketplace and no administrative fees will be charged to employers

who purchase plans through the marketplace. The fees for employees enrolled in plans purchased through the marketplace will be capped at 1 percent. Financial services firms listing products on the Marketplace must, at a minimum, offer a Target Date Fund and a Balanced Fund. The myRA will also be offered on the Marketplace. The Treasurer must ensure that at least one SIMPLE IRA plan and one workplace IRA plan are offered to employers. The Treasurer's Office is working om an RFP to select a private vendor to operate its Achieving a Better Life Experience (ABLE) accounts and may contract with that vendor to create and operate the Marketplace.[52]

As part of its Secure Choice Savings Plan, the Illinois legislation included a provision (Section 60(i)) that directed the Secure Choice Savings Board to establish and maintain a website designed to help employers identify private sector providers of retirement plans that an employer could set up rather than have their employees participate in the Secure Choice Savings Plan. The website would only be established if there is sufficient interest by the private sector providers of retirement plans and if they pay for it. The website must be available to the public before the Board opens the Secure Choice Savings Program for enrollment. The Treasurer's Office is currently studying what needs to be done to meet this requirement and is planning how to determine whether there is sufficient interest and support from the private sector to pay for the website.[53]

Other Plans

In 2012, Massachusetts passed legislation (Chapter 29, General Laws, Section 64 E) authorizing the Treasurer to create and operate a retirement plan for non-profit organizations with 20 or fewer employees in which both the employees and employers could contribute, similar to a 401(k) plan. The Treasurer could contract with private firms to manage investments in the plan. The plan would only go into effect if the Treasurer obtained approval from the Internal Revenue Service and if the plan complied with the federal Employee Retirement Income Security Act of 1974. To date, the Treasurer received approval for the plan from the IRS but no plan has been established.

State workplace retirement plans are judged to be financially feasible

The costs associated with these plans can be grouped into two categories: (1) the initial study and development costs, and (2) start-up and ongoing operating costs. The costs of developing the workplace IRA plans includes appointing and staffing the oversight board and working with the board to design the plan, conduct the financial and market feasibility studies and develop rules to guide the plan. Once it is determined that the plan is feasible, there are costs associated with the start-up and ongoing operations of the plan. These include hiring a record keeping firm and investment advisor, communicating with employers and employees, enrolling workers in the plan and operating the plan.

States have taken different approaches to funding the initial study and development costs of the plans, which ranged between $1.0 and $1.5 million per state. Once the decision is made to implement the plans, the ongoing costs of operating them are expected to be paid from administrative fees charged on each account.

Study and Development Costs

California's legislation specifically prohibited the use of state funds for the initial feasibility study and the board raised $1 million to cover the costs from private donations. Connecticut's Retirement Security Board also raised $1.1 million from private sources to fund its feasibility study. Oregon's program is located within the state Treasurer's Office and it borrowed $1 million from the state to fund its start-up costs. Presumably the loan will be repaid from the fees charged to account holders in the plan.

Illinois' program is also housed within its state Treasurer's Office which reports that the study and development costs have been limited so far with much of the work being provided pro-bono. The costs of a financial and market feasibility study and consultant services to help prepare the plan for implementation are being covered by a loan from the state that will be repaid from fees charged to account holders in the plan. Maryland's Department of Legislative Services estimated that it would cost a little more than $1.5 million in study and development costs for its plan. Currently, there is no appropriation to cover these

costs and none have been incurred to date. The governor could include a request for state funds when he submits his budget in mid-January 2017.[54]

Start-up and Ongoing Operational Costs

California, Connecticut and Oregon have completed detailed financial analyses that estimate the costs for the initial start-up and ongoing operations of their plans. Each of these studies determined that the plans, as currently designed, are financially sustainable under a variety of scenarios. The most important factors affecting the financial feasibility of the plans are the default contribution amount each worker would be required to make when automatically enrolled and the costs of creating and servicing each account.

Because it will take some time to accumulate enough assets to generate the fee revenue needed to cover operating costs, each plan estimates that it will run a deficit in the first three to five years of operation. But over the long term, each plan is estimated to have enough workers participating and saving to generate sufficient revenues to fund these start-up costs, cover the initial deficits and pay for ongoing operations. States can borrow money to fund the initial deficits and repay the loans out of ongoing revenues. It is also possible that the vendor hired to provide record-keeping services could cover the initial deficits and get repaid for them from ongoing revenues over the life of the contract.

If default contribution rates are set at 5 or 6 percent, the projected start-up costs and initial deficits will be repaid sooner than if the contribution rates are set at 3 percent. Fees of about 1 percent are needed for the first five years or so to cover estimated operating costs and repay the initial deficits and start-up costs. However, over the long term, fees of 0.5 percent or less are expected to generate enough revenue to the cover the costs of operating these plans.

In addition, investment options could affect the timeframe for repaying the projected start-up costs and initial deficits. Greater use of low-interest, low-risk investments might result in slower growth of the assets in the plan than if the same level of investments were made in balanced funds that have a higher rate of return. The fewer assets in the plan the longer it will take to generate the revenue to repay the start-up costs and initial deficits.

California estimates that with a 5 percent default contribution rate, its plan will run a deficit in the first three years. It will fully cover operating costs in year four and generate enough revenue to repay the initial deficits and start-up costs totaling $89 million in year six. At a default contribution rate of 3 percent, it expects to cover operating costs and repay the initial deficits and start-up costs totaling $170 million in year nine. Under the most pessimistic scenario, it estimates the plan could cover operating costs and repay the initial deficits and start-up costs totaling $186 million in year 10. It estimates that when fully implemented the plan will serve 4.3 million workers and will be financially viable and self-sustaining. They project over the long term the plan can be operated with fees between 0.61 and 0.41 percent of assets.[55]

Connecticut estimates that with a 6 percent default contribution rate and a fee of 0.5 percent of assets, its plan would be able to cover the start-up costs, initial deficits and ongoing expenses between years three and five. The timeframe for covering these costs is extended to years five to 12 when tested using multiple adverse scenarios. At a default contribution rate of 3 percent, it would take between five and eight years to cover operating expenses and repay the initial deficits and start-up costs. This time frame is extended to 12 to 15 years under the adverse scenarios and might require a fee of 1.0 percent of assets to ensure the plan is self-sustaining. It estimates that when fully implemented there will be 280,000 participants and that the plan "could be financially feasible under a range of scenarios and assumptions…"[56]

Oregon estimates that with a 5 percent default contribution rate, an automatic escalation in the contribution rate up to 10 percent and a fee of 1.2 percent of assets, the plan can cover operating costs in year four. In addition, it can pay for start-up costs, initial deficits and operating costs totaling $23.9 million in year seven. If the default contribution rate is reduced to 3 percent and administrative fees are capped at 1.0 percent of assets, it is estimated to take eight years before it covers operating costs. However, under this scenario, it is estimated to take 15 years to cover start-up costs, initial deficits and operating costs totaling $56.8 million. Under the initial set of assumptions, the plan is projected to serve 533,000 workers by year 15 and can operate over the long term with fees of 0.5 percent of assets. Based on this analysis, the plan was judged to be financially feasible even under several adverse scenarios.[57]

Recommendations for states to increase access to workplace retirement savings plans

The Working Poor Families Project recommends that state partners work to increase retirement savings for low-income families. WPFP offers its state partners the following state policy recommendations to ensure more families can access workplace retirement savings plans to better prepare for a financially secure retirement as a just reward for a lifetime of hard work and to have financial resources to support themselves and their families at a time when they can no longer work. Most of these recommendations can be paid for with little to no costs to the states. In fact, helping low-income families develop sufficient savings to support themselves in retirement has the potential of saving state and local governments money otherwise spent on safety net services for seniors.

- **Increase the visibility of the need to help people better save for retirement as a key policy issue for state leaders**

  Americans at all income levels are very concerned about their ability to save enough money for retirement. They also want their elected officials to address this issue. Studies show that Americans are not financially prepared for retirement and experts point out that the best way to save for retirement is by saving a little out of each paycheck. But research clearly shows that about half of all private-sector workers in America lack access to a retirement savings plan at work. Low-income workers, minorities, younger workers and employees of small businesses and sole proprietors are most likely not to have access to these plans. **State policymakers should conduct an analysis to determine how financially prepared their residents are for retirement. This analysis should include assessing the retirement savings amassed by state residents, the number of workers with access to a workplace retirement savings plan, the number participating in a plan and the number with access but who are not participating in a plan.**

  Demographic background data on all three categories of workers should also be analyzed. The Working Poor Families Project has produced data on the number of workers with access to a workplace plan in each state and The Pew Charitable Trusts has compiled data on the number and type of workers with access to workplace plans in each state. In addition, similar studies have been conducted in several states. These data can serve as a starting point for a state analysis.

Federal Law Governs Retirement Policy

The Employee Retirement Income and Security Act (ERISA) enacted in 1974, largely in response to the bankruptcy of several private sector pension plans, is the primary law governing employer provided retirement and other benefit plans. It preempts state governments from placing requirements and restrictions on employer provided retirement plans and sets out the fiduciary duties for employers that offer retirement plans. A recent rule promulgated by the U.S. Department of Labor would allow, under ERISA, state-administered payroll deduction Individual Retirement Accounts, including requiring employers to automatically enroll their workers provided there is an "opt out" provision.[58]

In addition to ERISA, the federal government has provided tax breaks for contributions to and gains in Individual Retirement Accounts as well as retirement savings plans offered by employers. These breaks are more valuable for higher income workers.

The federal government also allows more streamlined plans for small businesses that reduce administrative demands and costs to the employers. However, these plans have not been widely adopted by employers. As the Center for Retirement Research pointed out, "Clearly more retirement saving is needed. Designing simpler plans in the hope that they will appeal to small business has not worked in the past and is unlikely to work in the future."[59]

- **Create a bi-partisan task force to assess how financially prepared people are for retirement and assess options for helping them prepare.**

  Task forces were created in Connecticut, Maryland and Oregon that assessed how financially prepared their residents are for retirement and reviewed options for increasing their level of savings. Generally, these study groups were made up of elected officials from both political parties, the state treasurer, citizens with expertise in finance and citizens representing workers and retirees. The task force members spent time studying the issues, gathering data and input from a broad range of stakeholders, identifying and assessing options for addressing the issue and making a report to the public and policymakers.

  The analysis of access to workplace retirement savings plans recommended above could be conducted by or overseen by the task force. **States could also direct the task force to assess the feasibility of creating a public-private partnership to offer workplace retirement savings plans for private sector workers without access to one.** The work of the state task forces provided critical data and analysis that policymakers used in deciding to create workplace plans for private sector workers and what should be in them.

- **Create a workplace retirement savings plan for private sector workers without access to one.**

  Whether a state creates a task force to assess these issues or not, it could adopt legislation establishing a public-private partnership to create a workplace retirement plan for private sector workers without access to one. States can now build on the experience and analysis conducted by other states. **States could pass legislation that contains the basics of a plan, directs the board overseeing it to work through the details and authorizes its implementation only if the board recommends it or if the legislature recommends it by passing another bill.** This is essentially what California and Illinois did. For example, the board overseeing the plan could be directed to conduct a market and financial feasibility study to determine if a plan could be self-sustaining and at what contribution and fee levels. It could also require workers be automatically enrolled in the plan with the option to drop out and that the plan be offered to workers in various sized firms. Finally, it could require that these types of analyses be conducted, that the board overseeing the plan recommend its implementation and that the legislature pass legislation authorizing its implementation.

- **Encourage employers in the state to automatically enroll their workers in 401(k) plans and automatically increase their contribution up to a maximum of 10 percent.**

  States are prohibited under federal law from requiring employers to offer retirement savings plans and directing the operation of the plans. However, state leaders can reach out to the business community and provide information on how automatic enrollment and automatic escalation in contribution amounts helps more workers participate in workplace retirement plans. These provisions in retirement plans have been shown to increase the number of low-income workers participating in retirement plans and the amount they are saving for retirement.

Recommendations

1. Raise retirement security as a priority issue that must be addressed by state policy makers.
2. Create a bi-partisan task force to study worker needs and options for a state retirement plan.
3. Create a workplace retirement savings plan for private sector workers without access to one.
4. Encourage employers to automatically enroll workers in the retirement plans they offer.

For questions about this policy brief or the Working Poor Families Project contact:
Brandon Roberts, robert3@starpower.net, (301) 657-1480

APPENDIX A: BACKGROUND ON PROPOSED STATE WORKPLACE PLANS

Table 1 – Background on Proposed State Workplace IRA Plans

State	Plan Name/Citation	Year Passed	Projected Start Date	Employers Covered
California.	Secure Choice Retirement Savings Program. Title 21. California Government Code, Section 100000, et al.	2012 and 2016.	January 1, 2017.	Firms that do not offer a qualified workplace retirement plan. Must take effect within 12 months after opening for firms with 100+ employees; Within 24 months for firms with 50+ employees; and within 36 months for firms with 5+ employees.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
3% of salary; Board can set the amount between 2% and 5%.	1% per year with a limit of 8% of salary.	Traditional and Roth.	Six years following implementation, administrative and operating costs are capped at 1% of total program fund.	First 3 years invested in Treasury Securities or myRA accounts; Board will select a third-party investment advisor and set investment policies. Anticipated that investments will be pooled and professionally managed.

State	Plan Name/Citation	Year Passed	Projected Start Date	Employers Covered
Connecticut.	Connecticut Retirement Security Authority will operate the Connecticut Retirement Security Exchange. See also the Connecticut Retirement Security Board, which conducted feasibility analysis (HB 5591 and SB 502, 2016).	2014 and 2016.	January 1, 2018.	Employers with 5+ employees that do not offer a qualified workplace retirement savings plans.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
3% of salary.	None.	Roth.	Minimize total annual fees in first four years. Fees caped at 0.75% beginning in year five of operation.	Age appropriate target date fund, lifetime income investment or other authority approved investments. Retirement choices provided by multiple vendors selected by the authority. Funds must be invested in a fund or vendor selected by the employee. If none is selected, then funds to be invested in an age appropriate target date fund.

State	Plan Name/ Citation	Year Passed	Projected Start Date	Employers Covered
Maryland.	Maryland Small Business Retirement Savings Board will administer the Maryland Small Business Retirement Savings Program and Trust. (Senate Bill 1007, 2016).	2016.	Estimated after July 1, 2018.	Firms in business for at least 2 years and pay employees through a payroll system or service and do not offer a qualified workplace retirement plan.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
To be set by the board.	None.	One or more payroll deposit IRA.	Capped at 0.5% of total assets in the fund.	The board shall evaluate and establish a range of investment options including arranging for pooled investment of assets. The board shall prepare an annual investment policy and select investment options. The board shall enter into an agreement with a third-party administrator.

State	Plan Name/ Citation	Year Passed	Projected Start Date	Employers Covered
Illinois.	Illinois Secure Choice Board administers the Illinois Secure Choice Savings Program. (820 ILCS 80/1 *et seq*.).	2015.	Board anticipates 2018 and 2019.	Firms in business for at least 2 years, have 25+ employees and do not offer a qualified workplace retirement plan.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
3% in statute, board would like to set at 5%.	None, but board would like to add this provision.	Roth; Board is considering Traditional IRA.	Capped at .75% of total trust value.	Target date fund with pooled investments managed by a private investment company selected by the board.

State	Plan Name/ Citation	Year Passed	Projected Start Date	Employers Covered
Oregon.	Oregon Retirement Savings Board will administer the Oregon Retirement Savings Plan. (ORS 178.200 – 178.245).	2015.	Board anticipates July 2017.	All employers that do not offer a qualified workplace retirement savings plan.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
5%.	1% per year, capped at 10%.	Roth. Possible option for Traditional IRA.	Board is directed in legislation to "keep administration fees in the plan low."	The board will hire a third-party, professional investment advisor to manage the pooled funds. Board is considering offering an age-appropriate target date fund as the default. Employees would also have the option of a stable value fund and a stock-index fund.

Table 2 – Background on Proposed Marketplace Plans and Nonprofit Employer Plan

State	Statutory Citation	Year Passed	Projected Start Date	Employers Covered
New Jersey.	Small Business Retirement Marketplace administered by the State Treasurer's Office (Pamphlet Law 2015, Chapter 298).	2016.	To be determined.	Only employers with fewer than 100 employees and sole proprietors can use the marketplace.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
No automatic enrollment. Participation is voluntary on the part of employers.	None required.	SIMPLE, Workplace IRA and MyRA.	No fees charged to employers who connect through the marketplace.Fees to employees enrolled in the plans are capped at 1%.	Financial services firms will list their products on the marketplace. They must offer a minimum of a target date fund and a balanced fund. The treasurer will ensure that at least a SIMPLE IRA plan and a workplace IRA plan are available to employers on the marketplace. In addition, the marketplace will offer a myRA in addition to other approved plans.

State	Statutory Citation	Year Passed	Projected Start Date	Employers Covered
Washington.	Small Business Retirement Marketplace operated by the Washington Department of Commerce. (RCW 43.330.730 - RCW 43.330.750).	2015.	January 2017.	Only employers with fewer than 100 employees and sole proprietors can use the marketplace.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
No automatic enrollment; Participation is voluntary on the part of employers.	None required.	SIMPLE, Workplace IRA and MyRA.	Financial firms may not charge employers who connect through the marketplace an administrative fee. Fees to employees enrolled in the plans are capped at 1%.	Financial services firms will list their products on the marketplace. They must offer a minimum of a target date fund and a balanced fund. The director will ensure that at least a SIMPLE IRA plan and a workplace IRA plan are available to employers on the marketplace. In addition the marketplace will offer a myRA in addition to other approved plans.

State	Statutory Citation	Year Passed	Year Implemented	Employers Covered
Massachusetts.	Retirement Options for Nonprofit Organizations (Chapter 29 General Laws, Section 64E).	2012.	In June, 2014, the IRS ruled favorably on the proposal and is in the process of reviewing the group trust. The Treasurer will formally roll out the plan once the IRS work is completed. No plan has been offered to date.	Employees in non-profit organizations with 20 or fewer employees.

Automatic Contribution Amount	Auto Escalation	Type of IRA	Fees	Investment Approach
This is a 401(k) type plan in which employers can voluntarily decide to participate. If they participate there is a 4% or 6% automatic contribution.	Up to 10% of salary	This plan would not be an IRA but a 401(k) type plan that allows both employer and employee contributions.	No provisions related to fees.	The State Treasurer will oversee the plan, which will pool contributions that will be professionally managed.

Endnotes

[1] Rich Jones is the Director of Policy and Research of The Bell Policy Center in Colorado. The author would like to acknowledge the following individuals for their assistance in reviewing this paper: Carrie Thomas, Chicago Jobs Council, Illinois; Tony Lee, Statewide Poverty Action Network, Washington; John Scott and Andrew Blevins, Pew Charitable Trusts; Frank Waterous, The Bell Policy Center; and Deborah Povich and Brandon Roberts, Working Poor Families Project.

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