Georgetown University
Center for Retirement Initiatives
McCourt School of Public Policy

Blog Post, September 2016, 16-9

Delivering on Publicly-Sponsored Private Retirement Accounts: Key Considerations for Successful Public-Private Partnerships

By Richard Mourdock

In 2016, thirty state legislatures have taken action to consider establishing publicly-sponsored private retirement accounts (PSPRAs) allowing more workers the opportunity to save for retirement. Eight states have already passed legislation to create them, five of them in just the past two years. As more of our leaders cross political lines to sponsor and implement these programs, PSPRAs are increasingly seen as bi-partisan. This is important as more states will take action to create mechanisms to provide employees with more convenient access to retirement savings accounts through their employers. In most states today, these savings instruments have been in the form of "automatic IRAs" that provide the employee direct ownership of the funds and portability of the account.

Governors and legislatures that have enacted new programs now have the assigned responsibility to oversee the creation and management of a PSPRA plan and those tasked with implementing a program are asking themselves, "What must I do to make this work and be successful?"

As state officials tasked to implement such programs quickly come to realize, creating the systems necessary to support millions of IRA accounts is not a small assignment. In addition, as a public-private endeavor that must by necessity be internet based, no policy administrator wants a program, with its supporting website and web-based tools, to experience problems during initial implementation and outreach to millions of its citizens.

PSPRAs are the ultimate in public-private partnerships. Best-in-class vendors will challenge boards with questions and certainly try to sell their unique product or service. It is essential administrators understand the motivation of vendors: it is not in a vendor's best interest to provide any good or service that will fail. Vendors recognize the growth potential of PSPRAs and know the market is new and hope to serve it for years to come. A best-in-class vendor will fear failure to deliver on a contract more than not winning the contract. Quality vendors will strive to lead their clients to success.

The challenge for public administrators to craft the partnerships that will work best for their program is daunting but not insurmountable. Public administrators can get the necessary tools to address the challenge from those in the private sector, for example, who can build on an existing technology base to reduce lead time and minimize short- and long-term risk.

My discussions with numerous public administrators assigned the challenge of creating PSPRAs yield common and consistent questions regarding how the public and private sectors can work together successfully to implement a PSPRA.

Question: How should a state establish and administer its program to successfully utilize public-private partnerships?

Answer: Key elements for success include, but are not limited to:

- Establishing an independent operating board. Most states do this in their enabling legislation. These boards must meet the highest standards of fiduciary responsibility as outlined in applicable federal and/or state laws and regulations governing such programs.

- Issuing Requests for Information (RFIs) and Requests for Proposals (RFPs) only after understanding the state of the industry, including consultation with counterparts in other states. Look at the RFPs from other states, for example, as background information about how to handle the execution and oversight of various responsibilities, etc.

- Engaging specialized consultants and legal experts with demonstrated track records. IRAs come with a unique set of operating regulations from a number of federal governing bodies, e.g., the U.S. Department of Labor for ERISA, the Internal Revenue Service (IRS) for tax rules, and the U.S. Securities and Exchange Commission (SEC) for investments. Make sure your “experts” are well-versed in these regulations to prevent a problematic rollout.

Question: What role should a vendor play in judging successful performance?

Answer: The state has the ultimate responsibility for making sure it holds a vendor accountable and to do so it should make sure any contract includes clear performance measures. At the same time, a best-in-class vendor should show a commitment to outstanding performance and serving the interests of its client. It can demonstrate this by:

- Suggesting metrics during contract negotiations defining the state’s expectations to be measured against results. For example, if the state is expecting an “opt-out” rate of 5%, but the vendor’s design and ease of use has helped the program have

an opt-out rate below 2%, it is clearly understood that the vendor will have delivered successfully.

- Insisting during contract negotiations that completion dates for critical functions are specified clearly in the contract.
- Agreeing to deliver on time and on budget.

Question: Is a legislatively imposed schedule realistic?

Answer: All wise public administrators would rather be one or two months late in launching a program in order to do it right than have to address failures down the road and explain numerous restarts. Private firms interested in the state's success should do the following:

- Schedule performance tasks from RFP issuance to the "go live" date with ample review and "re-group" time to incorporate suggestions or resolve conflicts from state authorities and other stakeholders.
- Suggest pilot programs with samples of the population tested before full implementation. Scale is incredibly important when discussing schedule. Large states with thousands of employers and employees bring a greater challenge than smaller states. It is always best to provide time for "scaling."
- Set realistic development and release dates. Public administrators should give serious consideration to releasing these programs in phases allowing both the administrator and vendors time to react and respond effectively to lessons learned.

Question: How can initial costs be handled? (Stated differently, "the legislature told us to build it but didn't give us any money.")

Answer: Best-in-class vendors may be willing to negotiate investing in a program prior to its roll-out. There can be huge investments made by the private sector that increase their risk on such ventures so the terms of the contract, in particular contract length and the program rules that will impact asset levels over time (opt-out rules, auto-enrollment, auto-escalation, rules limiting withdrawals, etc.), are critically important.

Question: What conditions or terms are likely to be "fatal" to a vendor and will kill interest?

Answer: Each vendor's experience may result in a slightly different list of "show stoppers" but typically they will include contracts with terms too short to cover potential start up investment risk, clients (administrators) that insist on contracts

broadly structured to include multiple plans with varying program managers or that fail to determine a single point authority for managing the contract, and an insistence that the vendor do more than it is ideally equipped to do. Vendors know their expertise. Vendors hate to say "no" to any client so if you hear them say it, understand what they are really saying is "we are concerned about this issue being addressed in either a timely or economically-feasible fashion." Be especially wary of any vendor who seeks to assure you they can do it all.

Implementing PSPRAs Does Not Require Reinventing the Wheel

In the 1980s, states began creating 529 college savings programs. At the time, it was widely assumed (falsely) that the financial industry would be hesitant to develop the tools to manage "small dollar" accounts that were assumed (again falsely) to see high levels of early withdrawal. It was also widely assumed that college saving funds would always be subject to high management fees as the sum total of accounts would not achieve the volume necessary to result in lower fees.

These are exactly the same arguments some offer today in the face of PSPRA development. Look at today's 529 world and you will find nearly a quarter-trillion dollars in 529 accounts and management fees are aggressively priced in a highly competitive market. Many of the lessons learned building 529 programs through collaboration with private industry can help public administrators avoid reinventing the wheel and move more quickly and smartly to build the PSPRAs of the future.

Richard Mourdock *served as State Treasurer of Indiana from 2007 – 2014. As Treasurer, he was responsible for the investment of nearly $8 billion and served as the sole trustee of a $500 million state pension fund. As Treasurer, he served as Chairman of the Indiana Education Savings Authority (529 Program) and, despite the turmoil in financial markets at the time, revamped the program resulting in growth of assets under management from $300 million to $2.5 billion and expanded the number of participants from 12,000 to 55,000. For eight years he worked in the private sector as a trustee of an ERISA regulated retirement plan. In 2013, he testified before the Indiana Senate committees on behalf of the creation of auto-IRA Publicly Sponsored Retirement Accounts. He has also spoken as an advocate of PSPRAs to the National Association of State Treasurers and the State Financial Officers Foundation. He serves on the CRI's Advisory Council and also serves as a consultant and advisor to Ascensus College Savings Recordkeeping Services.*

This blog post is written for and published by the Georgetown Center for Retirement Initiatives. Copyright 2016, Georgetown University. View complete copyright and reprint policies.