STATE-RUN RETIREMENT PROPOSALS

BACKGROUND

The private retirement system provides a robust and growing foundation for retirement security through defined contribution plans, IRAs, and individual annuities. Employer-sponsored retirement plans offer more than 83 million American workers and their families the opportunity to accumulate savings and improve their retirement security.

Recently, some states have proposed government-run retirement programs to accommodate those without access to a workplace plan. These proposals largely ignore the wide array of products and services currently available from financial services providers and would impose significant costs and liabilities on states, employers, and taxpayers.

Significant Costs and Liabilities for States

Currently, many states are already struggling to meet the obligations of state employee pension plans and other large government programs. New government-run plans for private sector employers would add to this burden. A state-run retirement plan would:

- Cause uncertainty for small businesses. Under proposed legislation to create new government-run retirement programs, employers could face significant operational costs and be subject to fiduciary responsibilities. Some legislation mandates employers to participate in state plans while other legislation mandates employer contributions to state plans.
- Be costly to set up and implement and would create an ongoing expense and liability for the state and taxpayers. A study authored by the Maryland Supplemental Retirement Plans (MSRP) concluded that a state-sponsored voluntary accounts program would require significant long-term state expenses. Furthermore, a 2009 Washington State report estimated that a state-sponsored basic IRA plan would have start-up costs of $1.8 million and annual on-going state costs of almost $1.4 million.
- Be subject to the Employee Retirement Income Security Act (ERISA). All retirement plans for private sector workers must adhere to the complex requirements set by federal law—including ERISA and IRS rules. Workers benefit from these important protections, while employers and plan sponsors have strict compliance and fiduciary responsibilities. Therefore, once a plan is established, a state and any participating employer would incur ongoing operational, oversight, compliance, and insurance costs associated with these rules.

Access to Retirement Savings Plans

There is a misguided notion that there is a lack of access to retirement plans in the private sector. Today, nearly 80 percent of full-time workers have access to a workplace retirement plan, and more than 80 percent of workers with access participate. IRAs and individual annuities are available for 100 percent of workers without access to employer-sponsored plans as well as to supplement retirement savings. To help more Americans prepare for retirement, public policy solutions should make it easier for small employers to offer plans and for workers to boost their savings rates.

President Obama's new "myRA" plan, managed by the U.S. Treasury, is expected to be operational in 2015, and will be another option for families to save for retirement with as little as $5 a month. States should not take on a new financial burden when a new option will be available to help all workers.

Existing Private Retirement Marketplace and Subsidizing State Plans
With an existing competitive market among private providers of portable retirement solutions, state-run retirement plans are unnecessary. States should not use funding, regardless of the source, to compete with private providers of 401(k) plans, 403(b) plans, 457(b) plans, IRAs, and other retirement options.

STATUS

In December 2014, the Illinois General Assembly passed SB 2758, the Illinois Secure Choice Savings Program Act, becoming the first state to establish a state-run retirement plan for private sector employers. The legislation requires employers with 25 or more employees that do not offer a retirement plan to offer a state-run retirement plan to its employees. The bill was opposed by small business owners, manufacturers, retailers, community bankers, financial advisors, insurance agents, and other employers—due to the staggering costs to the state budget, the complexity of implementing a state plan, and the burden on employers.

Since 2012, California, Connecticut, Vermont, and West Virginia have passed legislation to study the feasibility and costs associated with state-run pension programs for private sector employers. Several other states, including Maryland, Minnesota, and Oregon are studying how to increase retirement savings in their states. ACLI is acting as a resource in all of these studies.

ACLI POSITION

The costs and risks associated with state-run retirement are unnecessary. Public policy should make it easier for small employers to offer workplace savings opportunities by limiting administrative burdens on employers. ACLI supports extending the federal "savers credit" to state personal income tax, targeting lower and middle income brackets. ACLI supports states offering a business tax credit for new retirement plan formation. States also should encourage participation in President Obama's new "myRA" plan.

AT A GLANCE

- Employer-sponsored retirement plans offer more than 83 million American workers and their families the opportunity to accumulate savings and improve their retirement security.
- Eighty percent of full-time civilian workers have access to a workplace retirement plan, and more than 80 percent of workers with access participate. IRAs and individual annuities are available for 100 percent of workers without access to employer-sponsored plans as well as to supplement retirement savings.
- Millennials (those born from 1979 to 1991) show high levels of enthusiasm and confidence for 401(k) plans. Eighty-three percent of millennial participants made recent contributions to a 401(k) plan, higher than people of a similar age a decade earlier. Millennials who took advantage of guidance also have increased their average deferral rate from 4.5 to 8.7 percent of salary or wages over the past decade.

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