State Efforts to Expand Coverage in Retirement Savings Programs

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Efforts to Expand Coverage: Objectives

This report examines:

1. Recent estimates of workplace retirement savings program coverage, including eligibility and participation, and characteristics of workers who lack coverage;

2. Strategies used by states and other countries to expand coverage among private sector workers; and

3. Potential challenges states could face given existing federal law and regulations.
Efforts to Expand Coverage: Methodology

- Analysis of Survey of Income and Program Participation (SIPP) data linked to taxpayer records
- Case studies of 6 selected states—CA, IL, MD, MA, WA, and WV
- Review of similar efforts in Canada, New Zealand, and U.K. (along with a targeted review of the Australian Small Business Superannuation Clearing House)
- Interviews with a wide range of stakeholders and government officials
- Review of relevant laws, regulations, and other documentation
Efforts to Expand Coverage: Summary of Key Findings

• About half of private sector workers did not participate in a workplace retirement savings program in 2012, primarily because they lacked access.

• Key strategies to expand private sector coverage include encouraging or requiring workplace access, automatic enrollment, financial incentives, and program simplification.

• Potential challenges with uncertainty created by the Employee Retirement Income Security Act of 1974 (ERISA) and agency regulations could delay or deter state efforts to expand coverage.
Self-reported and Tax Data Both Indicate Many Workers Lack Coverage

- Figure 1: Share of Private Sector Workers Participating in a Workplace Retirement Savings Program, 2012

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Part time</th>
<th>Full time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-reported</td>
<td>54.1</td>
<td>26.4</td>
<td>53.9</td>
</tr>
<tr>
<td>W-2 adjusted</td>
<td>45.4</td>
<td>33.9</td>
<td>63.1</td>
</tr>
</tbody>
</table>

Majority of Workers Without Coverage Lack Access

- Figure 2: Percentages of Private Sector Workers Not Participating in a Workplace Retirement Savings Program by Reason Given, 2012

Lower Income Workers Are Much Less Likely to Have Coverage

- **Figure 3: Effect of Income on Likelihood of Workplace Retirement Savings Program Coverage after Controlling for Other Factors**

<table>
<thead>
<tr>
<th>Comparison by income quartile</th>
<th>Employer offer</th>
<th>Worker eligibility (when program offered)</th>
<th>Worker participation (when eligible)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest quartile vs. lowest</td>
<td>3.9</td>
<td>7.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Third quartile vs. lowest</td>
<td>2.7</td>
<td>4.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Second quartile vs. lowest</td>
<td>1.7</td>
<td>2.0</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Odds ratios

Given Access, Most Workers Participate

- **Figure 5:** Participation Rate in Workplace Retirement Savings Programs among Eligible Workers by Various Characteristics, 2012

![Bar Chart showing participation rates for various characteristics]

- Participation rate – self-reported
- Participation rate – W-2 adjusted

Key Strategies Used to Expand Coverage

- Workplace access and automatic enrollment:
  - State efforts would require or allow employers to automatically enroll workers in a workplace retirement savings program to increase participation

- Financial incentives:
  - All six states plan to use tax-advantaged vehicles, but generally not other forms of financial incentives
  - Roth IRAs
International Case Studies:

**New Zealand**
- KiwiSaver
- Required
- All employers
- New employees

**United Kingdom**
- Automatic enrolment
- Required
- All employers

**Canada (Quebec)**
- Voluntary Retirement Saving Plan
- Required
- Some employers
- All employers

**Canada (Federal and most provinces)**
- Pooled Registered Pension Plans
- Encouraged
- Some employers

Source: GAO summary of documentation and testimonial evidence from knowledgeable international representatives. | GAO-15-556
Key Strategy: Program Simplification

Actions Case Study States Intend to Take to Reduce Administrative Burden and Cost for Employers

- State programs attempt to use employers’ existing payroll processes
- State programs allow small employers to choose whether to participate
- State programs would select and monitor providers
- State programs would limit employer liability
- State programs would provide educational materials and disclosures for workers
- Deduct and remit contributions from a worker’s pay
- Accept liability
- Select and monitor providers
- Conduct worker outreach, provide educational materials and disclosures
- Pay administrative costs, including employer contributions
- State programs reduce or eliminate administrative costs

Source: GAO analysis of state legislative records, documentation, and testimonial evidence from knowledgeable industry representatives | GAO-15-556
Key Strategy: Program Simplification

- States and other countries address issues of complexity, cost, and investment risk for workers through a variety of approaches:
  - Default contribution rate
  - Structure of investment options
  - Investment return guarantee
  - Portability
  - Limit on fees
Potential Challenges to Implementation of State Programs

Source: GAO summary of interviews with state and national stakeholders and government officials. | GAO-15-556
Congressional Consideration and Recommended Agency Action

• To address the legal uncertainty and facilitate state efforts to expand coverage in workplace retirement savings programs, GAO recommends:
  • Congress consider providing states limited flexibility to pursue efforts to increase coverage (e.g., safe harbor or pilot program).
  • DOL and Treasury review and revise existing regulations and guidance causing uncertainty for state efforts (e.g., Interpretive Bulletin 99-1).