State of Minnesota

State-Administered Private Sector Employee Retirement Savings Study

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INTRODUCTION

Minnesota Management and Budget ("MMB") was tasked with reporting to the legislature on the potential for a state-administered retirement savings plan to serve employees without access to an Individual Retirement Account ("IRA") or retirement plan through their employer. As part of the Women's Economic Security Act of 2014 ("WESA"), Laws of Minnesota 2014, Chapter 239 laid out 15 items that were either required to be addressed or should be addressed if appropriations were available. MMB contracted with Deloitte* to produce the study. The contract specified that the study include the feasibility of at least one plan option, as well as a full explanation of each option, including pros, cons, and start-up cost requirements. The scope of the plan options were later refined to focus only on a payroll-deduction IRA that would not be subject to the Employee Retirement Income Security Act of 1974 ("ERISA")

APPROACH

Phase 1: Market Analysis → Phase 2: Program Design Options → Phase 3: Evaluate Financial Impact → Phase 4: Findings

Deloitte took a four-phased approach to address the requirements laid out by the legislation. During Phase 1, we conducted market analysis on the need for new retirement savings options in the private sector marketplace. We also looked at barriers that may prevent both employers and employees from participating in available retirement programs and what employers were doing to increase participation as a guide for potential options for the State of Minnesota ("State"). In conjunction with the Minnesota Chamber of Commerce, we then conducted a survey of small employers to understand their potential reaction to a state-run program.

Phase 2 was centered on finding program design options that could meet the needs of underserved private sector employees. As part of the work, we detailed many different plan features that a program could be built on and hosted a workshop with MMB and stakeholders to discuss what they thought would best meet the needs of Minnesota private sector employers and employees.

Using the data gathered in Phase 2, we presented five alternatives to the State for consideration based on varying level of State involvement. These alternatives were presented as part of a second workshop to gather feedback on each potential alternative and allow stakeholders to voice their concern or support. It should be noted that attendance at either workshop did not necessarily mean that the participant was a proponent of the study or a state-administered plan.

After detailing the alternatives, considering the requirements of WESA and direction given by MMB, it was decided that this report would focus on a state-sponsored IRA program that would not be subject to ERISA. As a result, during Phase 3, we analyzed likely enrollment rates and contribution rates and developed a high-level financial impact analysis on both the State and the program over many years. As part of our analysis, we determined the asset size that will make the plan financially feasible, the potential state outlay, and specific program design features.

The final phase, Phase 4, was dedicated to synthesizing the findings into a summary report. After the release of the initial draft of the summary report, it was decided that the report should discuss the potential for a Multiple Employer Plan ("MEP") that would allow for employer contributions. This discussion has been added as an appendix to the report.

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EXECUTIVE SUMMARY

> **"The evidence is clear that United States is on the precipice of another financial threat—older Americans lacking sufficient income to be self-sufficient as they move out of the workforce. Despite improvements in the market, the typical working age American household is far off-track toward accumulating ample savings to maintain their current living standard, and many will be challenged to have the resources to pay for their basic needs in retirement.**
>
> **In recent years, however, this retirement infrastructure has degraded dramatically. A large portion of the workforce lacks access to or is not participating in retirement plans, making future retirement security prospects—especially for middle class employees—challenging at best.**
>
> **This financial insecurity crisis for older Americans comes as no surprise to the experts who have been forecasting the problem for years. A wide and growing body of research shows that just as retirement income needs are growing because Americans are living longer and have higher costs in retirement, the weakened retirement system is providing less income when Americans need it most."[1]**

Americans have increasingly become concerned with their overall financial readiness for retirement, with nearly 86% of Americans stating they believe the nation faces a retirement crisis.[2] A variety of factors and changes in the marketplace have led to many more individuals having inadequate retirement savings as they near retirement. As a result, there is interest at both the state and federal levels to address this retirement crisis.

Historically, defined benefit ("DB") plans, which provided a defined level of benefits for those retiring, were the primary employer-sponsored retirement product. Americans were able to retire and know they would have a promised an adequate source of income in retirement. However, there has been a shift away from DB plans and a movement toward employers offering a defined contribution ("DC"). While this has been viewed as a positive by bother employers, by virtue of a more steady and predictable cost, and employees, because they can more easily understand what their benefit is today, the result has been a larger burden has been placed on the employee to ensure they have adequate retirement savings. Couple this with a belief by many individuals that their Social Security benefits will be sufficient in retirement, it is no wonder there is a looming retirement crisis in America.

Market Analysis

In Minnesota, nearly 40% of private sector workers are employed by an employer that does not offer a retirement plan.[3] Additionally, for those that do have a DC account balance, the average balance is only around $38,000, or if annuitized, approximately $250 a month at retirement.[4] These facts indicate there is a need for additional savings to meet retirement needs. Our research first looked at where the gap in savings exists and later looked at what some of the barriers to saving are.

<u>Gap in Retirement Savings Exists</u>: As detailed throughout this report, it is clear there are gaps in retirement savings that need to be addressed. When analyzing contributions by employee age, most workers do not start saving in earnest until they reach their late 30's. Reasons for this can include competing demands for financial resources, such as owning a new home or starting a family. However,

by waiting to start saving at age 40, instead of age 25, the recommended rate of saving nearly doubles.[5] Therefore, it is important to start saving early. In addition to age, race and ethnicity show a clear gap as well. Studies have shown that approximately 54% of Black and Asian employees and 38% of Latino employees have access to a retirement program through their employer, compared to 62% of white employees.[6]

Employer Barriers to Offering Retirement Plans: Three clear barriers emerged as we looked at what prevented employers from offering retirement plans:

1) Employer Size – Only 21% of employees working for a business size of less than 10 employees and only 49% of employees working for a business size of 10 to 100 employees were offered a retirement plan in Minnesota.[7]
2) Retirement Savings Options – Many small businesses are overwhelmed by the number of plan options and features.[8]
3) Administrative Complexity – Many small employers avoid offering a retirement program due to the complexity or perceived complexity related to administering a retirement plan. In addition, many are concerned about the fiduciary responsibility and potential for liability associated with offering a retirement plan. [9]

Employee Barriers to Participating and Saving in Retirement Plans: We also identified three clear barriers that prevent employees from participating in retirement plans:

1) Gender – While participation is similar amongst men and women, the savings rate is not. A number of reasons exist for this gap, including shorter and more interrupted careers and a higher likelihood of working part time or in lower-paying jobs for women.[10]
2) Employee Status – Only 22% of part-time workers participate in a retirement program.[11]
3) Competing financial needs plays an important role, including needs such as housing, school loans, and raising a family.

The overall lack of savings not only has an impact on the individual, but also has an impact on the State. The State of Utah recently conducted a study on the overall impact new retirees through 2030 will have on their social safety net programs. The study determined that those retirees will be eligible for $3.7 billion in benefits and that an increase in savings of just 10% over the workers' careers would have decreased the expected government spending by nearly $200 million over that same time frame.[12]

To consider how to address the gap in retirement savings, we looked at some of the methods that employers have been effectively using to successfully increase participation. Research shows that automatic enrollment and automatic escalation can have the biggest impact on employee savings and participation. Plan participation came in at 91% for those plans where automatic enrollment was used versus 42% where the employee had to voluntarily enroll.[13]

With the shift from DB to DC plans, limited Social Security benefits, and a lack of access to employer-sponsored plans, there has been a call for action. Both the federal government and a number of states, including Minnesota, have begun looking at potential solutions. *myRA* was launched by President Obama in 2015 as a tool to help encourage savings. While the plan only allows a maximum lifetime account balance of $15,000, its primary purpose is to encourage participants to start saving with the hope they will continue long after they are required to move their money out of the program.[14]

In addition to *myRA,* many states have conducted similar market analyses and proposed legislation to address the retirement crisis. Examples include:

- **Illinois** passed the Secure Choice Savings Program on January 4, 2015, which established an automatic payroll-deduction IRA for all workers whose employers do not offer any other retirement savings vehicle, will begin a phased rollout of the program starting in 2018.[15]
- **California** signed into law the California Secure Choice Retirement Savings Program on September 29, 2016, which will require employers with 5 or more employees to either offer a retirement plan or provider their employees access to the Secure Choice program.[16]
- **Connecticut** signed into law the Connecticut Retirement Security Program ("CRSP") on May 27, 2016, which will require employers with 5 or more employees who do not offer a retirement plan to participate in the program.[17]
- **Washington** signed into law the Washington State Small Business Marketplace Retirement Savings Bill in May 2015, which establishes a voluntary retirement plan marketplace for employers with less than 100 employees.[18]

As a result of the national interest in state-administered retirement programs, the Department of Labor ("DOL") issued regulations and an Interpretive Bulletin to provide guidance on state-run retirement programs so states could move forward with plan design considerations. The details provided by DOL provided the framework by which a state could establish a payroll-deduction IRA without triggering ERISA coverage. It also provided guidance related to three alternative programs, including a marketplace, a preapproved prototype plan, and a multiple-employer plan ("MEP"). The prototype and MEP options are subject to ERISA.[19, 20]

In general, ERISA is a federal law that is designed to protect the interests of participants in employer-sponsored retirement and health and welfare benefit plans. In addition to rules relating to disclosure, vesting, funding (defined benefit pension plans), claims procedures, etc., ERISA imposes specific standards of conduct on plan fiduciaries. ERISA also preempts any and all state laws that otherwise might apply to a plan, and provides a comprehensive (and exclusive) civil enforcement scheme. All ERISA claims must be adjudicated in Federal court.

Decision to Focus Only on Non-ERISA Plans

As discussed in more detail in an addendum to this report, there are many advantages to ERISA plans for participants. In particular, as compared to non-ERISA options, ERISA plans generally afford participants the opportunity to save significantly more money on a tax-preferred basis each year. That is why, consistent with the DOL's guidance, both ERISA and non-ERISA options were initially considered in this study.

However, the WESA, which authorized this Report, specified that the potential state-administered plan would pool assets to be invested by the State Board of Investment (SBI), and the State would have no liability for investment losses. If the State were to establish an ERISA plan, it could attempt to limit its potential liability by, for example, taking advantage of plan design options offered by ERISA § 404(c). But there would be no way for the State to completely avoid liability for investment losses resulting from ERISA violations by the SBI or other State agencies that may act as fiduciaries with respect to such plan. As such, after conversations with MMB, the study's focus is only on design features of a non-ERISA program.

Note that, even if the State ultimately adopts a non-ERISA program it will not automatically be insulated from liability for investment losses. Current State law pertaining to retirement programs for State employees provides only limited protections, similar to those codified in ERISA. Thus, it appears the legislature would need to create special protections from liability for this program if it wants to meet this "no liability" objective as included in WESA. Regardless of what protections are enacted, aggrieved participants could potentially seek redress for their losses through litigation in the State courts.

Program Design Considerations

With an IRA program as the basis for analysis, we considered many plan features in detail. The table below highlights many of the design features that have been considered:

Plan Features	Potential State-Administered Plan Options
IRA Type	Default: Roth IRA Optional: Traditional IRA (participant is allowed to switch)
Program Eligibility – Service	No waiting period
Program Eligibility – Age	At least 18 years of age
Auto-Escalation	1% per year, capped at 10%
Enrollment Method	Automatic
Step-up Contributions (Escalation Feature)	1%
Employer Eligibility	10+ employees – mandated Less than 10 employees - voluntary

In addition to program design, the State would need to establish a governance structure for plan administration. This includes the establishment of a Board of Directors (the "Board") who would serve as an independent entity responsible for managing the program. The Board should be given broad authority to make decisions on behalf of the States, including making final decisions regarding default plan type and design features, administrative and operational processes, entering into contracts as needed, and the ability to modify the plan structure or investment options as the program moves along.

Program Designs

According to researched published by the National Institute on Retirement Security, 71% of Americans think that state-sponsored retirement plans are a good idea; 75% of Americans say they would participate in such a plan.[21] These plans are viewed favorably by employees without access to an employer-sponsored retirement plan who would otherwise lack the means to save for retirement.

After looking at various program designs, it was determined that an automatic-enrollment IRA (whether outsourced or insourced) is a viable option as it would meet the needs of those without access and would comply with WESA. Projections indicate the program would become sustainable once it reaches approximately $1 billion in assets. Based on a default contribution rate of 3%, this would be achievable by the end of year three.

Decisions about automatic enrollment and contribution escalation would have the most significant impact on self-sustainability, as they affect participation and contribution rates, which then impact the growth of assets. As the State moves forward, it would need to decide on a plan type and features, as well as an administrative solution that best serves the State, whether that is insourcing or outsourcing. However, based on our analysis, the State should consider outsourcing the recordkeeping as it would result in lower startup costs and lower long-term fees.

As an alternative, a state-administered IRA with voluntary enrollment was considered. Based on an assumed participation rate of about 37% (which is a little less than the national-average participation rate for plans that are not mandatory), the voluntary enrollment plan would not be able to cover reasonable fees (less than 100 basis points per year) until after the ten year projections we performed.

Based on this high-level cost analysis, an IRA plan with automatic enrollment, whether administered by the State or a third party, would have the greatest impact on participation and savings.

Figure 1: Plan Design Comparison

	Automatic State-Administered IRA	Automatic State-Sponsored IRA	Voluntary State-Administered IRA
Eligibility	• Business currently not offering a retirement plan to all employees • Must be Minnesota resident • Not eligible to participate in employer's pension plan	• Business currently not offering a retirement plan to all employees • Must be Minnesota resident • Not eligible to participate in employer's pension plan	• Business currently not offering a retirement plan to all employees • Must be Minnesota resident • Not eligible to participate in employer's pension plan
Employer Enrollment	• >10 employees automatically enrolled • Employee choice for 10 or less employees	• >10 employees automatically enrolled • Employee choice for 10 or less employees	• >10 employees automatically enrolled
Employee Enrollment	• Automatic (with opt-out provision)	• Automatic (with opt-out provision)	• Voluntary (opt-in)
Contribution Options	• 5% default • Automatic 1% escalation (10% maximum)	• 5% default • Automatic 1% escalation (10% maximum)	• Employees decision
Administration/ Recordkeeping	• State of Minnesota	• Third party, with State oversight	• State of Minnesota

MARKET ANALYSIS

To lay the foundation and determine if there is a need for a state-administered private sector employee retirement savings plan, we began by performing a market analysis. This phase of the study addressed the following requirements laid out by the WESA:

- Estimates of the number of Minnesota workers who could be served by the potential state-administered plan and the participation rate that will make the plan self-sustaining.
- Barriers to savings and reasons individuals and employers may not be participating in existing private sector retirement plans.
- Estimates of the average amount of savings and other financial resources residents of Minnesota have upon retirement and those that are recommended for a financially secure retirement in Minnesota *(as possible).*
- Estimates of the relative progress toward achieving the savings recommended for a financially secure retirement by gender, race, and ethnicity *(as possible).*
- Estimated impact on publicly funded social safety net programs attributable to insufficient retirement savings and the aggregate effect of potential state-administered plan options on publicly funded social safety net programs and the state economy.
- The effect of federal tax laws and the federal ERISA on a potential state-administered plan and on participating employers and employees, including coverage and potential gaps in consumer protections.

The retirement landscape has changed significantly over the last few decades. Historically, retirement incomes were derived from employer-sponsored DB plans, an individual's savings, and federally provided Social Security benefits. However, with the advent of 401(k) plans in the 1980's, there has been a meteoric rise in all forms of DC plans that brought upon a seismic shift of retirement income sources. Today, the majority of individuals receive income from Social Security and DC benefits, with a small portion of the population still receiving money from a DB plan.

MINNESOTA'S RETIREMENT SAVINGS GAP

Research available on retirement saving in Minnesota clearly shows a large gap, with nearly 40% of Minnesota workers not having access to a retirement plan.[22] Couple that with the average account balance of only $38,492[23] (or approximately $250 as a monthly annuity assuming retirement at age 65) and it is clear that there is a retirement crisis that needs to be addressed.

Only 6% of workers are actively contributing to their own IRAs, despite nearly 23% having an IRA account.

POPULATION TO BENEFIT FROM STATE-ADMINISTERED RETIREMENT PLAN

Although the opportunity to save for retirement is not only available through employers, the availability of a retirement plan through an employer plays an important role in helping individuals save. Only 6% of workers who are actively contribute to their own IRAs, despite nearly 23% having an IRA account in their name.[24] Contrast this with employer sponsored plans where 42% of employees enroll voluntarily and 91% of employees maintain their enrollment when automatically enrolled and it is clear that employers play a critical role in maintaining adequate retirement savings.[25] However, not all individuals within the state of Minnesota have access to such a plan.

As Figure 2 shows, approximately 873,000, or about 40%, of private sector workers between the ages of 18 to 64 do not have access to an employer-sponsored retirement plan. This exceeds the national average of 34%.[27]

Additionally, retirement access varies by age, education, employer size, and earnings. About 79% of those without coverage, work for businesses that employ 10 or more employees, and 75% earn $40,000 or less. For the population that identifies as a race other than white, at least 50% are not offered a plan compared to 36% for whites. Although the data does not show a clear gap in availability by gender, we will highlight why a gap actually exists in more detail later.

Figure 2: Minnesota: Who is NOT Covered by a Workplace Retirement Plan?[26]

Item	Group	%	Number
Total Population	18-64 years	39.40%	873,000
Age	18–34 years	49.20%	446,000
	35–44 years	33.70%	153,000
	45–54 years	33.00%	160,000
	55–64 years	30.70%	114,000
Race and Ethnicity*	Hispanic	56.90%	60,000
	Asian (non-Hispanic)	50.00%	52,000
	Black (non-Hispanic)	56.80%	62,000
	White (non-Hispanic)	36.40%	676,000
Education	Less than high school	72.70%	87,000
	High school	50.30%	262,000
	Some college	40.40%	321,000
	Bachelor's or higher	26.30%	203,000
Gender	Male	39.30%	458,000
	Female	39.50%	415,000
Employer Size	Under 10	78.40%	182,000
	10–49	55.50%	194,000
	50–99	43.10%	84,000
	100–499	37.60%	131,000
	500–999	27.90%	37,000
	1,000+	25.60%	245,000
Earnings Quintile	$14,000 or less	73.10%	295,000
	$14,001–$25,000	54.70%	207,000
	$25,001–$40,000	36.40%	154,000
	$40,001–$63,500	25.60%	131,000
	More than $63,500	17.30%	86,000

* Other non-Hispanic category is not shown, so sum of race and ethnicity categories may not sum to total

GAP IN RETIREMENT SAVINGS EXISTS

Approximately 873,000, or about 40%, of private sector workers between the ages of 18 to 64 do not have access to an employer-sponsored retirement plan.

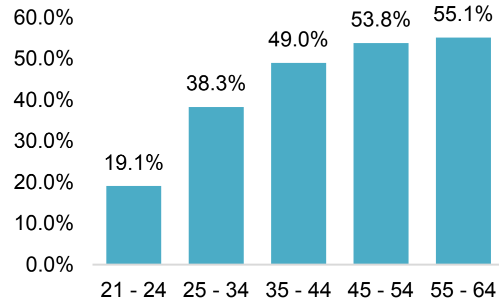
Research shows that the average amount of savings Minnesota residents have upon retirement is less than the recommended amount to be financially secure. In 2012, the average DC retirement account balance was only $38,492 for Minnesota residents.[28] While this average balance has increased from $23,952 in 2000, it is still falls below the recommended savings target for retirement.

To maintain an individual's standard of living in retirement, it is recommended that a typical American household replaces 75% of their preretirement income.[29] Said differently, the average worker needs between 8 to 11 times their annual pay saved at the time of retirement. This means for someone who makes $40,000 at the time of retirement, they should have between $320,000 and $440,000 saved. According to the National Institute on Retirement Security, 92% of working households have retirement account balances that do not meet these minimum savings benchmarks.[30]

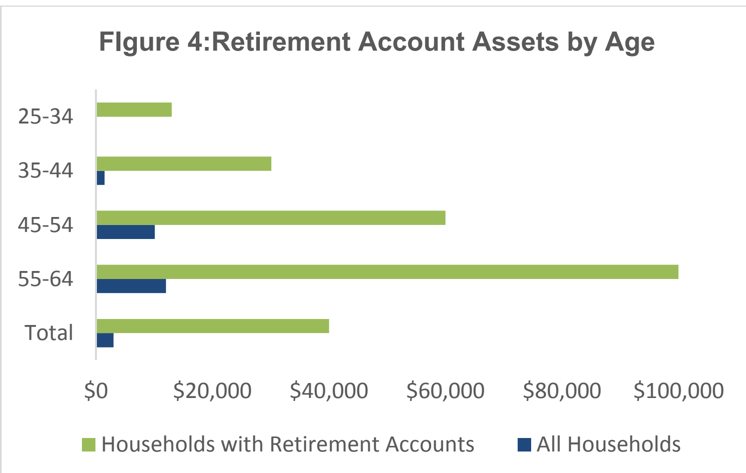
Age

It is clear that both age and income play an important role in retirement savings. Younger, lower-income workers have many different competing expenses that often take precedence over saving for retirement. Taking a closer look at age, 38% of individuals aged 25-34 participate in an employer-based retirement plan, whereas 49% of individuals aged 35-44 participate. The participation rate increases for the next subsequent age groups as well, suggesting that there is a positive correlation to participation rates and the age of the individuals.

Figure 3: Participation by Age



Source: Employee Benefit Research Institute estimates from the 1988–2014 March Current Population[31]



Source: National Institute on Retire Security: Author's analysis of the 2010 Survey of Consumer Finances[33]

For individuals to have adequate retirement savings, it is important that younger workers start saving sooner rather than later. The recommended rate for a person to start saving at age 25 more than doubles if they wait until age 45 and triples if they wait until age 55.[32] Based on research done by Employee Benefit Research Institute, 43.7% of Late Baby Boomers and 44.5% of Gen Xers are considered to be "at risk" in their ability to pay for basic retirement expenditures and uninsured health costs. Figure 4 details the gap in retirement assets between those with a retirement account, either through an employer or personal, and those without. For those approaching retirement age, in the 55-64 age bracket, they only have on average approximately $100,000 in retirement assets.

Figure 5: Income Needed in Retirement Example

(A)	Average compensation for a Minnesotan without access to an employer-sponsored plan	$ 30,000
(B)	Recommended balance at retirement	$ 330,000
(C)	Income replacement % in retirement	85%
(D)	Recommended annual income replacement (A*C)	$ 25,500
(E)	Average Social Security benefit for a retiree as of January 2016[11]	$ 15,768
(F)	Gap in annual expenses (D-E)	$ 9,732
(G)	Approximate retirement savings balance needed at retirement ((B/D)*F)	$ 125,944

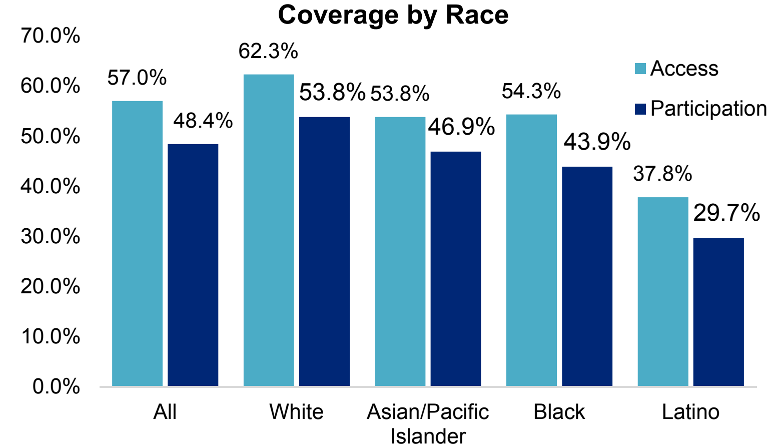
While the data specific to retirement savings for workers without access to a retirement savings plan in Minnesota is not readily available, we assume the savings data to be similar to the national average. This means that approximately 40% of the Minnesotans nearing retirement age have no retirement savings. As show in Figure 5, the average citizen has a savings gap of nearly $126,000.

Race and Ethnicity

The disparity in retirement savings among minorities compared to whites is significant and is seen across all racial and ethnic groups. The National Institute of Retirement Security found in a recent study that workers of color, and specifically Latino workers, are significantly less likely than white workers to be covered by an employer-sponsored retirement plan.[34]

That same study showed that only 54% of Black and Asian employees and 38% of Latino employees (age 25-64) work for an employer that offers an employer-sponsored retirement plan compared to the 62% of white employees (Figure 6). It should be noted, however, that when offered the opportunity to participate in an employer-sponsored retirement plan, a large percentage among all groups participate. According to the Bureau of Labor Statistics, the 2016 national average take-up rate for private sector workers was 75%.[36] This suggests that a state-administered plan could benefit minorities who do not currently have access to an employer-sponsored retirement plan in saving for retirement.

Figure 6: Employer-Sponsored Retirement Plan Coverage by Race



Source: Author's analysis of U.S. Bureau of Labor Statistics' Current Population Survey Annual Social and Economic Supplement[35]

CURRENT BARRIERS TO SAVING FOR RETIREMENT

To better understand part of the reason savings are so low, we looked the barriers keeping individuals from saving for retirement. Additionally, given that individuals are more likely to save when an employer sponsors a plan, we also looked at what barriers exist that are preventing more employers from offering a retirement plan.

EMPLOYER BARRIERS TO OFFERING RETIREMENT PLANS

The overall message of the market analysis is that access through an employer is key. As such, this seemed to be the most logical path to increase participation. Often times there are so many options in the market place that employers have a difficult time navigating available plans to find the best fit or finding a plan that is directed toward their business size. Additionally, employers have many competing priorities for their money and retirement benefits are not a priority.

Employer Size

A 2012 Government Accountability Office report found that nationally, approximately 14% of small businesses offer a retirement plan. Of the group of employers with fewer than 11 employees, less than 10% sponsored a plan, compared with 28% for those who employed 12 to 100 employees.[37] While these numbers look a little different in Minnesota, they tell the same story.

Referencing Figure 2 (page 11), only 21% of employees that work for businesses with less than 10 employees are offered a retirement plan, whereas 49% of employees employed by businesses with 10 to 100 employees are offered a plan. The GAO report cites complexities of administration, lack of financial and personnel resources, and lack of employee demand as reasons employers do not offer a retirement plan.[38]

Retirement Savings Options

Another issue is related to the sheer volume of options available in the marketplace. Many small business are overwhelmed by the number of plan options and features, making it more difficult for them to choose and compare plans. Figure 7 lists just a few options available to small employers. The volume and complexity of options may leave a small business electing to offer no retirement plan at all.

Figure 7: Plan Options
✓ 401(k)
✓ SIMPLE 401(k)
✓ IRA/Roth IRA
✓ DB Plan
✓ Profit Sharing
✓ Money Purchase

Administrative Complexity

Many employers, especially smaller employers, do not offer retirement plans because of the complexity or perceived complexity related to administering a retirement plan. The costs in starting up and maintaining the plan on an ongoing basis creates administrative burdens that firms do not want to accept. Plan paperwork, compliance with federal regulations (ERISA), keeping up with current regulations, and making the necessary updates to their plan documents, all take time and resources for smaller firms, thus deterring them from offering retirement savings plans.[39]

In addition, many small employers are concerned with the fiduciary responsibility as it relates to managing or controlling plan assets. Selecting the appropriate investment fund choices for their group of employees was one of the biggest challenges smaller employers reported. Not all employers understand what is meant by fiduciary responsibility and because of this lack of understanding can have either an exaggerated perception of their responsibility or be on the opposite side of the spectrum and not be aware of their legal responsibilities.[40] Given these reasons, smaller firms find it easier to not offer a plan than to assume fiduciary responsibility.

EMPLOYEE BARRIERS TO PARTICIPATING AND SAVING IN RETIREMENT PLANS

The median female worker near retirement had $34,000 in a 401(k) or IRA plan compared to $70,000 held by male workers nearing retirement.[41]

Not only do employers face barriers to offering retirement plans, but employees or individuals face barriers that prevent them from participating in some form of a retirement savings plan. Many of the reasons as to why individuals choose not to participate in a retirement savings plan are attributable to personal circumstances that occur outside of the office.

Gender

As we stated before, the difference in Minnesota between men and women who have access to a retirement plan is statistically insignificant. However, taking a closer look at retirement account balances suggests that women do not have adequate retirement savings when compared to men even though access and participation is similar.[42] Based on the Retirement Security Project report published in 2008, the median female worker near retirement had $34,000 in a 401(k) or IRA plan compared to $70,000 held by male workers nearing retirement.[43]

There are a number of reasons why women have less retirement savings and are not as prepared for retirement when compared to men:

- Women tend to experience shorter and more interrupted careers due to caring for their families (both children and parents);[44]
- Women are more likely to work part time or in lower-paying jobs;[45]
- Single motherhood tends to negatively impact the financial status and ability to save for retirement;[46]
- Women tend to live longer than men and stop working at earlier ages. As a result they are required to save more over a shorter period to fund longer retirement periods.[47]

Employee Status

Part-time workers make up 23.8% of the national workforce population and the majority of employers do not offer part-time employees the opportunity to participate in their employer-sponsored plan.[48] Of the private sector workforce, only 21% of all part-time employees (including those not offered a plan) participate in a plan, with only 37% having access to a plan at all.[49]

Part-time workers make up 23.8% of the national workforce, but only 19% participate in in a retirement plan.[50]

Competing Financial Needs

Not all individuals will be able to save for retirement due to competing financial needs. These competing factors can include school loans, house payments, and raising a family. Approximately 34% of Minnesotans spend more than 30% of their income on housing costs.[51] As mentioned above, these competing financial needs seem to be more prevalent amongst younger workers, which delays retirement savings.

Figure 8: Participation by Income Bracket[52]

Annual Earnings	Percentage Participating
Less than $10,000	7.0%
$10,000 - $19,999	15.2%
$20,000 - $29,999	30.4%
$30,000 - $39,999	45.1%
$40,000 - $49,999	52.9%
$50,000 - $74,999	58.8%
$75,000 or more	66.9%

As shown by Figure 8, participation in retirement savings plans varies significantly based on one's income level. However, regardless of income level, everyone has a competing financial need, whether a fixed or discretionary expense, that they have determined should take priority over saving for retirement. When one's income level is low, it further places a burden on saving for retirement as financial resources are low. The less one makes, the less they have to spend, and planning for retirement is pushed to the back burner. Additionally, Figure 8 shows that as income increases, so does participation in an employer-sponsored retirement plan. Income not only correlates to participation rates, but also contributes to retirement savings amounts. After 10 years of retirement, 41% of those in the lowest-income quartile are estimated to run out of money. This percentage increases to 57% after 20 years in retirement.[53]

Workers who are younger, have lower earnings, or have stable employment tend to work for employers who do not sponsor a retirement plan, and saving for retirement is not a top priority. They view retirement savings as less of a priority than older workers do due to competing financial needs, such as debt, family, and house payments.

Other Factors

In addition to the reasons listed above, employees do not save for retirement due to other personal factors, such as forgetfulness, lack of planning, and procrastination.[54] Lastly, behavioral economics also plays an important role with individuals not saving. Individuals know it is important to save, but they fight an inner battle to consume more, which in turn leads to saving less.

The vast number of plan options and funds available is not only a barrier for employers, but also a barrier for employees. With the numerous retirement vehicles and funds available, many feel overwhelmed and lost. They will prefer someone manage their investments for them. Research on behavioral economics shows that when people are faced with important decisions where they are uncertain of what to do, they choose to do nothing.

It is important to bring attention to the fact that regardless of barrier or circumstance, anyone has the ability to go out into the private sector to find a savings vehicle that best suits their need. By identifying a gap, it shows that approximately 95% of those without access to a retirement plan through work are not utilizing what is available to them through the private sector. Employees already face a lot of barriers on their own, and if they are not turning to the private sector to save, an important step the State can make to combat the crisis is to offer access to a plan.

ECONOMIC IMPACT OF INSUFFICIENT SAVINGS

Not only does a lack of retirement income have an impact on the individual, it also impacts the State. Specifically, there is a negative correlation between income during retirement and the overall spending on social safety net programs.

EXPENDITURES ON SAFETY NET PROGRAMS

There are many impacts to the State due to the lack of retirement funding, including the fact that many retirees live below the poverty level. In fact, studies show that 8.6% of seniors, compared to 10.3% of those aged 18-64, are at 100% of poverty and 30% are at or below 200% of poverty.[55] Additionally, the elderly population has difficulty meeting the basic cost of living in Minnesota. The median retirement income from all sources for Minnesota's older women is $17,965, which is 85% of the median income for men of $21,111, and is 78% of the basic cost of living of $22,980 for an elder.[56] As a result, there is a significant additional strain put on safety net programs.

According to information provided by MMB, Minnesota spent $11.3 billion on social safety net programs in 2014, about 32% of government outlay based on total spending of $35.4 billion.[57, 58] These programs include:

- Minnesota Energy Assistance Program
- Minnesota Temporary Assistance for Needy Families (TANF)
- Minnesota Family Investment Program (MFIP)
- Minnesota General Assistance
- Minnesota Medical Assistance
- MinnesotaCare
- Minnesota Supplemental Nutrition Assistance Program (SNAP)
- Minnesota Food Assistance Program
- Minnesota Supplemental Security Income
- Minnesota Supplemental Assistance and Group Residential Housing

POTENTIAL SAFETY NET SAVINGS

An important issue associated with the rate at which Minnesotans are saving for retirement is its impact on the State's total spending on safety net programs. Couple that with the fact that the retiring population is expected to increase over the next several years, it begs the question, what impact will this population have on total safety net spending?

A study was recently conducted by the State of Utah ("Utah") to forecast the growth in the retirement population, estimated the potential savings the state could realize from citizens increasing their retirement savings. The study investigates the effect of financial readiness of new retirees on benefit expenditures in Utah over the next 15 years.

Through 2030, new retirees entering program eligibility will be eligible for $3.7 billion in social safety net program benefits. An increase in net worth among the bottom one-third of retirees by just 10% over the workers' careers would decrease expected government outlays by more than $194 million over the next 15 years. A 10% increase in retirement savings represents a $14,000 increase in savings over these individual's career.[59]

An increase in net worth of just 10% among the bottom one-third would decrease government spending by $194 million.[60]

Based on conversations with AARP, it is our understanding that a similar study for the State of Minnesota is currently underway, but has yet to be published. These results will likely tell a compelling story for increasing savings in Minnesota. Drawing too many comparisons between Minnesota and Utah is difficult, but what we do know based on data from the Bureau of Labor and Statistics is that there will be roughly 2.5 times more new retirees through 2030 in Minnesota than Utah. If the potential savings in Minnesota are comparable to that of Utah's, that would mean a decrease in social safety net spending in the State of nearly $500 million. Based on the Utah Study, Minnesota has the potential to significantly reduce safety net spending on retirees through a state-administered retirement savings program.

METHODS EMPLOYERS USE TO ENCOURAGE EMPLOYEE PARTICIPATION

To consider how to address the gap in retirement savings, we looked at what employers are doing today to successfully increase participation. Such concepts as automatic enrollment have effectively increased participation in employer plans from 42% to 91%.[61] However, participation in the plan only solves part of the problem. Just because a participant is enrolled does not mean they are saving enough to meet retirement needs. Automatic escalation has been another successful feature in increasing participation contributions. Part of the reason these features are so effective is related to our earlier discussion around employee inertia. Often participants will not actively make a decision to save, but when it is taken care of for them, they are willing to set that money aside. These methods have been shown to be successful in increasing participation rates and overall retirement savings.

Automatic Enrollment

Plan participation rates among those who were automatically enrolled came in at 91%, compared to only a 42% participation rate when employees had to voluntarily elect to participate.[62]

Automatic enrollment is a mechanism that employers can use to enroll employees in a plan without needing authorization of an elected deferral rate, unless the employee elects otherwise. An employee has to make a conscious effort to opt out of the plan, rather than making an effort to opt in, elect a deferral rate, and choose an investment fund – all plan features that can be confusing and potentially deter participation. Proven to be one of the most successful means of increasing participation and savings, 62% of employers automatically enroll their employees in their retirement plan according to Deloitte's 2015 Annual Defined Contribution Benchmark Survey.[63] Plan participation rates among those who were automatically enrolled came in at 91%, compared to only a 42% participation rate when employees had to voluntarily elect to participate.[64]

The impact of this feature can be significant. For example, if one were to start saving at age 25; have an average salary of $30,000; and contributed at 3%, with a 4% return on investment and no salary increases, they will have approximately $86,000 at age 65. If the default contribution rate was instead 6%, the same employee will end up near $171,000 at age 65. Automatic enrollment helps encourage retirement savings because individuals do not need to determine if they should participate and then take the initiative to enroll in the plan; the decision is made for them (with the option to opt out).

Automatic Escalation

Automatic escalation allows employers to increase an employee's deferral rate by a set increment, unless the employee specifically elects otherwise. For example, if the employee's deferral rate in year one is 3%, the next year it will automatically increase to 4%, or increase by the predefined percentage deferral rate. Contribution escalation features (also known as step-up contributions) have seen increasing popularity amongst employers. Based on Deloitte's 2015 Annual Defined Contribution Benchmark Survey, 62% of plan sponsors reported that they offer a step-up contribution feature.[65]

Only 6% of employees will sign up for the step-up feature on their own, whereas 80% will participate if it is part of the plan default option.[66] Using the same assumptions outlined in the automatic enrollment section, if the plan had an automatic enrollment feature with a default contribution rate of 6% and an automatic escalation feature that increased the contribution rate one percent each year until the contribution rate reached 10% were in place, the same employees who would have previously only saved $171,000, will instead have approximately $260,000 saved, an increase of about $89,000. It is obvious that this is a powerful feature employers can use to significantly impact employee savings.

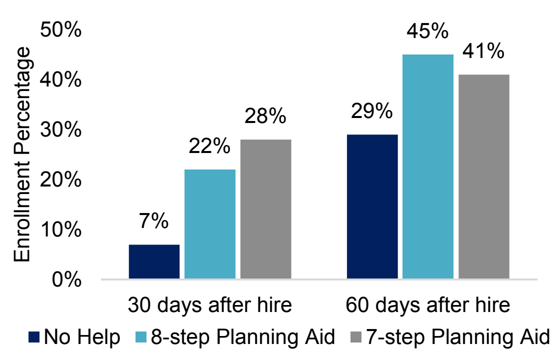
Limited Investment Alternatives

Currently the average DC plan has 18 investment choices; however, behavioral research studies have shown that participants feel overwhelmed by too many investment choices, which can deter employees from participating.[67] Research has also shown that offering a small number of plan options has a positive correlation with plan participation.[68] According to a Vanguard study, "Every additional 10 investment choices, on average, reduces predicted participation rates by 2%."[69]

Planning Aids

When planning aids are offered to new hires, studies show that these materials encouraged employees to enroll in and participate more than those employees who do not have any help in enrolling.[70] Planning aids, such as an easy step checklist that walks an employee through the enrollment process, can increase employee participation. Provision of a planning aid for new employees increased enrollment in an employer-sponsored savings plan by 12%–21%.[71] Planning aids can consist of text message or email reminders; retirement calculators; or retirement education materials, such as brochures on the importance of saving, determining how much to save, and identifying when to start saving. The list is endless. In a study of savings accounts in banks, people who received reminders were 3% more likely to achieve a pre-specified savings goal and saved 6% more than people who did not receive reminders.[73]

Figure 9: The Impact of Planning Aids: Savings Plan Enrollment Percentages for New Hires



Source:[72] "Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective." National Bureau of Economic Research

Federal *myRA* Program

Another plan consideration for the State is the federal *my*RA, launched in 2015. The plan is designed to provided workers an easy, low-cost option to begin saving for retirement. Key features include allowing participants to save up to $5,500 per year; money is invested the Government Securities Fund, and once the participants account balance reaches $15,000, the participant is no longer allowed to participate in the program and their account must be transferred to a private sector Roth IRA.[74]

The goal of the program is to remove many of the complexities from establishing an IRA, such as investment choices, and utilize the program as a catalyst to promote saving for participants. The impact of the program on the overall retirement savings landscape is hard to ascertain as participation rates and long-term savings impacts are not known at this point.

EFFECT OF FEDERAL TAX LAWS AND ERISA ON POTENTIAL STATE-ADMINISTERED PLANS

Private sector retirement savings plans have been almost exclusively federal matters before the establishment of the federal ERISA. States promoting retirement savings require an understanding of ERISA and other existing tax laws and the effects they will have on a potential state-administered plan.

ERISA plays an important role in regulating retirement plans. It sets minimum standards with the sole purpose of protecting the interest of employee benefit plan participants and beneficiaries.[75] ERISA requires plans to provide participants with important facts about plan features, provides fiduciary responsibilities for those who manage and control plan assets, requires plans to establish a claims and appeals process for participants, and gives participants the right to sue for benefits and breaches of fiduciary duty.[76]

As states, including Minnesota, began to look at options for the retirement crisis, it was clear that many questions needed to be answered regarding what effect ERISA would have on any potential state-administered retirement plan. Some of those concerns include:

- ERISA prohibits states from requiring private employers to offer an ERISA-covered plan
- ERISA requires that participation be completely voluntary (that is for a payroll-deduction IRA)
- Section 514 of ERISA states that ERISA shall supersede all State laws

As a result of the national interest in state-administered retirement programs, the DOL issued proposed regulations and an Interpretive Bulletin to provide guidance on state-run retirement plans so states can move forward in plan design considerations. The proposed regulation addressed circumstances under which a state-run retirement program, including a payroll-deduction IRA plan required by a state, would meet the criteria for safe harbor and not give rise to an employee pension plan under ERISA. Below is a summary of the key requirements:

- The program is specifically established under state law;
- The program is implemented and administered by the state;
- The state is responsible for the security of employee payroll deductions and employee savings;
- The state adopts measures to ensure that employees are notified of their rights under the program, and creates a mechanism for enforcement;
- Participation in the program is voluntary;
- All rights of the employee under the program are enforceable by only the employee, an authorize representative of such person, or by the state;
- Employer involvement is limited to the following:

        - Collecting employee contributions through payroll deductions and remitting them to the program;
        - Providing notice to the employees and maintaining regarding the employer's collection and remittance under the program;
        - Providing information to the state necessary to facilitate the operation of the program;
        - Distribution of program information to the employees from the state and permitting the state to publicize the program to employees
    - The employer contributes no funds to the program and provides no bonus or monetary incentive to employees to participate in the program;
    - The employer's participation in the program is required by state law;
    - The employer has no discretionary authority, control, or responsibility under the program;
    - The employer receives no direct or indirect consideration in the form of cash or otherwise, other than consideration received directly from the state that does not exceed the amount that reasonably approximates the employer's costs under the program.[77]

By publishing the regulations, DOL has provided the framework by which a state could establish a payroll-deduction IRA without giving rise to the establishment of employee pension benefit plans under ERISA. In addition, it has given guidance for states in designing such programs to reduce the risk of ERISA preemption of the relevant state law. However, it should be noted that the DOL states in their proposed regulations that the goal of creating a safe harbor that allows for automatic enrollment with an opt-out provision is to remove uncertainty about Title I coverage of such payroll-deduction savings arrangements. However, they acknowledge that if this type of arrangement was ultimately litigated, there is some chance that a court could rule that it is preempted by ERISA. The goal of the proposed regulation is to diminish the chances of this actually happening.

As mentioned earlier in addition to proposed regulations, the DOL simultaneously issued an Interpretive Bulletin to assist states in establishing ERISA-covered plans, if states decided to go in that direction. Below are details about that bulletin:

- States may establish a "marketplace" to help connect eligible employers with private sector firms offering retirement plans;
- States may make available to eligible employers a common pre-approved prototype plan document that they may adopt;
    - States could assume responsibility for most administrative and asset management functions of such a prototype plan;
- States may establish a MEP, allowing employers to voluntarily join rather than establishing their own plan - the MEP will be run by the state or a designated third party.[78]

To expand upon what is meant by these, we provided a brief description of each below:

Prototype Plan: The Interpretive Bulletin provided for a prototype plan. Under this structure, the State could create a prototype plan covered by ERISA that employers could adopt. The advantage of this is that employers would have the flexibility to modify some of the provisions of the plan. In addition, the State could be given flexibility to take on administrative and asset management responsibilities.

MEP: Under this arrangement, the State could obtain IRS tax qualification for a 401(k) type plan, DB plan, or other tax-favored retirement savings program. The State would be the plan sponsor, have fiduciary responsibility, and be responsible for administration of the plan. Additional, details for considering a plan design of this nature can be found in the appendix.

Marketplace: Under this approach, the State would provide employers with alternative plan options that are currently available to employees and employers in the industry. The employer would contract with the plan provider directly. The marketplace would merely serve as a conduit to bring the two parties together in a potentially more efficient manner.

It is clear that the Interpretive Bulletin released by the DOL opens the door for many potential design options; however, all would be subject to ERISA. As we considered alternative plan designs, we consulted with the SBI about their role in any potential plan design. Section 10 (a) of WESA states that contributions are to be “invested by the State Board of Investment…” ERISA § 514(a) provides that ERISA supersedes any and all state laws insofar as they relate to any employee benefit plan. Through discussion with SBI, it is unclear what the impacts are to the SBI for any plan that would fall under ERISA.

Taking into consideration the guidance provided by DOL, the requirements set forth in WESA, and in discussions with MMB, we settled on a payroll-deduction IRA as the best alternative for moving forward. We later added a discussion around the establishment of a MEP that can be found in the appendix.

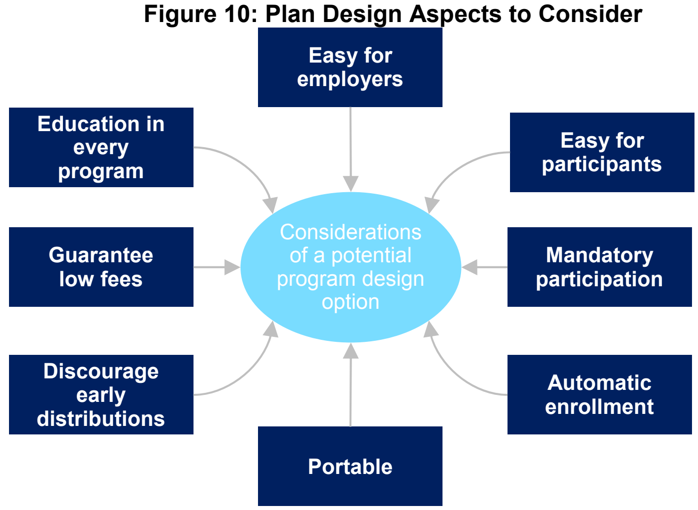
PROGRAM DESIGN CONSIDERATIONS

The next step of the study was to determine the key plan design considerations and features. As Minnesota looks to establish a retirement savings program, it has many design components to consider, including plan structure, plan administration, and investment strategies. This phase of the study addressed the following requirements laid out by the WESA:

- The potential use and availability of investment strategies, private insurance, underwriting, or reinsurance against loss to limit or eliminate potential state liability and manage risk to the principal.
- Comparison of a potential state-administered plan to private sector and federal government retirement savings options with regard to participation rates, contribution rates, risk-adjusted return expectations, and fees.
- Options for the process by which individuals will enroll in and contribute to the plan.
- Options for a potential state-administered plan to use group annuities to ensure a stable stream of retirement income throughout beneficiaries' retirement years.
- Options discouraging employers from dropping existing employer-sponsored retirement savings plans in favor of state-administered plan
- One option, and likely set of options, related to establishing a state-administered retirement savings plan.

Deloitte conducted two workshops to gather feedback and input from various parties invested in the outcome of the study. The workshops allowed for a very robust conversation around what was important when considering the design of a state-administered retirement program. While the workshop participants were on different sides of the spectrum in terms of support of a state-sponsored retirement savings plan, the feedback provided indicated that the considerations captured in Figure 10 should be considered in designing the potential program.

Figure 10: Plan Design Aspects to Consider



As the State considers creating a state-sponsored retirement savings program, there are various plan design considerations that must be determined, such as plan types; recommended contributions rates; enrollment requirements and procedures; and administrative responsibilities and capabilities, as well as others. All of these considerations will be key inputs into the actual development of the savings program.

PLAN FEATURES AND ADMINISTRATION

As the State moves forward in setting up a plan, it will need to identify a type of plan to offer, in this case an IRA, either Traditional or Roth. Then, it will need to decide what kind of features will be included in the plan (for example enrollment criteria or contribution rates). Finally, the State will need to make a decision around how the plan will be administered.

CONSIDERATIONS FOR PLAN FEATURES

When setting up a DC plan, like an IRA, there are many important aspects of the plan that need to be determined. There are also a number of approaches to consider, each with a varying degree of simplicity and effectiveness in encouraging employees to save for retirement. The State will have the challenge of providing a retirement plan that effectively supports the needs of private sector employees in the State, while keeping costs low.

Traditional vs. Roth IRA

There are two main types of IRAs for the State to consider for their plan design, as detailed below:

Figure 11: Comparison of Traditional IRA vs. Roth IRA

	Traditional IRA[79]	Roth IRA[80]
Tax Benefits	• Tax-deferred growth • Contributions may be tax deductible (participant must claim the deduction on their tax return to receive the benefit) • Lowers adjusted gross income	• Tax-free growth
Eligibility: Age	• Must be under age 70.5 with employment compensation	• No age restrictions with employment compensation
Eligibility: Income	• No income limits to make contributions	• Single: \$117K - \$132K • Married: \$184K - \$194K
2016 Contribution Limits	• \$5,500; \$6,500, if age 50 or older	• \$5,500; \$6,500, if age 50 or older
Withdrawals	• Typically, a 10% penalty, plus taxes for withdrawals before 59.5	• No restrictions or penalties on withdrawing, contributions before 59 ½; however, earnings will be taxed and are subject to a 10% penalty. After 59 ½ and 5 years after contributions are initially made, all withdrawals are tax-free.

In deciding which type of IRA plan to offer, there are multiple items to consider.

Effective Tax Rate: As illustrated in Figure 2, 75% of the eligible population earns less than \$40,000 a year. While we do not have specific data on what the exact federal tax rate for these individuals would be, it can be inferred that a majority would fit into a tax bracket of 15% or less.

Compliance: A Roth IRA brings additional administrative burdens that a Traditional does not. The State would not be able to take contributions from employees who make more than income limits stated above (it should be noted that in Minnesota, more than 90% of individuals fall under the income limits). As far as Traditional IRAs are concerned, typically, it is the responsibility of the individual contributing to validate they have not exceeded contribution limits.

Participant Responsibility: In addition to the contribution limit concerns noted above, it is the sole responsibility of the participant to make sure they take their tax deduction at the end of year under a

Traditional IRA. Low-income workers typically require aggressive outreach to notify them of tax implications, such as this, which could add an additional responsibility to the State.

Access to Funds: As was discussed during the first workshop, often times, it is important for lower-income workers to have access to their retirement savings in times of significant financial stress. As noted above, a Roth IRA provides more flexibility in accessing funds tax and penalty free. Utilizing a Roth will lead to leakage, but the benefits to the individual may outweigh the impact to the overall program.

Taking into consideration the circumstances laid out above, we have made an assumption going forward that the default plan type the State will offer is a Roth IRA plan. However, we recommend that the State provide a Traditional IRA alternative that an individual could elect based on individual circumstances. We also recommend that the State provide the Board, later discussed, the flexibility to adjust the exact design of the program as needed.

Plan Eligibility

Age and service are some of the eligibility requirements that plan sponsors consider when establishing a retirement plan. Plan sponsors are increasingly implementing requirements, which allow employees easier access. Keeping this in mind, approximately 66% of plan sponsors have no service requirement for plan entry; 24% have a requirement of 1 day to 3 months, and the remaining 10% have longer service requirements. In addition to service requirements, there is often a minimum age requirement. About half of plan sponsors have no age requirement, a quarter have an age 18 requirement, and the other quarter have an age 21 requirement.[81]

To design a program, the State will need to consider what age and service requirements make the most sense. The State may want to set a minimum age requirement for mandatory participation. For example, the program will need to consider if an 18-year-old employee in school full time should be subject to a mandatory enrollment requirement.

The State will also need to consider if employees must enroll immediately or if there should be a waiting period to reduce the administrative burden for those who are with an eligible employer for only a short period of time (i.e. under six months).

Additionally, the State will need to consider where the employee lives. Consideration must be given as to whether an employee can participate in the program if they work in Minnesota, but live in a different state (i.e., Wisconsin).

Finally, a decision must be made about which employers are eligible to participate. This issue considers whether Minnesota residents can participate if they work for an employer based in another state or if that employer operates in Minnesota, but is domiciled in another state.

For purposes of this study, we have assumed that all employees who are at least 18 years of age are eligible to participate in the program. In addition, we have assumed that all eligible employees are immediately enrolled in the program with no waiting period – this would have the effect of enrolling all full-time, part-time, and seasonal workers in the State.

Plan Enrollment

In a typical retirement plan, not everyone who is eligible actually enrolls. There are two ways that an employee can enroll in a retirement program: voluntary and automatic.

Voluntary Enrollment: Under a voluntary enrollment plan, the participant is given the option to enroll once they are eligible. Typically, plans will provide the employee paper election forms or the opportunity to enroll online. The problem with voluntary enrollment is that more participants elect not to enroll than do. As discussed earlier, only 42% of plan participants elected to enroll in a retirement plan when given the choice.[82]

Automatic Enrollment: In an automatic enrollment plan, the participant is enrolled at a default contribution rate, funds are invested into a default investment option, and they are given the option to opt out at any time. By industry standard, this is the most effective way to keep employees enrolled in the plan.[83] Typically, over 90% of participants maintain their enrollment under an automatic enrollment system. Once enrolled, participants can then go into their account, update their deferral rate, and select other investment options if they so choose. Employees who choose not to participate in the program must affirmatively opt out.

Employer Size

A unique consideration for a state-run retirement program is that there will be multiple employers of varying size that will be participating in the program. The DOL's regulations regarding state-run retirement programs is very clear that any state law would require that employer participation in the program be mandatory. However, the State does not need to require that all employers not currently offering a retirement program participate, instead it can mandate that employers above a certain threshold participate and that any employee at an employer not required to participate may voluntarily elect to participate

As the size of employer is considered, it is clear that the biggest barrier to consider is the effort required by employer's to facilitate regular deductions to be withheld. For those employer's that utilize a third-party to facilitate payroll, the establishment of an additional deduction does not create a significant burden. Their largest challenge lies in the communication of the program and the establishment of an interface with the State to communication payroll deductions on a regular basis. Based on research, previously discussed, 97% of employer's with 10 or more employees currently utilize a third-party payroll provider. For those employer's with less than 10 employees, the likelihood they process payroll manually increases, as a result, the cost of any State program would come with an extra burden.

The State will need to spend time discussing what factors and considerations are most important when making a decision around what employers are mandated to participate in the program. However, for purposes of this report we have assumed that only those with 10 or more employees are required to participate. The driving factor for this decision is the likelihood that these employers will have a third-party provider for processing payroll and the reduced burden of administration this will bring.

Contribution Rates

The contribution rate selected by the State will provide the backbone of how much private sector employees who participate in the Plan will save. When this rate is set, many different considerations must be taken into account:

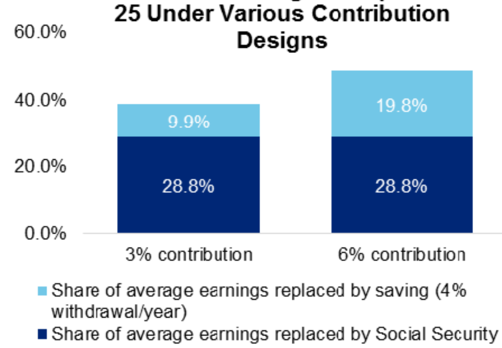
47% of plan sponsors reported that the most common default percentage for automatic enrollment is 3%.[84]

- **DOL Regulations:** A qualified automatic contribution arrangement established under DOL regulations requires a minimum 3% and maximum 10% contribution rate.[85]
- **Common Default Rates:** Based on Deloitte's 2015 Annual DC benchmarking survey, 47% of plan sponsors reported that the most common default percentage for automatic enrollment is 3%. Approximately 8% have a default rate below 3% and 45% have a default rate of above 3%+. Of the 45%, 22% have a 6% default rate.[86]

- **Rates Required to Meet Retirement Needs:** Research shows that the higher the deferral rate, the more likely individuals will be financially secure in retirement. Today the recommended deferral rate is between 10% and 15% in order for individuals to have enough retirement assets by the time they hit their targeted retirement age.[87]
- **Impact of Increased Default Rates:** A study conducted comparing workers automatically enrolled at a 3% versus a 6% rate showed there was no significant difference in the opt-out rate between the two.[88]

The contribution rate can have a significant impact on the financial well-being for a participant. Using the same assumptions for two people, with the only difference being that one is saving at a contribution rate of 3% and the other is saving at a rate of 6%, the person at 6% is able to increase their replacement income by approximately 10%. Figure 12 details an individual's retirement income breakdown by each contribution scenario. This suggests that a higher deferral rate has a positive correlation with the replacement ratio and can help individuals be more prepared financially for retirement.

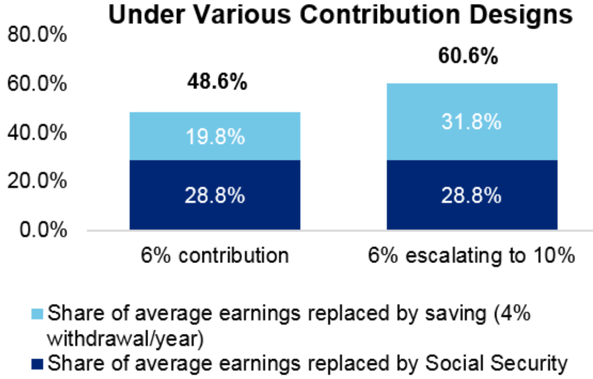
Figure 12: Replacement Rates for Individuals Starting Participation at 25 Under Various Contribution Designs



It is important to take into consideration that the population eligible for this retirement savings program tends to be in lower-paying jobs and that these individuals may not have much discretionary income to save for retirement. While a deferral rate of 10% will help individuals save more for retirement, the reality is that many cannot afford to contribute that much and a smaller deferral rate may be more appropriate and encouraging. If individuals decide that they want to increase their deferral rate, they have that option as well. The key is to make sure the selected deferral rate would not deter individuals from participating in the plan.

We have assumed that the state will set the initial deduction at 5% for participants automatically enrolled in the plan. In determining the assumed default contribution, we leveraged the research that showed the opt-out rates are not likely to be significantly different between 3% and 6%. In addition, based on discussions with the State, utilizing a more aggressive default contribution rate is in the interest of the participant long term and will result in more long-term savings.

Figure 13: Replacement Rates for Individuals Starting Participation at 25 Under Various Contribution Designs



Automatic Contribution Escalation

As mentioned earlier, a number of plan sponsors are using this important strategy for employees in reaching their financial goals. Using an escalation feature would help replace the income necessary for retirement. In the chart to the left, it can be seen that a default rate of 6% with an escalation feature up to 10% increases replacement rates by 12%.

We have assumed that the State will utilize an automatic escalation feature, recognizing that most employees do not have an adverse reaction to it and the long-term benefits of increased savings. While the step-up for each annual escalation can be defined by the plan, we have assumed that the annual increase will be 1% up to a maximum contribution of 10%.

COMPARISON OF PLAN FEATURES

For comparison purposes, we have put together the table below to demonstrate the products that are available in the marketplace and what the proposed plan design by the State will offer:

Figure 14: Comparing Plan Features

Plan Features	Private Sector Savings Options[89, 90, 91]	*My*RA[92]	Potential State-Administered Plan Options*
Program Eligibility - Service	• 66% of employers have no requirements • 24% have a 0-3-month period • 10% have 4+ months	Not available	No waiting period
Program Eligibility - Age	• 49% have no age requirement • 26% require participants to be 18+ • 25% require participants to be 21+	At least 16 years of age	At least 18 years of age
Participation Rate	75% participation rate	Not available	80% *(estimated)*
Average Employee Contribution Rate	• 5.9% (median)	Not available	3% (Starting contribution rate for new entrants – this will increase over time)
Automatic Escalation	• 62% offer this feature	Not available	1% per year, capped at 10%
Average Account Balance	$38,492	Not available	Not available
Enrollment Method	62% of employers automatically enroll employees	Voluntary	Automatic
Opt-Out Percentage	91% of employers reported that less than 10% of employees opted out	Not Available	20%
Step-up Contributions (Escalation Feature)	• 62% of employers offer step-up feature • 74% use a 1% step-up rate	Not Available	1%
Fee Structure	• Median "all-in" fee of 72 basis points • 88% of plans expense ratio was 85 basis points or less • $60 per person cost reported by MSRS	No fee	• Automatic Enrollment: 51 basis points • Voluntary Enrollment: 100 basis points • Outsource Automatic Enrollment: 43 basis points
Percentage of Participants Who Took Out Withdrawals	7%	Not Available	Not Available

* Potential state-administered plan proposed in the program design section of this report, based on mandated, automatic enrolled, state-administered IRA plan, and private sector evidence. There is no historical evidence to provide details on a state-administered retirement program for the targeted individuals.

It should be noted that some of the features discussed under the potential state-administered plan are assumptions that we have made as part of this study and actual experience may look different. Many have already been discussed or will be discussed later in the report.

Opt-Out Rate: We have assumed an opt-out rate of 20%. As we have noted, more than 90% of private sector savings plans indicate that they have opt-out rates of less than 10%. However, it is reasonable to assume, given the income of the average potential participant, that the plan may see a slightly higher-than-average opt-out rates. This is also consistent with expectations from many industry leading third-party administrators. This assumption also serves the purpose of helping to provide a more conservative outlook on future asset growth of the plan.

PLAN ADMINISTRATION

Board

All retirement plans need to have some form of governance in place. In basic terms, governance is identifying who does what, how they do it, and when to do it. This is best accomplished through the establishment of a Board and is a common practice among retirement plans, including the Minnesota State Retirement System (MSRS).

The Board should be composed of at least five members who have a specific knowledge and perspective of the participating employees and qualified employers. During the initial set up of the program, the Board may benefit from having a specific makeup that can make complex decisions as they relate to the plan's initial setup. However, as the plan matures, the board can take on a different make-up, one that is geared towards making decisions relevant to the long-term maintenance of the program. Additionally, the Board may include key stakeholders who represent the perspective of key audiences, such as private sector employees or employers who participate in the plan.

The legislature should give the Board the authority to make decisions that are in the best interests of the participants of the program and the standards of care expected by the State.

Responsibilities of the Board

- ✓ Creates an independent entity responsible for managing the program
- ✓ Make final decisions regarding default plan type and design features
- ✓ Decision around administrative and operational processes
- ✓ Modify plan structure based on final DOL regulations
- ✓ Ability to modify investment program over time
- ✓ Establishing contracts with third parties
- ✓ Manage and monitor third-party contractors
- ✓ Design compliance and enforcement protocols
- ✓ Independence to set spending guidelines
- ✓ Report to State on regular basis

Program Administration and Recordkeeping

As the State considers how to administer the Plan, the full scope of administrative and recordkeeping requirements should be understood. We have detailed many of those items below:

Recordkeeping: The State would need to establish a system or contract with a third-party provider that provides the capability to perform all recordkeeping services, including the following:

- **Enrollment:** Based on data provided by employers, enroll employees in the plan and set up their account elections properly;
- **Daily Valuation:** Based on changes in the price of investments, adjust the daily valuation of participant assets;
- **Contributions:** Track the amount of contributions each participant submits to the plan;
- **Benefit Statements:** Provide regular statements to participants about their account balance
- **Notices:** Provide annual notices on plan fees, plan investment option changes, changes to plan features and any other notices required by law;
- **Investment Elections:** Should the State establish multiple investment vehicles – process changes to investment elections as needed/required;
- **Distributions:** Issue any withdrawals allowed under the plan or provided for upon attainment of retirement age;
- **Maximum Allowance:** Track total contributions to ensure they do not exceed IRS limits.

Program Administration: In addition to recordkeeping services, the State would be responsible for providing numerous other services to participating employees. As with recordkeeping, many of these services could be provided by a third party, should the state contract with one. They include:

- **Communications**
  - Design a customized communication campaign for the plan, resulting in effective and professional retirement, investment, and plan educational materials;
  - Establish recommendations on the method and frequency for material (quarterly, in-person, Web-based, etc.);
  - Develop a plan to provide for regular, ongoing communication with members using these materials;
  - Prepare professional brochures, publications, and forms for members (design, layout, formatting, printing, mailing, etc.)

- **Web Portal**
  - Ability to see current account balances
  - Make changes to deferral rates, investment elections, and opt out of plan
  - Fund transfer and allocation changes
  - View and print publications and forms
  - Provide Web-based communications for participants who elect not to receive written materials

- **Participant Information and Forms**
  - Develop enrollment process, as well as set up and maintain all member data
    - Enrollment forms
    - Opt out forms
    - Participant information packet
    - An investment/contribution allocation form
    - Beneficiary designation form
    - Special exception distribution forms
    - Tax withholding and reporting forms for distributions from the plan
  - Establish member accounts and process member account changes
    - Transfers
    - New enrollees
    - Withdrawn accounts

- **Customer Service**
    - Maintain an adequate number of staff and an adequate number of toll-free telephone lines with voice response capabilities, IM access, and email inquiries
    - Call center must provide:
        - General plan overview
        - Current account balances
        - Investment returns
        - Changes in allocation or future contributions
        - Requests for statements, plan brochures, and forms
        - Changes to login and password

- **Legal and Compliance**
    - Ensure the specific guidelines for retaining computerized records issued by the IRS
    - Ensure employees are given adequate notice of automatic enrollment – the Department expects that states will look to analogous notice requirements contained in federal laws
    - Make sure employers are compliant with offering the plan

Enrollment Methods

The State must decide if the program will feature automatic enrollment or voluntary enrollment, previously outlined on page 24.

Both methods will bring additional costs to employers who currently do not have an automatic payroll-deduction feature. It should be noted though, that approximately 97% of employers with 10 or more employees have an automatic payroll system, which easily enables an additional employee deduction, as would be required for an IRA.[93] Employers with fewer than 10 employees are more likely to process payroll manually. A sample size of payroll systems marketed toward employers with 10 or fewer employees was researched, and it was determined that the cost of implementing a payroll system ranges from $29 to $50 per month, plus a per-employee charge of $2 to $6, which may actually be less expensive than employing someone to handle the additional payroll needs. There are numerous payroll solutions available for employers to choose the best system for their business.

The advantage of online enrollment is that participants can easily login to a website and sign up for their retirement savings program with just a few clicks. Often the enrollment process walks participants through the process step by step, guiding them as they elect how much to contribute and the selection of investments.

Most retirement plan administrators now allow mobile transaction processing, including enrollment via a smartphone or other mobile device. This trend suggests that employers and administrators are trying to make enrolling in a retirement savings program easy and accessible, all from the touch of their smartphone. [94] While mobile transaction processing is convenient for many individuals, not everyone has access to a mobile smartphone. Therefore, other enrollment options should be used in conjunction with mobile transaction processing and enrollment.

In addition to online enrollment, administrators and employers may have a call center where employees can call in and sign up for the plan. Approximately 82% of employer's enrollment process is 100% paperless. Technology is having a large impact on the telephonic realm. Plan sponsors that responded to Deloitte's Annual Benchmarking survey indicated, on average, overall recordkeeper call volume decreased 16% due to the availability of online chat and increased website functionality.[95]

With the advent of Web-enabled transaction, paper processing has become less and less common. Paper-based options place more responsibility on the individual to enroll in the plan and can create more administrative burdens and paperwork, making them an ineffective means to enrolling employees and encouraging participation.

INVESTMENT STRATEGIES

It is imperative and necessary to understand and manage risk for a potential state-administered retirement savings plan. At present, unless retirement income is being received as an annuity through a traditional DB retirement plan, the risk of making one's money last is on the retiree and starts from day one. There are two phases to retirement income – the accumulation phase and the payout phase. Choosing the right investments during each phase is key to accumulating enough wealth to last through the entire retirement life cycle. Should an eligible employee choose to join the potential state-administered retirement savings plan, they will take on the risk of what happens during the accumulation phase as well as the payout phase.

As has previously been discussed, access to a quality retirement plan is key. By moving forward with a state-administered retirement savings plan, the State is addressing the initial issue. The next key factor is managing risk and liability to the State. Potential ways to do this will be through the use of investment strategies, private insurance, or underwriting.

MANAGING RISK AND LIABILITY

Investment Strategy

There are several investment options the State can follow to limit its risk and liability and to help improve outcomes for participants. The risk of loss, an investing option that loses market value, is commonly viewed as the biggest risk. However, other risks include not saving enough and investing too conservatively to produce an acceptable retirement income.

The State also has to solve for participants who make their own investment decisions and those who are automatically enrolled. One reasonable approach for the State to limit risk for those automatically enrolled is to follow the qualified default investment alternatives laid out by the DOL. These regulations have been adopted by many private plans and provide "safe harbor" protection from fiduciary liability for participants who have not made investment decisions.

Investment Funds

If the State were to implement a state-administered retirement savings plan, they would need to design the plan in a way that manages risk for the participant. It is possible for insurance companies to underwrite and assume certain risks that the State is concerned about, such as the risk of loss of investment capital. This could be accomplished through a variety of structures and fees arrangements. However, providing this protection is likely to either impose a cost above administration and investment fees to the participant or the fees will affect the return of the investment options that were covered. In essence, by protecting against the risk of loss of principal, the State will increase the loss of accumulation because of the higher fees that will be incurred. We suggest the State manage risk through the types of investment funds it offers.

While numerous investment funds are available, there are many factors to consider when selecting a fund. It has been proven that a barrier to making a sound investment decision is having too many options. As the State launches this program, it should limit the number of investment alternatives by not providing participants a menu of options. Instead, it should focus on one investment fund that it believes best meets the needs for participants. A few fund examples are listed below:

Figure 15: Investment Fund Examples

Fund Type	Fund Description	Expense Ratio	Advantages	Disadvantages
Target Date Fund[96]	• Funds built with a particular date in mind • Glide path is the asset path the fund follows to become more conservative over time • More conservative as target date approaches • Provider will adjust the fund to offset market fluctuations and changing risk profile	• 2014 average: 0.57% **Ratios vary by funds and glide paths*	• Diversified age-based asset allocations • Avoid extreme asset allocations • Simple with no managing needed for employees	• Does not take into account individual risk tolerance and current situation (i.e., glide paths vary) • "One size fits all"
Target Risk Fund[97]	• Fund keeps you at a certain risk level • Ranges from conservative to aggressive funds • Does not change over time	• 0.44% to 1.09%	• Broad diversification • No load means less fees • You know what you get since the risk level does not change	• Does not take into account individual risk tolerance and current situation • "One size fits all" • Less expensive than target date funds
Stable Value Fund[98, 99]	• Low-risk investment option • Usually paired with insurance contacts to guarantee a specific minimum	• About 0.47%	• Beneficial during hard times • Low volatility	• Possibly a lower return than other investments • Beneficial for short-time horizons for those near retirement
Balanced Fund[100, 101]	• Also known as hybrid funds • Includes both stocks and bonds • Can be broken up into conservative-allocation funds (20–50% of assets in stocks) or moderate-allocation funds (50–70% of assets in stocks)	• 0.20% to 1.5%	• Convenience factor – provides balance between the two asset classes • Allow investors to hold diversified portfolio and automatically rebalance their assets to the targeted exposures	• Cost can be higher based on the fund selected • Asset mix may not be suitable for all individuals

While none of the above options provide a guaranteed return on investment, they do represent conservative portfolios for participants to choose from. The return may not be as high as riskier portfolios, but that is the "cost" of security. Unfortunately, many guaranteed return alternatives are provided through a third-party. If that third-party were to default, the State could be deemed liable. With the State looking to have no liability for investment earnings and losses associated with any kind of retirement plan implemented, providing a guarantee does not appear to fall within the guidelines of the legislation. As such, it becomes increasingly important for the State to choose the right investment funds to achieve the goal of income replacement, with little risk and liability to both the State and the participant, which the types of funds listed above have the ability to accomplish.

It may make sense to consider offering a lifetime income annuity from a reputable insurance company during retirement. These products offer one of the few ways for participants to get guaranteed income for the entirety of their life. This option is discussed in more detail below.

ANNUITIZATION OF BENEFITS

Many policymakers and individuals think that the use of annuities to ensure a stable stream of retirement income throughout beneficiaries' retirement years is a useful and important aspect of a plan to consider. For example, the Organization for Economic Cooperation and Development recommended that governments "…encourage annuitization as a protection against longevity risk".[102] Looking at annuities, historically, less than 7% of retirees have purchased them upon retirement.[103] Annuities can serve an important purpose by promising a stable income stream in case individuals live beyond their life expectancy, however, many individuals are reluctant to purchase these in case they live a shorter life. Annuities may be the best choice for some and not for others.[104]

A majority of the group without access to a retirement plan is on the lower-income scale. A large portion of their wealth may already be annuitized through social security and typically they have a shorter life expectancy, therefore, an annuity may be less suitable.[105] Low-income workers, however, are at a higher risk of mismanaging the drawdown of unannuitized wealth than others. It is clear that trade-offs exist.

In looking at the landscape, there are many options that could be considered:

Mandated Annuitization at Retirement: Under this setup, the Plan could mandate that a portion or all of the participant's account balance be converted to an annuity at retirement. The State could consider creating a mandatory annuitization, a default annuitization with opt-out, or a voluntary annuitization with strong encouraging incentives.[106] A mandate will overcome the behavioral impediments to annuitize, although it may discourage individuals from participating in a potential state-administered plan as an annuity is not beneficial to everyone.

Voluntary Annuitization at Retirement: There are a number of firms that provide annuity purchasing services. The purpose of this service is to review and compare the financial strength of annuity products available to participants to choose from should they wish to annuitize their account balance. The State can provide participants with the pros and cons of annuitizing their benefit as well as how to go about finding the best product for them. The State can even go as far as allowing firms that meet a defined criteria to advertise their services on any plan-related communications. A caveat should be included that the State is not suggesting or pushing a particular firm on plan participants, only providing a one-stop shop for participants to locate this service if they are interested in learning more.

Retirement Annuity Account: Under this arrangement, the participant will defer contributions, similar to how they will under an IRA. At a predefined age, most often 45, the contributions deferred will be gradually converted to an annuity. Assets that are yet to be converted into an annuity remain liquid and available for withdrawal, again, similar to a DC plan. This type of annuity better assures participants will have a sufficient and secure source of income at retirement, while alleviating risk from all perspectives (State, employer, employee),

While annuities may not be for everyone, they are beneficial for those who need assistance in managing their retirement assets. Figure 16 below details how a person's retirement balance will run out if they kept up a cost of living similar to that of their preretirement cost of living. Each participant in the example had an average salary of $30,000, a 4% rate of return in preretirement, and a 2% rate of return in retirement. The below amounts are meant to illustrate replacement income needed to supplement Social Security payments in retirement.

Figure 16: Electing a Lump Sum versus an Annuity

Starting Age	Contribution Rate	Lump-Sum Benefit	20-Year Monthly Annuity Benefit	Initial withdrawal of $20,000, then $1,000 per month*	Withdrawal $1,000 per month*
25	3%	$85,522	$356	5.8 years	7.7 years
25	6%	$171,045	$712	14.5 years	16.8 years
45	6%	$53,600	$223	2.9 years	4.7 years
50	Max ($6,500)	$130,153	$542	10.1 years	12.2 years

* The approximate number of years until retirement savings runs out.

Although annuities provide important benefits, they do come at a cost. There are administrative and other costs which are charged to cover the risk associated with a lifetime annuity. One method to reduce administrative costs and allow the plan to offer lower-cost and higher-return annuities is to achieve economies of scale. A large pool is needed to reduce the risk. A deeper analysis will have to be undertaken to see how much group annuities will actually cost and if it is even feasible for the State. As part of this analysis, the State could consider a captive insurance company that will reduce costs by eliminating profit motives.

TAX INCENTIVES

Part of the final regulations issued by the DOL was a provision that allowed states to provide tax incentives or credits that align with a reasonable approximation of the employer's costs under the program.[107] An example of a cost the employer would incur is the any modification to its current payroll processes to account for deductions required for employees who participate in the new program. Additionally, it would include the cost of establishing an interface with the State or its third party provider to communicate the payroll deductions on a regular basis. Should the State move forward with a program, consideration will need to be given to the magnitude of any tax incentive provided and ensure that it aligns with reasonable estimates of what an employer will incur during the course of setting up the program. The State will also need to keep in mind that the rule is very clear that these incentives are meant strictly to align with the costs of adoption, not as an incentive for employers to participate in the state run program versus establishing their own employee benefit program.

DISCOURAGING DROPPING EXISTING RETIREMENT PLANS

The purpose of a state-administered plan is not for employers who already offer a retirement plan to their employees to drop an existing plan, but to provide a savings vehicle for employees who do not have access to such benefits through their employer. Based on our small employer survey results, conducted for this study, 87% of the employers who already sponsor a retirement plan will continue to offer the plan if a state-sponsored plan were implemented.

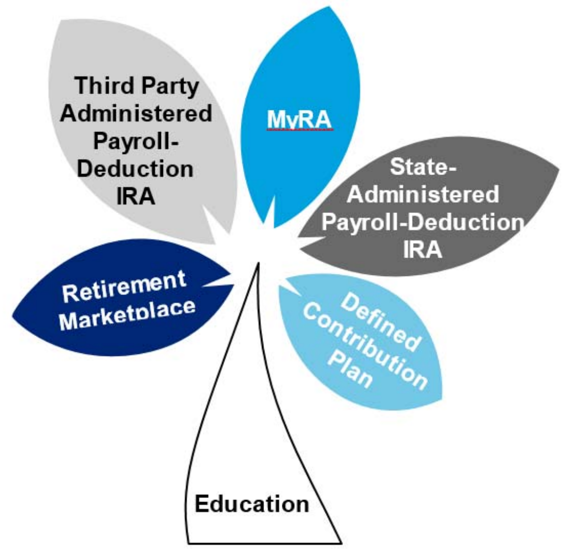
Offering an employer-sponsored plan, especially when employers contribute, is a strategy businesses use to attract and retain talent in order to remain competitive in the marketplace. While using benefits as a retention tool may not be enough to combat employers from dropping their existing employer-sponsored retirement savings plans in favor of a state-administered one, there are a few additional approaches the State can take to discourage this unintended consequence. A penalty could be implemented for employers dropping existing plans and enrolling in the State's program. For example, an employer could be penalized $200 per employee if they drop their current plan. Alternatively if the business is receiving a tax credit or tax break, that could be taken away for a predefined number of years. Another option would be to impose a two-year ineligibility period, in which they could not participate in the state-administered plan. The downside to imposing an ineligibility period is that it would not only negatively affect the employer, but would hurt the employees. It should be noted that this would be difficult to track and enforce.

PROGRAM DESIGNS

Having laid out the numerous features the State should consider as it develops a new retirement program, the last phase was to lay out alternatives for the State to consider, with their pros and cons. This phase of the study addressed the following requirements laid out by the WESA:

- Comprehensive estimate of projected startup costs, as well as clear explanation of what administrative duties will be required to start this project.
- Determine cost of administration, recordkeeping, investment management, including staffing, legal, compliance, licensing, procurement, communications with employers and employees, oversight, marketing, technology and infrastructure, and the fees needed to cover these costs as a percentage of the average daily net assets of the potential state-administered plan, relative to asset size, with estimates of investment-related fees determined in consultation with the SBI.

Figure 17: Workshop Program Options



OPTION A – AUTOMATIC STATE-ADMINISTERED ROTH IRA

SUMMARY

Based on our analysis, a state-administered Roth IRA is feasible. The plan will require approximately $1 billion in assets to reach a stage where overall plan expenses become less than 100% basis points. This will required the State to make an up-front investment of $60 million to cover the cost of startup and fees in excess of 100 basis point the first three years of operation.

Below we have detailed many of the key plan features that this option will include.

Figure 18: Auto-Enroll State-Administered Roth IRA Features

Plan Feature	
Plan Selected	○ Roth IRA
Automatic Employer Participation	○ Currently, not offering a retirement plan to all employees ○ 10+ employees ○ Must automatically enroll all eligible employees
Voluntary Employee Participation	○ For those employers not automatically enrolled, eligible employees can elect to enroll in the program
Employee Participation	○ At least 18 years of age
Automatic Enrollment	○ Yes
Default Contribution Rate	○ 5%
Automatic Contribution Escalation	○ Increased 1% each year, capped at 10%
Opt Out	○ Allowed at any time, election must be made on an annual basis

As discussed throughout the report, when employees are given the option to enroll in a plan on their own the likelihood of enrollment is significantly lower than if they are automatically enrolled and then given the option to opt out. As a result, the option focuses on automatically enrolling a majority of the eligible employees in the State. We have assumed that all employees who are at least 18 years of age will participate. However, there are many considerations that the Board, discussed in the program administration section of the report, will need to consider, such as who is an eligible employer and what constitutes an eligible employee.

The recommendation also considers the potential burden that mandatory participation could put on the extremely small employers in the State, those with less than 10 employees, by making their enrollment voluntary. As we will show later, considering the group of eligible employees, the cost of the plan becomes manageable in year three, assuming no loan repayment.

We have also included an automatic escalation feature that studies have shown participants are not likely to opt out of. What this will allow for is greater individual retirement savings and offer participants a greater opportunity to build up the retirement assets they need to live off of at the time of retirement.

ADVANTAGES AND DISADVANTAGES

Figure 19: Comparing the Advantages/Disadvantages of Option A

Advantages	Disadvantages
• Provides employees with access to retirement savings vehicles who currently are not offered this opportunity through their employer • Limited employer involvement • Easy to understand program for employees and employers • Investments are pooled and economies of scale will be achieved, thus lowering administrative fees • Automatic enrollment will reach the largest population	• Roth IRA limits annual contributions to $5,500 – reducing the amount that could be saved • Employers may face additional costs if they do not have a payroll system • Puts more responsibility and time on the State • The State currently does not have the capabilities in place to run such a plan • Higher startup costs for the State than if a third-party administered the program • Participation assumption is not guaranteed, which means implementation cost is a risk to the State

SETUP AND ADMINISTRATION REQUIREMENTS

In order to effectively implement this Plan, a significant number of steps will need to be undertaken, including:

Governance: The State will need to set up a governance structure to manage the plan. This will be achieved through establishing a board of directors with broad powers to act on the State's behalf and finalize many of the design and administration details.

Enforcement Entity: Given this is a mandatory program, the State will need to establish a mechanism to enforce participation in the program. This could exist within the administrative entity or be a task of an existing agency, such as the Minnesota Departments of Labor, Commerce, or Revenue. Consideration could be given to including this as part of the business income tax filing.

Administrative Entity: The Board will need to establish an independent entity responsible for operating the plan on a day-to-day basis, which will include, but are not limited to:

- An executive director and supporting management and staff
- Hiring of staff for recordkeeping services, call center, communications, and technology services
- Location and equipment necessary

Investment Entity: The State will need to consider if the SBI will serve as the fund manager. If legislative authority is given to the SBI to manage the fund, they would also be given authority to contract with a third party for investment management or other services in connection with investing the accounts.

Recordkeeping Platform: The administrative entity will need to establish a recordkeeping platform that will handle all of the tasks previously discussed on pages 28-29. This represents the largest up-front investment the State will make, as it does not currently have the capability to handle the administrative complexities of the Plan.

Communication: Given this will be a new requirement for employers within the State, there will be a large communication effort that needs to be undertaken. This component will be key to creating excitement and interest in the program long term. In addition, the State will need to create communications that will be used on a day-to-day basis throughout the life of the Plan. A key component of the communication will be the development of a robust website that will be easy to understand and clearly communicate the key aspects of the plan to employees and employers alike.

Roll-Out: A program of this size cannot be implemented at one time. We recommend the State take a phased approach to implementing the program by bringing various employer groups into the plan in phases. An easy way to do this would be based on employer size, starting with the largest and working towards the smallest. This would provide the State the opportunity to work out any flaws in the system and provide training and additional support, if needed, to its staff along the way.

Implementation Timeline: Given the State would need to develop all of the administrative components in-house and the recommendation of a phased roll-out, we would anticipate that the implementation would take four to five years to complete. The first two to three years would be spent finalizing plan design features, hiring support staff and developing the technology and processes needed to administer the program. The last two would be spent bringing employers on-line.

COST

Establishing the infrastructure necessary to administer the Plan will be a large up-front cost for the State. Below we have detailed an expected range of costs that the State could expect to incur.

Figure 20: Assumed Cost of Option A

Cost Assumptions		
	Start-Up	**Ongoing**
Technology	$30M	$3M – increasing 3% annually
Administrative Staff	$750K	$6M - increasing 3% annually
Recordkeeping Staff	N/A	$18M - increases 3% annually
Support Expenses	$500K	$500K - increasing 3% annually
Education/Communication/ Marketing	$1M	$500K – increasing 3% annually
TOTAL	$32.25M	

Based on the assumptions detailed below we have developed the asset projections and expense ratio projections detailed in Figure 21 and 22. They show that the total expenses of the plan do not fall below 100 basis points until year five, assuming no loan repayment. This would be considered the timing of when the plan becomes self-sustaining.

Figure 21: Asset growth for Option A

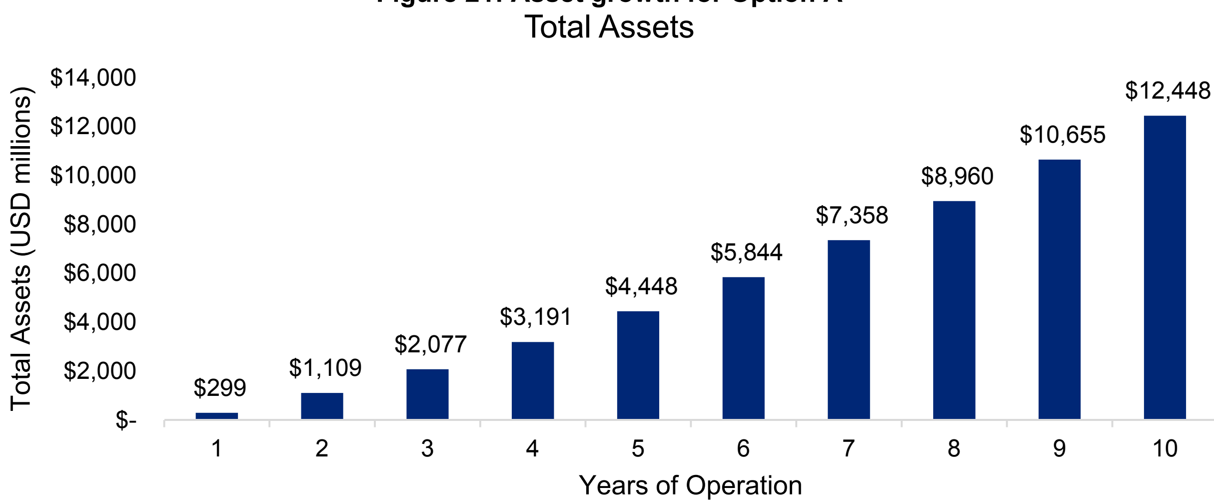
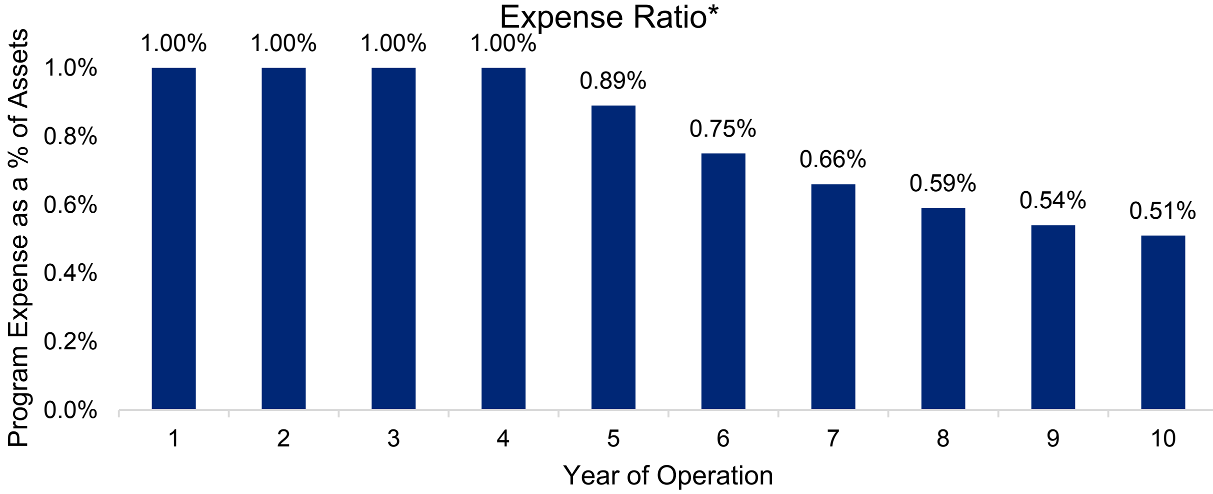


Figure 22: Expense Ratio for Option A



* Note that the State is required to make a loan to the plan of $76M to cover expenses above 100 basis points during the first four years

Under this scenario, we have assumed that the State has provided $76M over the first four years of the plan to cover costs that exceed 100 basis points ($42M in year one, $19M in year two, $12M in year three and $3M in year four).

An alternative the State could consider is recouping the upfront costs from the participants by having the loan repaid starting in the fifth year of the plan. This would be accomplished by taking an additional 13 basis points from account in year five and 25 basis points between years six and ten. While this may be viewed as unfair to the early adopters, we wanted to show how quickly the loan could be repaid, while keeping total expense ratios below 100 basis points for purposes of this report. Figure 23 below shows the progression of the loan payoff. Figure 24 and 25 shows the total assets and expense ratios assuming that participants are required to pay back the loan the State makes to the plan.

Figure 23: Outstanding Loan Balance for Option A

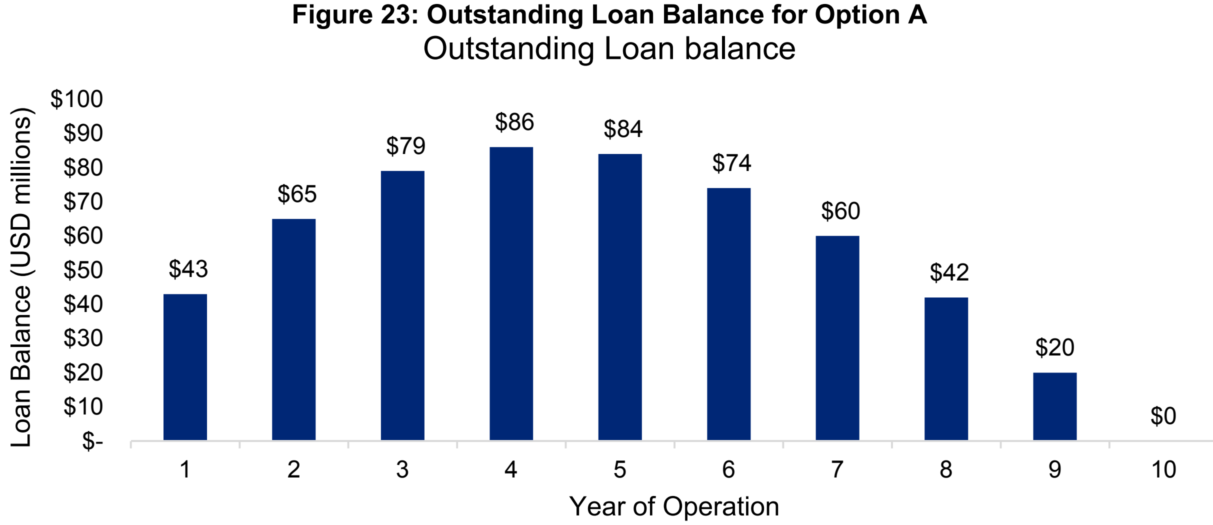


Figure 24: Asset Growth With Loan Repayment For Option A

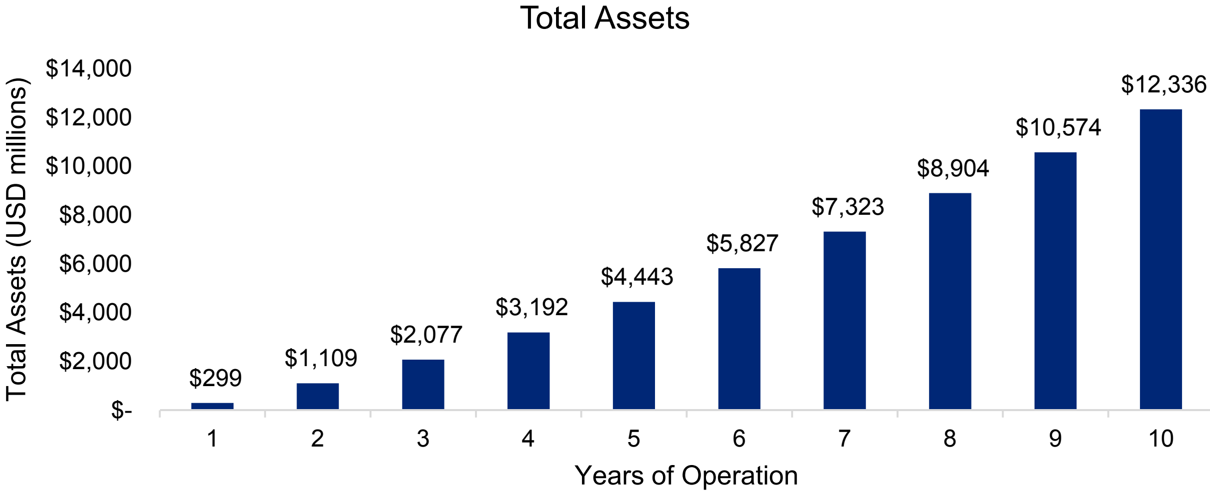
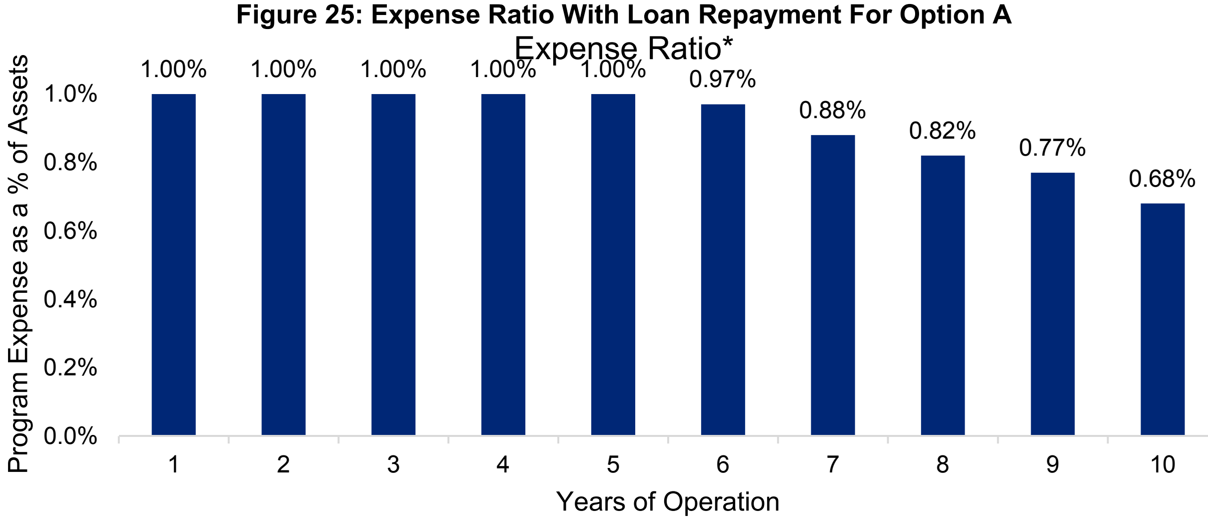


Figure 25: Expense Ratio With Loan Repayment For Option A



* Note that the State is required to make a loan to the plan of $76M to cover expenses above 100 basis points during the first four years

Under either scenario, the long-term expense ratio is around 50 basis points, 25 basis points for ongoing admin and 25 basis points for investment expenses. However, this required a large investment by both the State and early adopters of the program which may not be palatable to either.

ASSUMPTIONS

In order to derive the estimates, we were required to make a few assumptions given the information we had to work with. Below we have detailed those assumptions:

Participation Rate: 80% - this was based on information we were able to learn from industry leaders. While studies have shown that over 90% of participants stay enrolled when automatically enrolled, many of the leading recordkeepers have seen enrollment rates lower than that in industries that would dominate the participation in this program.

Rate of Return: 3.5% - conservative assumption assuming that the plan established provides for more secure/stable investments

Compensation: $31,500: Based on data provided by AARP's fact sheet on those who do not participate in a pension plan in Minnesota[108]

Annual Turnover: 20% - Given the transient nature of the population covered by the plan, we have assumed a 20% turnover. Overall, we have assumed that the total population in the program will remain flat at a little over 500k participants. What this assumption does is provide a way to track the impact that people moving into and out of the plan will have as they move between employers who are eligible for the plan.

Technology: The backbone of any IRA program is the recordkeeping platform that is utilized to maintain account balances and track enrollment. When looking at the retirement landscape, there are really only four alternatives for plan sponsors to consider when it comes to a recordkeeping platform, SunGuard (OmniPlus), Sapiens, DST (TRAK) or a custom-built solution. Further looking at state-administered DC plans, most states have developed homegrown solutions over many years as the need has arisen.

An additional source of data when looking at the cost of a recordkeeping platform is to look at the cost of DB systems. In the public sector, the administration of DB plans by a state is much more common place. Looking at recent awards for states with similar population sizes to Minnesota show that these can range in cost from $25 million to $40 million, depending on the scope of requirements. Typically, these system will including recordkeeping, document retention, and call center capabilities.

Based on our understanding of the baseline cost for the DC recordkeeping software when compared to the costs of the core DB administration software, it is reasonable to assume that the cost for setting up the necessary technology would be in the $25 million to $30 million range. In addition, it is reasonable to assume that ongoing fees and upgrades would cost about 10% of the implementation cost annually.

Employers: As shown in Figure 2, AARP analyzed available data from BLS and identified by employer size an estimated number of employees in the State that did not have access to a retirement program. We have estimated the total number of employers based on this data and based on an assumed number of employees at each employer in each range. Figure 23 below details our assumption:

Figure 26: Assumed Number of Employers

Employer Size	Total Population Not Served	Estimated Employee Per Employer	Estimated Number of Employers
10 – 49 Employees	194,117	30	6,471
50 – 99 Employees	83,814	75	1,118
100 – 499 Employees	131,118	300	437
500 – 999 Employees	36,749		
1,000+ Employees	245,580		
TOTAL	873,076		8,320

Bundled vs Unbundled Fees: The State will need to spend time on is how the cost of administration and fund management will be paid, bundled or unbundled. In a bundled approach the cost of recordkeeping and investments are bundled together into one fee for the participant. This typically is deducted as a defined percentage of assets. In an unbundled approach, the costs of recordkeeping and investment management are charged separately. As an example, MSRS currently uses an unbundled approach. It takes a 10 basis point administrative fee to pay for administrative costs incurred by State staff and to pay for the cost of outsourcing recordkeeping to a third party. In addition, each Fund in the Minnesota Deferred Compensation Plan ("MNDCP") lineup charges an Investment Management Fee, for example the Stable Value Fund has a fee of 27 basis points.[109] As the State moves forward it will need to consider which approach it will take. The available path may be heavily influence by the third party provider chosen by the State and their willingness to allow for an unbundled approach given the limited assets of the program during the initial years.

Administrative Staff: Developing a reasonable assumption around the staff size required can be a bit of a challenge given that a program of this nature has not been established before. However, it is reasonable to look at the MNDCP program as a basis for the size of staff that is needed. Based on our conversations with Dave Bergstrom, Executive Director of MSRS, the administrative staff for MNDCP is 25 employees. Based on the Comprehensive Annual Finance Report ("CAFR") as of June 30, 2015, the cost for these was approximately $2.1M annually.[110] This cost includes pay, benefits, and Social Security/Medicare taxes. The same CAFR indicates that the number of participants is approximately 83K. [111]

To determine the administrative staff necessary to run an IRA program for the State, we made an assumption that the staff size would need to be about three times that of the MNDCP program. Given the nature of the program and its requirements to onboard all new employers each year or those who become eligible based on the threshold of mandated participation, a significant effort will need to be made each year to train and maintain an outreach to these employers. In addition, if the State were to implement a penalty/fee for not participating as mandated, that would require a sizeable staff to monitor and communicate with these employers. As a result, we have assumed an ongoing staff cost of about $6M.

In addition, during the stand-up of this program we have assumed that the State will have a robust communication and outreach program. This will require meetings with employers and employees over a year long period while the program is adopted. Assuming one employee could get to approximately 500 employers in a year, this would require approximately 9 additional staff during the startup phase. We have estimated this cost to be about $750k.

Recordkeeping Staff: Under Option A, the State will take on the recordkeeping services for the program. When looking at the MNDCP program, the annual recordkeeping costs for 2015 were $1.4M.[112] As a rate per person, this equates to approximately $17 per person. If the State were to take on the administration, it would lose many of the economies of scale that a third party outsourcer would offer, as a result we think it is reasonable to expect that these costs would be closer to $30 per person, or about $18M annually.

Support Expenses: In addition to the day-to-day administration costs, there are other expenses that the State would need to incur. These include costs related to education and marketing of the new program, Board expenses related to any compensation, and expenses incurred by the Board and third-party consultant/legal services (as needed). In reviewing the costs related to the MNDCP, it appears the support expenses are about $700k per year. A large portion of this cost is related to data-entry and did not seem applicable to the IRA program. As a result, we assumed that the overall cost is about $500k annually

Education/Communication/Marketing Expenses: In looking at the CAFR for MSRS, communications cost approximately $200k per year for the MNDCP program. [113] However, as previously discussed, the IRA program is going to require a larger outreach program going forward due to the nature of the employers served. As a result we believe that the education and marketing component will play a bigger role and have assumed a go forward cost of approximately $500k annually.

Cost Inflation: 3% - over the last 10 years, inflation has been around 2%, however, to be more conservative we used a 3% assumption.

OPTION B – VOLUNTARY STATE-ADMINISTERED ROTH IRA

SUMMARY

An alternative design we looked at was the establishment of a voluntary Roth-IRA Plan. In this scenario, all employers are mandated to participate in the program, however, eligible employees would be allowed to voluntarily enroll in the plan. Based on our analysis, the road to sustainability will be much longer because participation will be significantly lower. Under this arrangement, the Plan would not reach the $1 billion threshold until the sixth year and reaches the 100 basis point threshold year seven. However, given the timeline, the State would not be able to recoup any loan made to the plan by year 10.

Under this arrangement, the State would likely make an impact on the population that does not have access to a retirement plan, but not to the same degree as under Option A. Below we have detailed many of the key plan features that this option would include.

Figure 27: Voluntary State-Administered Roth IRA Features

Plan Feature	
Plan Selected	○ Roth IRA
Mandatory Employer Participation	○ Currently, not offering a retirement plan to all employees ○ 10+ employees
Employee Participation	○ At least 18 years of age
Automatic Enrollment	○ No
Default Contribution Rate	○ N/A – employee will choose contribution rate at time of enrollment
Automatic Contribution Escalation	○ N/A
Opt-In	○ Allowed once eligibility requirements are met

Unlike Option A, employees will have the option of enrolling in the program on their own. As discussed earlier in the report, participation in plans that are voluntary typically only leads to about 40% participation. This has a dramatic impact on the viability of the plan, as shown in the cost section below.

ADVANTAGES AND DISADVANTAGES

Figure 28: Comparing the Advantages/Disadvantages of Option B

Advantages	Disadvantages
• Provides employees with access to retirement savings vehicles, who currently are not offered this opportunity through their employer • Limited employer involvement • Simple program for employees and employers to understand • Provides an opportunity for employers who currently do not offer a retirement savings	• Roth IRA limits annual contributions to $5,500 – reducing the amount that could be saved • Employers may face additional costs if they do not have a payroll system setup and some employers may not be able to implement the arrangement due to limited financial capabilities

Advantages	Disadvantages
program to their employees to do so allowing them to attract and retain talent by offering a competitive benefit that is typically offered by larger employers	• Lower participation than automatic enrollment • The State currently does not have the capabilities in place to run such a plan • Higher startup costs to the State than if a third-party administered the program • Administrative fees to employees would be higher due to fewer participants • Participation is not guaranteed, which means implementation cost is a risk to the State

SETUP AND ADMINISTRATION REQUIREMENTS

In order to effectively implement this Plan, a significant number of steps will need to be undertaken, including:

Governance: The State will need to set up a governance structure to manage the plan. This will be achieved through establishing a board of directors with broad powers to act on the State's behalf and finalize many of the design and administration details.

Enforcement Entity: Given this is a mandatory program, the State will need to establish a mechanism to enforce participation in the program. This could exist within the administrative entity or be a task of an existing agency, such as the Minnesota Departments of Labor, Commerce, or Revenue. Consideration could be given to including this as part of the business income tax filing.

Administrative Entity: The Board will need to establish an independent entity responsible for operating the plan on a day-to-day basis, which will include, but are not limited to:

- An executive director and supporting management and staff
- Hiring of staff for recordkeeping services, call center, communications, and technology services
- Location and equipment necessary

Investment Entity: The State will need to consider if the SBI will serve as the fund manager. If legislative authority is given to the SBI to manage the fund, they would also be given authority to contract with a third party for investment management or other services in connection with investing the accounts.

Recordkeeping Platform: The administrative entity will need to establish a recordkeeping platform that will handle all of the tasks previously discussed on pages 28-29. This represents the largest up-front investment the State will make, as it does not currently have the capability to handle the administrative complexities of the Plan.

Communication: Because this will be a voluntary program, the State will need to spend more time and resources on educating eligible employers and employees on the benefits of enrolling in the program. This will require a larger investment in communication, marketing, and education programs.

Roll-Out: A program of this size cannot be implemented at one time. We recommend the State take a phased approach to implementing the program by bringing various employer groups into the plan in phases. An easy way to do this would be based on employer size, starting with the largest and working towards the smallest. This would provide the State the opportunity to work out any flaws in the system and provide training and additional support, if needed, to its staff along the way.

Implementation Timeline: Given the State would need to develop all of the administrative components in house and the recommendation of a phase roll-out, we would anticipate that the implementation would take four to five years to complete. The first two to three years would be spent finalizing plan design feature, hiring support staff and developing the technology and processes needed to administer the program. The last two would be spent bringing employers on-line.

COST

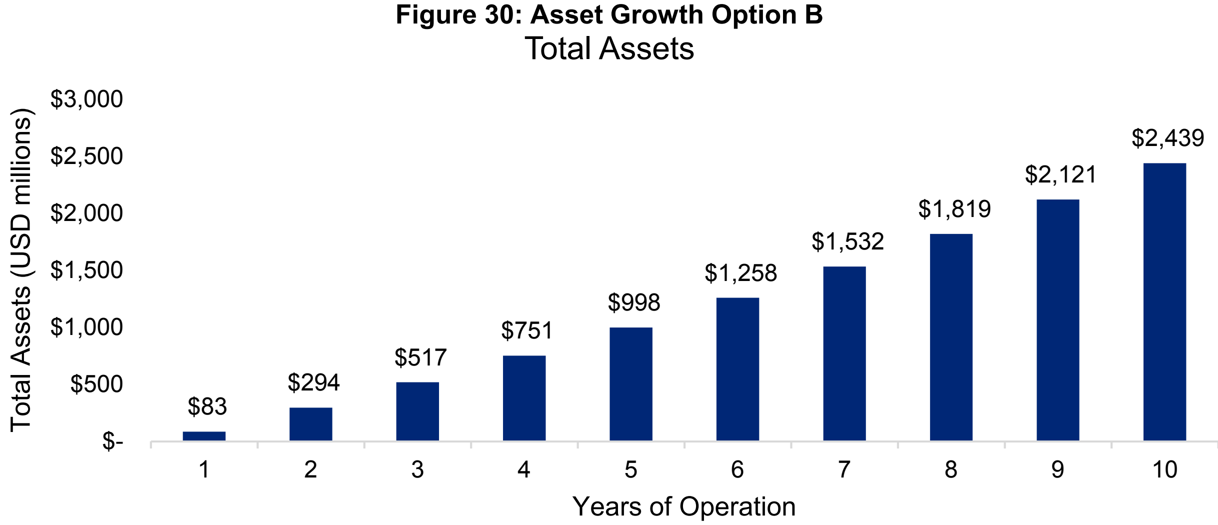
Establishing the infrastructure necessary to administer the Plan will be a large up-front cost for the State. Below we have detailed an expected range of costs that the State could expect to incur.

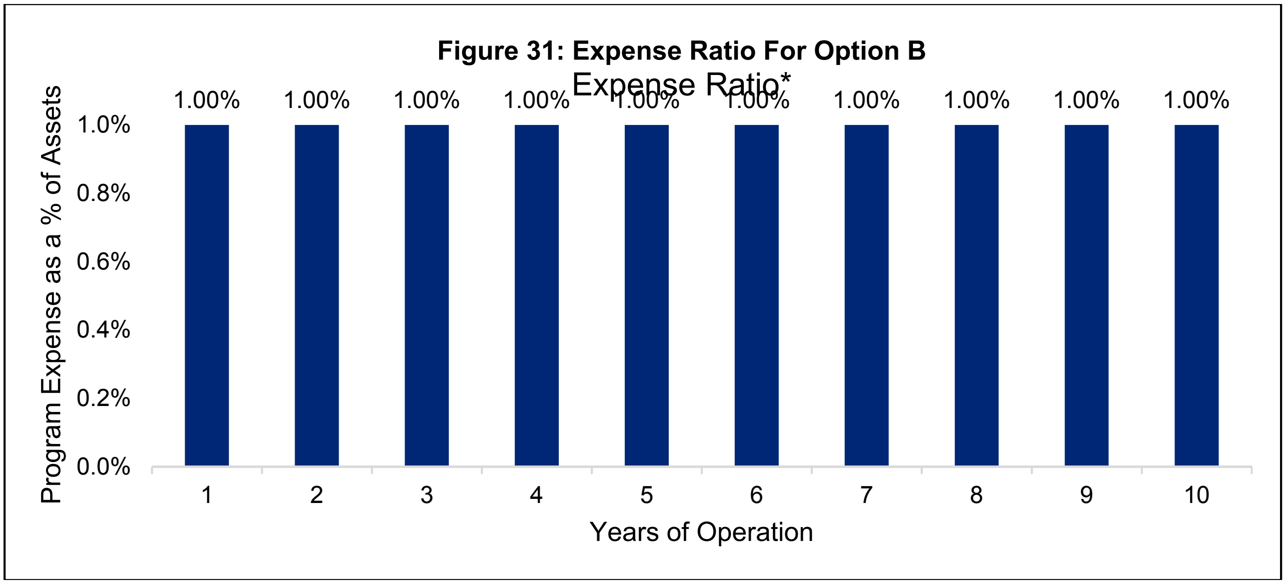
Figure 29: Assumed Cost of Option B

Cost Assumptions		
	Start-Up	**Ongoing**
Technology	$30M	$3M – increasing 3% annually
Administrative Staff	$750K	$3M – increasing 3% annually
Recordkeeping Staff	N/A	$8M - increasing 3% annually
Support Expenses	$500K	$500K - increasing 3% annually
Education/Communication/ Marketing	$1.5M	$500K – increasing 3% annually
TOTAL	$32.75M	

Based on the assumption detailed below we have developed the asset projections and expense ratio projections detailed in Figure 30 and 31. They show that the plan nears the 100 basis point threshold by year 10 and presumably would reach the threshold by year 11. This plan design would require the State to put in over $100M over the course of the ten year projection period to keep expenses below the 100 basis point threshold.

Figure 30: Asset Growth Option B





* Note that the State is required to make a loan to the plan of $101M to cover expenses above 100 basis points during the first ten years

ASSUMPTIONS

In order to arrive an estimates, we were required to make a few assumptions given the information we had to work with. Below we have detailed those assumptions:

Participation Rate: 37% - based on research detailed throughout the report.

Contribution Rate: 3% - because the plan is voluntary we have assumed that most employees will choose to enroll at the lowest contribution rate allowed under the plan.

Rate of Return: 3.5% - conservative assumption assuming that the plan established provides for more secure/stable investments.

Compensation: $31,500: Based on data provided by AARP's fact sheet on those who do not participate in a pension plan in Minnesota.[114]

Annual Turnover: 20% - Given the transient nature of the population covered by the plan, we have assumed a 20% turnover. Overall, we have assumed that the total population in the program will remain flat at a little over 500k participants. What this assumption does is provide a way to track the impact that people moving into and out of the plan will have as they move between employers who are eligible for the plan.

Technology: The backbone of any IRA program is the recordkeeping platform that is utilized to maintain account balances and track enrollment. When looking at the retirement landscape, there are really only four alternatives for plan sponsors to consider when it comes to a recordkeeping platform, SunGuard (OmniPlus), Sapiens, DST (TRAK) or a custom-built solution. Further looking at state-administered DC plans, most states have developed homegrown solutions over many years as the need has arisen.

An additional source of data when looking at the cost of a recordkeeping platform is to look at the cost of DB systems. In the public sector, the administration of DB plans by a state is much more common place. Looking at recent awards for states with similar population sizes to Minnesota show that these can range in cost from $25 million to $40 million, depending on the scope of requirements. Typically, these system will including recordkeeping, document retention, and call center capabilities.

Based on our understanding of the baseline cost for the DC recordkeeping software when compared to the costs of the core DB administration software, it is reasonable to assume that the cost for setting up the necessary technology would be in the $25 million to $30 million range. In addition, it is reasonable to assume that ongoing fees and upgrades would cost about 10% of the implementation cost annually.

Employers: As shown in Figure 2, AARP analyzed available data from BLS and identified by employer size an estimated number of employees in the State that did not have access to a retirement program. We have estimated the total number of employers based on this data and based on an assumed number of employees at each employer in each range. Figure 32 below details our assumption:

Figure 32: Assumed Number of Employers

Employer Size	Total Population Not Served	Estimated Employee Per Employer	Estimated Number of Employers
10 – 49 Employees	194,117	30	6,471
50 – 99 Employees	83,814	75	1,118
100 – 499 Employees	131,118	300	437
500 – 999 Employees	36,749		
1,000+ Employees	245,580		
TOTAL	873,076		8,320

Bundled vs Unbundled Fees: The State will need to spend time on is how the cost of administration and fund management will be paid, bundled or unbundled. In a bundled approach the cost of recordkeeping and investments are bundled together into one fee for the participant. This typically is deducted as a defined percentage of assets. In an unbundled approach, the costs of recordkeeping and investment management are charged separately. As an example, MSRS currently uses an unbundled approach. It takes a 10 basis point administrative fee to pay for administrative costs incurred by State staff and to pay for the cost of outsourcing recordkeeping to a third party. In addition, each Fund in the MNDCP lineup charges an Investment Management Fee, for example the Stable Value Fund has a fee of 27 basis points.[115] As the State moves forward it will need to consider which approach it will take. The available path may be heavily influence by the third party provider chosen by the State and their willingness to allow for an unbundled approach given the limited assets of the program during the initial years.

Administrative Staff: Developing a reasonable assumption around the staff size required can be a bit of a challenge given that a program of this nature has not been established before. However, it is reasonable to look at the MNDCP program as a basis for the size of staff that is needed. Based on our conversations with Dave Bergstrom, Executive Director of MSRS, the administrative staff for MNDCP is 25 employees. Based on the CAFR as of June 30, 2015, the cost for these was approximately $2.1M annually.[116] This cost includes pay, benefits, and Social Security/Medicare taxes. The same CAFR indicates that the number of participants is approximately 83K. [117]

To determine the administrative staff necessary to run an IRA program for the State, we made an assumption that the staff size would need to be about three times that of the MNDCP program. Given the nature of the program and its requirements to onboard all new employers each year or those who become eligible based on the threshold of mandated participation, a significant effort will need to be made each year to train and maintain an outreach to these employers. In addition, if the State were to implement a penalty/fee for not participating as mandated, that would require a sizeable staff to monitor and communicate with these employers. As a result, we have assumed an ongoing staff cost of about $6M.

In addition, during the stand-up of this program we have assumed that the State will have a robust communication and outreach program. This will require meetings with employers and employees over a year long period while the program is adopted. Assuming one employee could get to approximately 500 employers in a year, this would require approximately 9 additional staff during the startup phase. We have estimated this cost to be about $750k.

Recordkeeping Staff: Under Option A, the State will take on the recordkeeping services for the program. When looking at the MNDCP program, the annual recordkeeping costs for 2015 were $1.4M.[118] As a rate per person, this equates to approximately $17 per person. If the State were to take on the administration, it would lose many of the economies of scale that a third party outsourcer would offer, as a result we think it is reasonable to expect that these costs would be closer to $30 per person, or about $18M annually.

Support Expenses: In addition to the day-to-day administration costs, there are other expenses that the State would need to incur. These include costs related to education and marketing of the new program, Board expenses related to any compensation, and expenses incurred by the Board and third-party consultant/legal services (as needed). In reviewing the costs related to the MNDCP, it appears the support expenses are about $700k per year. A large portion of this cost is related to data-entry and did not seem applicable to the IRA program. As a result, we assumed that the overall cost is about $500k annually.

Education/Communication/Marketing Expenses: In looking at the CAFR for MSRS, communications cost approximately $200k per year for the MNDCP program. [119] However, as previously discussed, the IRA program is going to require a larger outreach program going forward due to the nature of the employers served. As a result we believe that the education and marketing component will play a bigger role and have assumed a go forward cost of approximately $500k annually.

Cost Inflation: 3% - over the last 10 years, inflation has been around 2%, however, to be more conservative we used a 3% assumption.

OPTION C – THIRD-PARTY-ADMINISTERED AUTOMATIC ROTH IRA

SUMMARY

The last design we looked at was an automatic enrollment IRA, administered by a third party. Based on our analysis, this would be the most cost efficient plan design option of the three presented. The State would be responsible for oversight of the plan, however, would utilize a third party for recordkeeping. Under this arrangement, the plan reaches $1 billion in assets by year three and falls below the 100 basis point threshold for expenses in year four.

Below we have detailed many of the plan features that this option would include.

Figure 33: Third-Party-Administered IRA Features

Plan Feature	
Plan Selected	○ Roth IRA
Employer Participation	○ Currently, not offering a retirement plan to all employees ○ 10+ Employees ○ Must automatically enroll all eligible employees
Voluntary Employer Participation	○ For those employers not automatically enrolled, eligible employees can elect to enroll in the program
Employee Participation	○ At least 18 years of age
Automatic Enrollment	○ Yes
Default Contribution Rate	○ 5%
Automatic Contribution Escalation	○ Increased 1% each year, capped at 10%
Opt-Out	○ Allowed at any time, election must be made on an annual basis

It can be assumed that a third-party-administered IRA with automatic enrollment would achieve the same participation rates, contribution rates, and asset size as Option A, but at a lower cost. The State would still need to establish staff to be responsible for the plan, but would be able to utilize a third party to serve as recordkeeper, which would eliminate the need to develop a system to handle IRA contributions. Additionally, leveraging a third party's expertise in recordkeeping allows for the State to pass along the responsibilities outlined in the Plan Administration section.

ADVANTAGES AND DISADVANTAGES

Figure 34: Comparing the Advantages/Disadvantages of Option C

Advantages	Disadvantages
• Provides employees with access to retirement savings vehicles, who currently are not offered this opportunity by their employer • Limited employer involvement • Simple program for employees and employers to understand • Provides an opportunity for employers who currently do not offer a retirement savings program to their employees to do so allowing them to attract and retain talent by offering a competitive benefit that is typically offered by larger employers • Lower startup costs to the State	• Roth IRA limits annual contributions to $5,500 – reducing the amount that could be saved • Employers may face additional costs if they do not have a payroll system setup and some employers may not be able to implement the arrangement due to limited financial capabilities • Participation is not guaranteed, which means implementation cost is a risk to the State

SETUP AND ADMINISTRATION REQUIREMENTS

In order to effectively implement this Plan, a significant number of steps will need to be undertaken in a relatively short period. These steps include:

Governance: The State will need to set up a governance structure to manage the plan. This will be achieved through establishing a board of directors with broad powers to act on the State's behalf and finalize many of the design and administration details.

Enforcement Entity: Given this is a mandatory program, the State will need to establish a mechanism to enforce participation in the program. This could exist within the administrative entity or be a task of an existing agency, such as the Minnesota Departments of Labor, Commerce or Revenue. Consideration could be given to including this as part of the business income tax filing.

Administrative Entity: The State will need to establish an independent entity responsible for overall operation of the plan on a day-to-day basis. Given the administration will be outsourced, the entity will have a smaller number of staff.

Investment Entity: The State will need to consider if the SBI will serve as the fund manager. If legislative authority is given to the SBI to manage the fund, they would also be given authority to contract with a third party for investment management or other services in connection with investing the accounts.

Recordkeeping Provider: The administrative entity will need to understand the marketplace and be responsible for determining the best fit for the State plan through Request for Proposals and relationships with other states in similar stages of state-sponsored plans.

Communication: Given this will be a new requirement for employers within the State, there will be a large communication effort that needs to be undertaken. This component will be key to creating excitement and interest in the program long term. In addition, the State will need to create communications that will be used on a day-to-day basis throughout the life of the plan. A key component of the communication will be the development of a robust website that will be easy to understand and clearly communicate the key aspects of the plan to employees and employers alike.

Roll-Out: A program of this size cannot be implemented at one time. We recommend the State take a phased approach to implementing the program by bringing various employer groups into the plan in phases. An easy way to do this would be based on employer size, starting with the largest and working towards the smallest. This would provide the State the opportunity to work out any flaws in the system and provide training and additional support, if needed, to its staff along the way.

Implementation Timeline: The implementation timeline will be a lot shorter under Option C as a result of utilizing a third-party for recordkeeping services. The first year will be sent establishing the governance, program design and operations necessary for the operations of the plan. Part of this will include any contracting necessary to procure the support necessary to successfully roll-out the program. After the support infrastructure is in place, the phase roll-out described above would begin and last about two years.

COST

Figure 35: Assumed Cost of Option C

Cost Assumptions		
	Start-Up	**Ongoing**
Administrative Staff	$750K	$6M – increasing 3% annually
Recordkeeping	$500 per employer $30 per employee	$500 per employer $30 per employee
Support Expenses	$500K	$500K - Increasing 3% annually
Education/Communication/ Marketing	$1M	$500K - increasing 3% annually
TOTAL	$16.2M	$24.3M with annual increases

Based on the assumptions detailed below we have developed the asset projections and expense ratio projections detailed in Figure 36 and 37. They show that the total expenses of the plan do not fall below 100 basis points until year four, assuming no loan repayment. This would be considered the timing of when the plan becomes self-sustaining.

Figure 36: Asset Growth For Option C

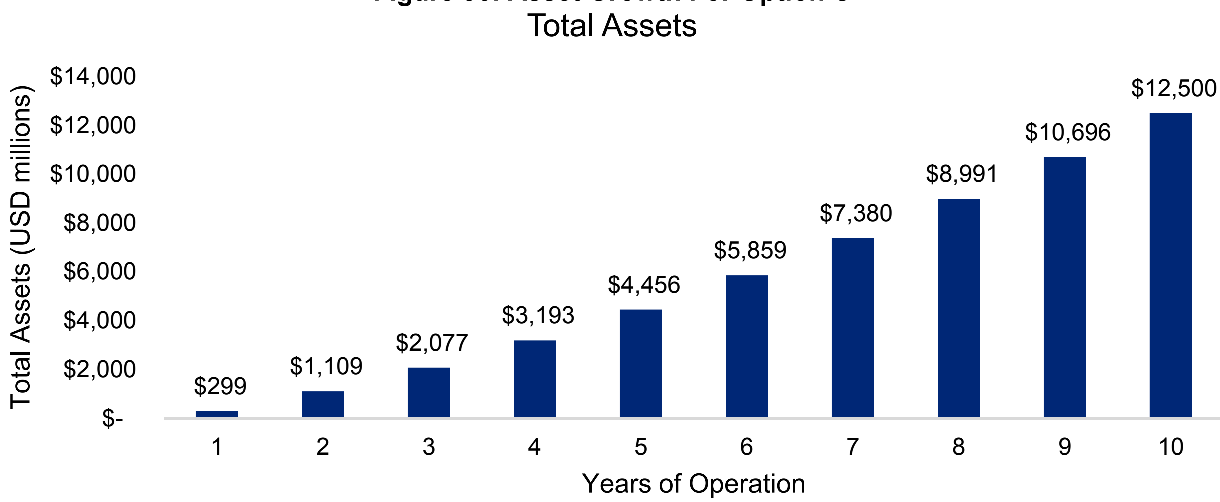
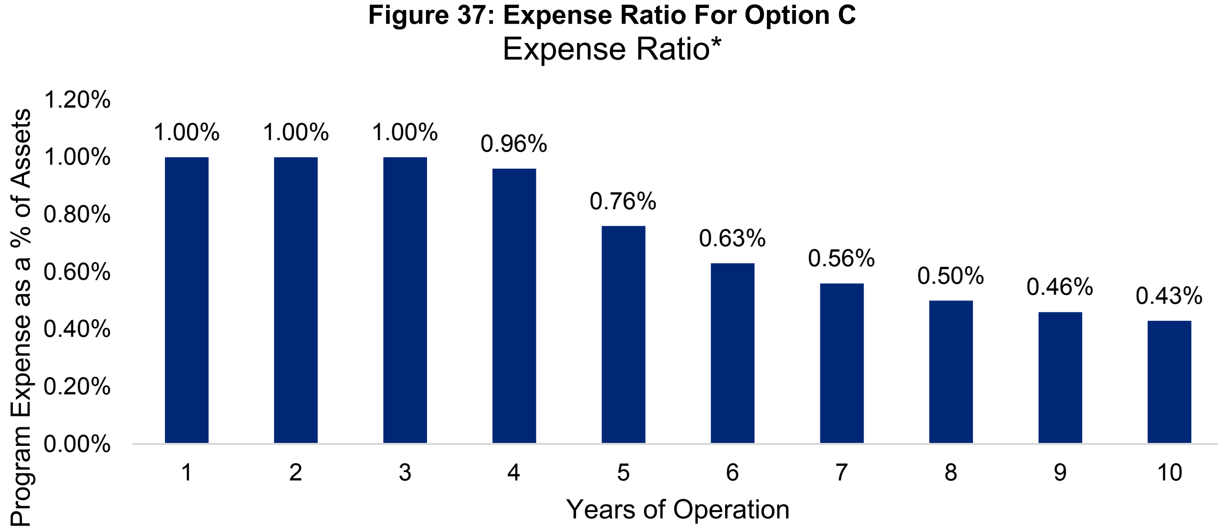


Figure 37: Expense Ratio For Option C

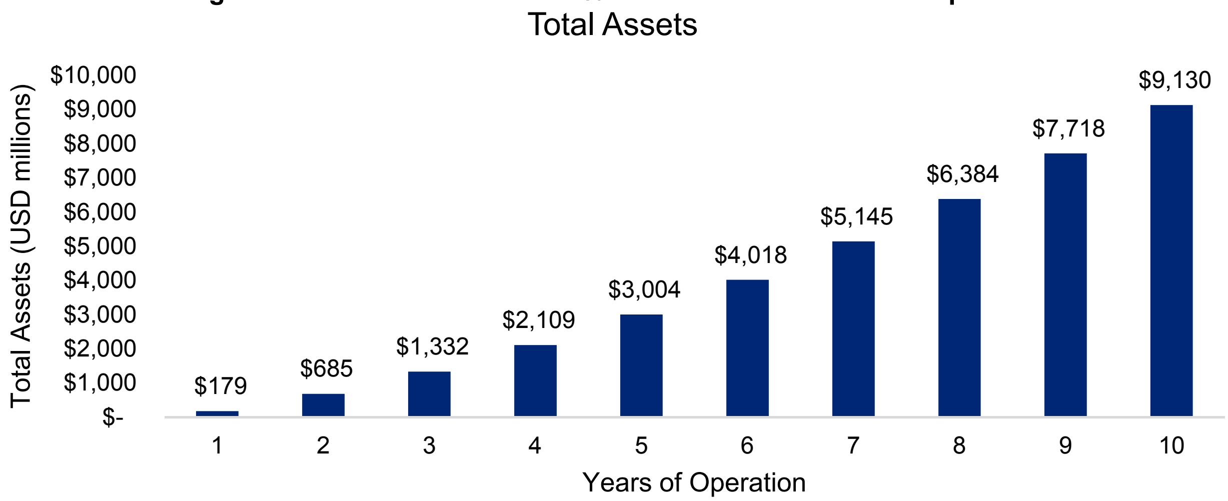


* Note that the State will need to provide the plan $13M in year one, $15M in year two and $7M in year three.

Under this scenario, we have assumed that the State has provided $35M over the first three years of the plan to cover costs that exceed 100 basis points ($13M in year one, $15M in year two and $7M in year three).

As shown in Option A – should the State decide to seek recoupment of this money this can be achieved over a six year time frame by taking 11 basis points from employee accounts from years fours through 10. For sake of redundancy we have not detailed these numbers in a Figure below, instead we wanted to show the impact that the contribution rate can have on the overall assets. Instead of using a 5% deduction rate as the default, we have assumed a 3% rate in Figure 38 below.

Figure 38: Asset Growth With 3% Default Contribution For Option C



The overall impact of the change in default contribution rate results in a nearly $3 billion decrease in total assets by year 10. On an individual basis a participant's account balance at the end of year 10 with a 3% contribution rate would be approximately $29,700 versus $35,000 with a default contribution of 5%. Just as important is the impact that the automatic escalation plays though. For a participant who contributes 5% without automatic escalation, the account balance as of year 10 would only be $20,500.

ASSUMPTIONS

In order to arrive an estimates, we were required to make a few assumptions given the information we had to work with. Below we have detailed those assumptions:

Participation Rate: 80% - this was based on information we were able to learn from industry leaders. While studies have shown that over 90% of participants stay enrolled when automatically enrolled, many of the leading recordkeepers have seen enrollment rates lower than that in industries that would dominate the participation in this program.

Rate of Return: 3.5% - conservative assumption assuming that the plan established provides for more secure/stable investments.

Compensation: $31,500: Based on data provided by AARP's fact sheet on those who do not participate in a pension plan in Minnesota.[120]

Annual Turnover: 20% - Given the transient nature of the population covered by the plan, we have assumed a 20% turnover. Overall, we have assumed that the total population in the program will remain flat at a little over 500k participants. What this assumption does is provide a way to track the impact that people moving into and out of the plan will have as they move between employers who are eligible for the plan.

Employers: As shown in Figure 2, AARP analyzed available data from BLS and identified by employer size an estimated number of employees in the State that did not have access to a retirement program. We have estimated the total number of employers based on this data and based on an assumed number of employees at each employer in each range. Figure 39 below details our assumption:

Figure 39: Assumed Number of Employers

Employer Size	Total Population Not Served	Estimated Employee Per Employer	Estimated Number of Employers
10 – 49 Employees	194,117	30	6,471
50 – 99 Employees	83,814	75	1,118
100 – 499 Employees	131,118	300	437
500 – 999 Employees	36,749		
1,000+ Employees	245,580		
TOTAL	873,076		8,320

Bundled vs Unbundled Fees: The State will need to spend time on is how the cost of administration and fund management will be paid, bundled or unbundled. In a bundled approach the cost of recordkeeping and investments are bundled together into one fee for the participant. This typically is deducted as a defined percentage of assets. In an unbundled approach, the costs of recordkeeping and investment management are charged separately. As an example, MSRS currently uses an unbundled approach. It takes a 10 basis points administrative fee to pay for administrative costs incurred by State staff and to pay for the cost of outsourcing recordkeeping to a third party. In addition, each Fund in the MNDCP lineup charges an Investment Management Fee, for example the Stable Value Fund has a fee of 27 basis points. [121] As the State moves forward it will need to consider which approach it will take. The available path may be heavily influence by the third party provider chosen by the State and their willingness to allow for an unbundled approach given the limited assets of the program during the initial years.

Administrative Staff: Developing a reasonable assumption around the staff size required can be a bit of a challenge given that a program of this nature has not been established before. However, it is reasonable to look at the MNDCP program as a basis for the size of staff that is needed. Based on our conversations with Dave Bergstrom, Executive Director of MSRS, the administrative staff for MNDCP is 25 employees. Based on the CAFR as of June 30, 2015, the cost for these was approximately $2.1M annually. [122] This cost includes pay, benefits, and Social Security/Medicare taxes. The same CAFR indicates that the number of participants is approximately 83K.

To determine the administrative staff necessary to run an IRA program for the State, we made an assumption that the staff size would need to be about three times that of the MNDCP program. Given the nature of the program and its requirements to onboard all new employers each year or those who become eligible based on the threshold of mandated participation, a significant effort will need to be made each year to train and maintain an outreach to these employers. In addition, if the State were to implement a penalty/fee for not participating as mandated, that would require a sizeable staff to monitor and communicate with these employers. As a result, we have assumed an ongoing staff cost of about $6M.

In addition, during the stand-up of this program we have assumed that the State will have a robust communication and outreach program. This will require meetings with employers and employees over a year long period while the program is adopted. Assuming one employee could get to approximately 500 employers in a year, this would require approximately 9 additional staff during the start-up phase. We have estimated this cost to be about $750k.

Recordkeeping Costs: During discussions with Dave Bergstrom, he indicated that the overall cost of administration of the MNDCP program was roughly $60 per employee per year. Based on the data provided in the 2015 CAFR, the cost of recordkeeping and administrative expenses was approximately $59 per person. This is consistent with the conversation we had with Mr. Bergstrom. To get the cost of the recordkeeping, we utilized the CAFR to understand the per person cost for the MNDCP which led to a cost of approximately $17 per person. [123] This was consistent with industry estimates of approximately $20 per person that we were given by several third party providers. For purposes of our projections, we utilized a more conservative estimate of $20 per person per year.

An additional one-time expense will be incurred at the time that the plan is established and new employers are brought on board. Providers typically charge a per employer charge of approximately $500. This covers the cost of communicating with the employer, establishing a protocol for standardization and other services related to gathering contributions on a regular basis.

Support Expenses: In addition to the day-to-day administration costs, there are other expenses that the State would need to incur. These include costs related to education and marketing of the new program, Board expenses related to any compensation, and expenses incurred by the Board and third-party consultant/legal services (as needed). In reviewing the costs related to the MNDCP, it appears the support expenses are about $700k per year. [124] A large portion of this cost is related to data-entry and did not seem applicable to the IRA program. As a result, we assumed that the overall cost is about $500k annually

Education/Communication/Marketing Expenses: In looking at the CAFR for MSRS, communications cost approximately $200k per year for the MNDCP program. [125] However, as previously discussed, the IRA program is going to require a larger outreach program going forward due to the nature of the employer's served. As a result we believe that the education and marketing component will play a bigger role and have assumed a go forward cost of approximately $500k annually.

Cost Inflation: 3% - over the last 10 years, inflation has been around 2%, however, to be more conservative we used a 3% assumption.

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APPENDIX 1 - LCPR ADDENDUM

The Multiple Employer 401(k) Plan

ADDENDUM TO THE "STATE OF MINNESOTA / STATE-ADMINISTERED PRIVATE SECTOR EMPLOYEE RETIREMENT SAVINGS STUDY" BY DELOITTE CONSULTING (JANUARY 13, 2017)

The Multiple Employer 401(k) Plan:

A Supplemental ERISA Program to Permit Greater Retirement Savings

MARCH 15, 2017

Legislative Commission on Pensions and Retirement
100 Rev. Dr. Martin Luther King Jr. Boulevard
State Office Building, Room 55
St. Paul, Minnesota 55155
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Introduction

The Women's Economic Security Act of 2014 ("WESA") directed the Commissioner of Management and Budget to report to the legislature on the potential for a state-administered retirement savings plan to help employees without access to a workplace retirement plan. The impetus for this directive and the legislature's decision to appropriate $400,000 to pay for the report was the desire to address the fact that more than twice as many Minnesota elder women live in poverty than men. WESA aims to fix this and other retirement savings disparities by taking a first step toward a state-sponsored retirement program for the private sector.

MMB contracted with Deloitte Consulting to prepare the report required by WESA. Deloitte's report, entitled "State-Administered Private Sector Employee Retirement Savings Study" (the "Report"), dated January 13, 2017, summarizes findings by AARP and other organizations that show the extent of the retirement savings shortfall and its estimated cost to the State's social programs. The Report analyzes variations of a single solution: a State-sponsored IRA arrangement in which employers would be required (or permitted) to participate by deducting contributions from their employees' paychecks and transmitting them to the State.

A stand-alone IRA program, however, has significant limitations: federal law imposes a low annual limit on the amount that may be contributed and does not permit employers to contribute their own funds on behalf of their employees. Such a program will make slow progress toward addressing the problem of inadequate retirement savings. The Report does not analyze other alternatives that are available to the State and might produce better outcomes.

The Report by Deloitte presents only an IRA program for consideration by the Legislature. This Addendum supplements the Report by presenting another alternative, the 401(k) MEP, that can work alongside an IRA program to permit greater savings.

Why is this Addendum necessary?

The contract between MMB and Deloitte, entered into as of June 1, 2015, includes the following provision: "Contractor [Deloitte] will not provide any legal advice or guidance in regards to ERISA or any other current regulations on the retirement industry." ERISA, the "Employee Retirement Income Security Act of 1974," is a federal law that governs most types of retirement savings and pension plans in the private sector. Since the more promising alternatives to an IRA program are governed by ERISA, it would be necessary to explain ERISA and its impact in order to present any of these alternatives in the Report. It is possible that Deloitte does not provide any detailed analysis of any ERISA-governed alternative because it considers itself contractually constrained from providing guidance on ERISA.

After review of initial drafts of the Report, legislators requested non-partisan staff for the Legislative Commission on Pensions and Retirement to prepare this analysis in order to provide the Legislature with a more complete picture of the alternatives available to address the problem of not enough retirement savings in the private sector. This Addendum considers an alternative approach, in which the IRA arrangement studied by Deloitte ***works in tandem with*** a 401(k) arrangement. This second program, a "multiple employer 401(k) plan" or "401(k) MEP," is explained in detail in this Addendum. A 401(k) MEP permits employers to contribute, along with employees, and has much higher contribution limits, permitting nearly ten times the annual amount that can be contributed to an IRA. Employers who want to offer their employees a 401(k) could adopt the state-sponsored 401(k) MEP, without the administrative and fiduciary burdens of sponsoring their own 401(k) plan.

Background

WESA establishes the following parameters for any state-administered retirement savings plan to be considered:

- Individuals must be able to make contributions to their own accounts.
- Accounts are to be pooled and invested by the State Board of Investment.
- Each individual's benefit would consist of the balance in the individual's account.
- The State will have no liability for investment earnings and losses.
- Employers are to be discouraged from dropping their own existing retirement plans.

In the Report, Deloitte analyzes two variations of one type of retirement plan, an "individual retirement arrangement" or "IRA." The two variations are the "Traditional IRA" and the "Roth IRA." With a ***Traditional IRA,*** dollars transferred from an employee's paycheck for

A Traditional IRA allows an employee to contribute up to $5,500 per year on a pre-tax basis, while a Roth IRA allows an employee to contribute up to $5,500 per year on an after-tax basis. It will take many years of contributions at this rate to build an adequate retirement account.

deposit into the employee's retirement account have not yet been reduced for federal income tax withholding (and, therefore, are considered "pre-tax" deferrals). With a ***Roth IRA,*** dollars transferred from an employee's paycheck for deposit into the employee's retirement account have already been reduced for federal income tax withholding (and, therefore, are considered "after-tax" deferrals). For example, if an employee wishes to save $100, the entire $100 will be transferred into a Traditional IRA account, whereas, only about $75 will be transferred into a Roth IRA account, due to the required withholding of federal and state income tax that must be done before transferring the funds to the savings account.

Under applicable federal law, an individual is permitted to contribute, on an annual basis, to all traditional and Roth IRAs the lesser of:

- $5,500 (or $6,500 if the employee is at least age 50), or
- The employee's taxable compensation for the year.

The most cost-effective IRA option recommended by Deloitte is a "Third Party Administered Automatic Roth IRA," which is roughly the same option elected by other states that have enacted an IRA program. (See page 48 of the Report.) Under this option, generally, all employers without a workplace retirement plan are required to enroll their employees in the state program. Thereafter, employees may opt out of the program at any time by electing $0 contribution. Beyond enrollment and a few other ministerial tasks, employers have no other involvement and are not permitted to contribute to their employees' accounts. The State would contract with an outside third party recordkeeper to handle the administration and operation of the program and the State Board of Investment could manage the investments or contract with an outside investment manager for that service.

A recurring theme throughout the Report is that an IRA program is preferred to other alternatives because it will not be subject to ERISA, which, as noted above, is the federal law that applies to all 401(k), profit sharing, money purchase pension plans and defined benefit pension plans sponsored by private sector employers. ERISA generally does not apply to IRAs, including payroll deduction IRA programs (such as SEP or SIMPLE plans) established by private sector employers, as long as the employer involvement is minimal.

What is ERISA?

As mentioned above, ERISA is the federal law that governs nearly all qualified retirement plans offered by private sector employers. Every private sector employer that offers a 401(k) plan to its employees has had to become at least somewhat familiar with ERISA. ERISA does not apply to a small subset of employer sponsored plans that use IRAs as the savings vehicle. These plans, known as SEPs or SIMPLE plans, are designed for small businesses, allow minimal flexibility in plan design and minimal employer involvement, and impose lower limits on contributions.

When the Report or this Addendum refers to ERISA, it is referring to the fiduciary, participant safeguards, reporting, disclosure and enforcement rules found in Title I of ERISA. Title II of ERISA is codified as part of the Internal Revenue Code and contains the tax-qualification requirements that must be met in order for a retirement plan to obtain income tax-deferral and other favorable tax treatment.

ERISA imposes fiduciary, reporting and disclosure requirements, while providing federally enforceable protections for employees and employers. ERISA is a well-developed and longstanding body of law to turn to for guidance.

ERISA is a well-established system of checks and balances that provide protections for both the employer and employees. Specifically, ERISA imposes the following requirements:

- Adoption of a plan document;
- Holding plan assets in trust or in an insurance company annuity;
- Identification of fiduciaries who must act prudently and solely in the best interests of employees and their beneficiaries and who can be sued for fiduciary breach;
- Filing of an annual report with the U.S. Department of Labor;
- Dissemination to all employees of periodic benefit statements and a "plain English" summary of plan provisions;
- Use of a claims procedure and exhaustion of that process before an employee can file the claim in federal court;
- Prohibitions against certain transactions between parties in interest and the plan;
- Preemption of state laws that would otherwise apply.

An IRA Program and State "ERISA" laws

The Report suggests that the legislature will need to establish a statutory or regulatory structure to ensure that certain protections will apply in the implementation and administration of an IRA program. For instance, the Report indicates that regular statements will need to be provided to employees and contributions will need to be monitored to ensure federal limits are not violated. Since ERISA does not apply to provide this legal and governance structure, the legislature will need to pass legislation that will provide necessary protections and requirements or expand the scope of existing state law that provides protections and requirements for public pension and defined contribution plans.

Legislators can look to Chapters 356 and 356A of the Minnesota Statutes, which apply to the State's public pension and defined contribution plans. Requirements imposed by state law on the State's public pension and defined contribution plans are modeled on ERISA. Some provisions are nearly identical to their counterparts in ERISA. For instance, Chapter 356 provides claim appeals procedures that are similar to, although more complicated than, ERISA's claims procedures. Chapter 356A imposes fiduciary duties, similar to those imposed by ERISA, on administering state agencies and individuals who serve on governing boards, direct the investment of retirement savings or administer benefit distributions and other rights. Also like ERISA, Chapter 356A includes the requirement that the plans disseminate a summary plan description and annual financial reports to all employees. The primary differences between ERISA and analogous state law is the requirement to file an annual report with the U.S. Labor Department and federal preemption of state laws.

To provide the necessary protections and requirements to a state-sponsored IRA program, the legislature could expand the scope of various provisions of Chapters 356 and 356A to apply to the program or create a regime that draws from these statutes and ERISA. The IRA program will also need to be structured to comply with U.S. Internal Revenue Code requirements that apply to IRAs. These requirements, set forth primarily in Sections 408 and 4975 of the U.S. Internal Revenue Code, govern investments, type of account, contributions, distributions, and prohibited transactions.

The Report notes that a state-sponsored IRA program is preferable to other alternatives because it is not governed by ERISA. However, any legislation adopting an IRA program will need to include provisions that impose fiduciary, disclosure and other requirements similar to ERISA, as well as applicable federal tax code requirements. In short, an ERISA-like regime will have to be adopted anyway as part of an IRA program.

A Multiple-Employer 401(k) Plan ("401(k) MEP")

As noted in the Report on pages 19 through 21, an IRA arrangement is only one of several possible solutions to the problem of inadequate retirement savings. Other alternatives being discussed by legislatures across the U.S. are (i) the marketplace, (ii) the prototype plan and (iii) the multiple employer plan. Because these must be offered to employers on a voluntary basis, thereby allowing employers to choose whether or not they will participate, each of these will likely be effective and achieve the necessary economies of scale only if they are offered in conjunction with a mandatory IRA program.

What is a 401(k) MEP?

A 401(k) MEP is a 401(k) plan that can be adopted by many employers for their employees. The State would offer the plan and employers could sign up to participate through employee payroll and employer contributions at much higher levels than under an IRA program.

A multiple employer plan is a retirement plan, qualified under the Internal Revenue Code and subject to ERISA, that is sponsored by one entity, but permits adoption by other entities. A multiple employer plan can be a discretionary defined contribution profit sharing plan, a defined benefit plan or a 401(k) plan with an employer match. A 401(k) multiple employer plan is recommended over the other alternatives because it will best satisfy the requirements of WESA. This arrangement will be referred to in the rest of this Addendum as a "401(k) MEP").

In the context of a state-sponsored plan, an agency of the State would establish and obtain IRS tax qualification for a 401(k) plan that could be adopted by private sector Minnesota employers. The employers and their employees would contribute to a centrally managed and administered trust established by the state agency to hold and invest the contributions. Employers' responsibilities would be limited to withholding and forwarding contributions and operating the plan in their own workplace in accordance with the plan provisions.

Employees would be given the right to direct the investment of their accounts into a portfolio of investment options made available through the trust and selected by the state agency. The state agency would be a fiduciary with respect to the array of options but would not have fiduciary responsibility whenever employees direct the investment.

Historically, under federal law, the sponsor and participating employers had to have a "commonality" among employers for them to be able to join together in a multiple employer plan. For instance, employers in the same line of business, such as auto dealerships, would provide retirement benefits through a single multiple employer plan. The U.S. Department of Labor issued an interpretive bulletin on November 16, 2015, that encouraged states to establish savings arrangements such as a 401(k) MEP. On the issue of whether a state and its employers shared the requisite commonality to participate in a multiple employer plan, the Labor Department stated it would consider the commonality requirement satisfied in the case of a state-sponsored multiple employer plan because "a state has a unique representational interest in the health and welfare of its citizens that connects it to the in-state employers that choose to participate…."

As mentioned, a 401(k) MEP would be designed by the State to satisfy all applicable requirements of the Internal Revenue Code and ERISA. As a 401(k) plan, the 401(k) MEP would be able to provide for automatic enrollment of all employees so that a specified percentage would be deducted on a pre-tax basis from employee paychecks. Employees would have the option to stop or change the payroll deductions immediately, if they wish. The 401(k) MEP could also provide for employer contributions, either as an annual or more frequent contribution allocated to all employee accounts based on compensation or as a matching contribution based on the percentage of pay contributed by the employee. The employer could elect to impose a vesting schedule on the contributions it makes to employee accounts.

As for contribution limits, a 401(k) MEP could permit contributions at much higher levels than under the IRA program. Limits for 2017 are the following:

- Employee contributions: $18,000
- Employee contributions if age 50+: $24,000
- Total employee and employer contributions: $56,000

A significant difference between a 401(k) MEP and an IRA program is that the State cannot require employers to adopt and participate in a 401(k) MEP, whereas the State can require employers to participate in an IRA program by deducting and forwarding contributions from employee pay.

Similarities between a 401(k) MEP and an IRA Program

Auto enrollment and auto escalation. Employees can be automatically and mandatorily enrolled immediately upon employment or on an annual basis, at a specified level, such as 4% or 5% of pay. Employees must be given the option to cease making contributions or change their contribution percentage. Employee contribution levels can be automatically increased annually, such as by another percent, up to a certain specified level.

Minimal employer cost and responsibility. Employers will be responsible for withholding the proper amount from employee paychecks and transmitting those amounts to employee accounts at the State. Beyond these requirements, nearly all other administrative, compliance and fiduciary responsibility for participating in a 401(k) plan can be shifted to the state agency sponsoring the 401(k) MEP. This is an enormous benefit to an employer who perhaps has not wanted to establish its own 401(k) because of these burdens. The state agency, in turn, would be able to shift almost all fiduciary responsibility for investment decisions to the employees themselves when they exercise their right to direct the investment of their accounts. This is similar to the level of employer cost and responsibility under an IRA program.

Eventually, no cost to the State. All costs of the 401(k) MEP will be paid by assessing each account a periodic fee, either as a set dollar amount or set percentage of assets. Fees will be able to be kept at a minimum because of the economies of scale that can be achieved. This is similar to an IRA program.

After-tax contributions. The 401(k) MEP can provide for after-tax 401(k) contributions, which the adopting employer can elect to offer to its employees. This is similar to an IRA program.

Litigation risk due to investments. By sponsoring a 401(k) MEP, the State takes on the risk of litigation, either due to low or negative investment returns or due to malfeasance on the part of the State agency. Investments will not always be positive so all appropriate safeguards should be put into place, including compliance with ERISA section 404(c), with respect to both the safe harbor for participant directed investments and the established of a Qualified Default Investment Alternative (“QDIA”). The investment portfolio to be offered to employees in the 401(k) MEP should be established in accordance with the U.S. Labor Department’s guidance and should draw on the expertise of the State Board of Investment and the MSRS Deferred Compensation Plan. The goal is to establish an investment portfolio that is broad enough to permit employees to diversify the investment of their accounts but not so broad that they are overwhelmed and unable to make informed investment selections. This is similar to an IRA program.

Cons of a 401(k) MEP

Cutting edge program. While many states are looking at this option, a 401(k) MEP has not yet been implemented by any state. Accordingly, there is no experience or precedent to draw from. This is different from the IRA program, where many states are in the process of implementing a program now.

Disqualification risk. One participating employer can taint the rest of a multiple employer plan. While nearly all compliance issues can be corrected under the IRS’ Employee Plans Compliance Resolution System, under current law, if one employer fails to administer a multiple employer plan as applied to the employer's workforce in accordance with the plan document, it may lead to a compliance issue for the entire plan. The IRS is looking at this issue, as is Congress, and it is possible that relief on this issue will come from either or both.

Pros of a 401(k) MEP

Employer contributions. Employers can contribute to the 401(k) MEP with respect to their employees, either as a matching contribution or as a discretionary annual or periodic contribution, to which a vesting schedule can be applied. For example, an employer could decide to contribute 5% to each employee's account at the end of each year and employees would vest (*i.e.*, their right to the account would become nonforfeitable) by an additional 20% each year. The vesting schedule could begin at 20% in year 2 and increase by 20% each year through year 6 or the vesting could be "cliff vesting" wherein there would be no vesting until year 3, at which time the employee would become 100% vested.

Higher levels of contribution. Employees can contribute at significantly higher levels than under an IRA program.

	IRA	401(k) MEP
Employee contributions at up to age 50	$5,500	$18,000
Employee contributions at age 50+	$6,500	$24,000
Employer contributions	None permitted	$54,000 aggregate limit (employer can contribution as much as the difference between $54,000 and the employee contribution amount)

Variety of design options. The 401(k) MEP can allow an employer to select from a variety of plan design options to tailor the features to the needs and desires of the particular workplace. Such options could include:

- Eligibility requirements such as a minimum age or hours of service;

- Minimum and maximum percentages for employee contributions;
- Whether employee contributions can be made on an after-tax basis (as a Roth 401(k) contribution);
- Whether and how much the employer will contribute and whether the contribution will be discretionary or a match, based on the level of employee contribution;
- Any vesting requirement for employer contribution;
- Distribution options, such as lump sum, installments and annuities;
- Whether to permit withdrawals for hardship or attainment of age 59½;
- Whether and how to limit investment options.

The Two-Prong Program: IRA + 401(k) MEP

If the State were to offer both an IRA arrangement and a 401(k) MEP, an employer without its own workplace retirement plan could elect to participate in the 401(k) MEP and then would not be required to participate in the IRA arrangement. If an employer does not wish to participate in the 401(k) MEP, it would be required to participate in the IRA arrangement or offer a retirement plan of its own. The 401(k) MEP would be the "carrot;" and the IRA program would be the "stick." As noted above, for encouraging greater accumulation of retirement savings, a 401(k) MEP is superior to the IRA arrangement, but employer participation cannot be mandated and must be offered to employers on a voluntary basis.

The State could offer employers without a workplace retirement plan the option to participate in the 401(k) MEP. If the employer becomes a participating employer in the 401(k) MEP, it would not be required to participate in the IRA program. The 401(k) MEP would be the "carrot;" and the IRA program would be the "stick."

The governing board and administrative structure suggested by Deloitte in the Report would also handle the 401(k) MEP. The steps to establishing the 401(k) MEP would include the following:

- The drafting of a 401(k) plan document with an adoption agreement that permits an adopting employer to tailor the program to suit its workforce and the desires of the employer's owner and management.
- The submission of the plan document and adoption agreement to the IRS for a determination letter declaring the plan to be a qualified plan that satisfies all applicable requirements of the Internal Revenue Code.

- The preparation of communication and marketing materials that are integrated with the IRA program.
- The preparation of an employer adoption packet that would provide clear guidance on how to administer the 401(k) and transmit contributions to the applicable state agency.
- The retention of a third party recordkeeper, who could be the same recordkeeper as for the IRA program, depending on the qualifications and experience of the recordkeeper, or a different recordkeeper.
- The investment portfolio established for the IRA program would be made available to adopters of the 401(k) MEP and their employees.
- The fee structure for the IRA program would initially be applied to the 401(k) MEP, except that contributions to the 401(k) MEP would grow quicker, resulting in a quicker decrease in administrative fees.

Conclusion

The Report summarizes the available research and data on the need for action to tackle the problem of inadequate or no retirement savings in the private sector in Minnesota. In the absence of employers acting on their own to establish a retirement savings plan for their employees or a mandate from the federal government to require employers to provide retirement savings, the State is considering whether and how to fill the void.

The Report provides one solution, an IRA program. An IRA program, however, permits only employee contributions, no employer contributions, and imposes a low limit on annual savings (for 2017, $5,500 or, for employees at least age 50, $6,500). Other state-sponsored retirement plan alternatives are not considered in any detail because they would be governed by ERISA.

This Addendum describes another alternative, a 401(k) MEP, that could work in tandem with an IRA program. A 401(k) MEP would allow much higher levels of annual savings and employers could contribute to their employees' accounts. Optimally, the State would offer to all employers without a workplace plan the option to participate in the 401(k) MEP. If the employer decides not to participate, the employer would be required to enroll its employees in the IRA program.

Both programs have pros and cons. As mentioned, a 401(k) MEP would be subject to ERISA, but that fact is not necessarily a negative. First, ERISA provides protections to all involved parties and is a well-developed body of law on which the State could depend if it sponsored a 401(k) MEP for participation by employers. Second, the State is already familiar with many of ERISA's requirements in that similar requirements are set forth in the Minnesota statutes that govern the State's public pension and defined contribution plans. Requirements similar to these state laws and ERISA would need to be included in an IRA program anyway. For example, fiduciary duties would need to be imposed on individuals who administer the plans and invest contributions, explanations of plan provisions would need to be provided to employees, and investments would need to be regulated.

Under both programs, employer involvement and responsibility would be minimal. The State would take on the burden of establishing the programs, accepting contributions for investment and engaging a recordkeeper to do the day to day administration and communicating and marketing the programs. With the exception of start-up costs, expenses would be assessed against employee savings accounts. The State Board of Investment could serve as investment authority for both programs if and to the extent required by enabling legislation.

Deloitte.

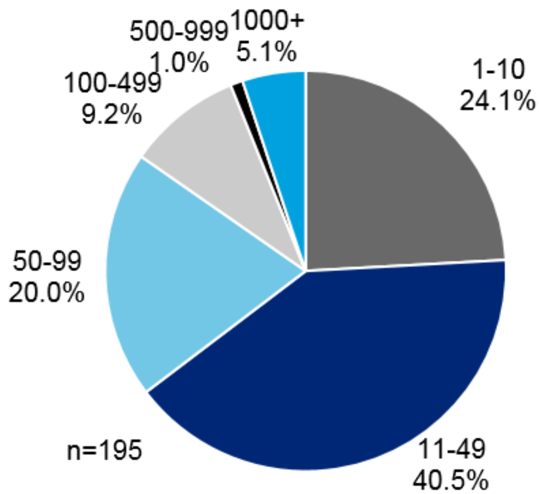
APPENDIX 2 - ADDITIONAL ATTACHMENTS

State Administered Private Sector Employee Retirement Savings Study

EMPLOYER SURVEY

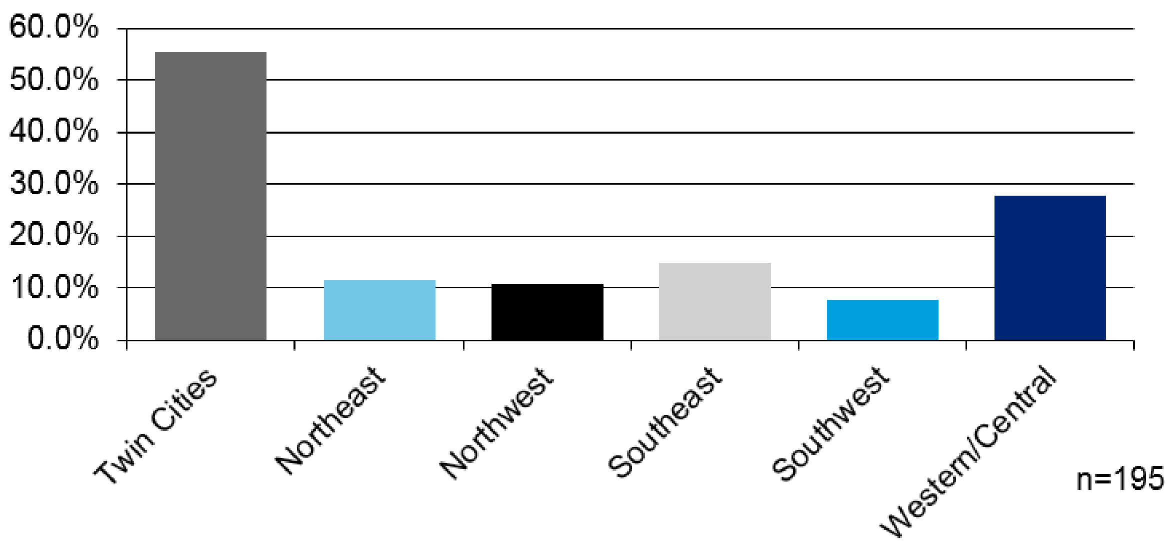
DEMOGRAPHICS AND BACKGROUND INFORMATION

Exhibit 1.2. How many full-time employees does your business employ?



Answer Options	"No" Response Percent	"Yes" Response Percent
1-10	53.3%	18.5%
11-49	36.7%	41.4%
50-99	3.3%	23.5%
100-499	3.3%	9.9%
500-999	0.0%	1.2%
1000+	3.3%	5.6%
	n=30	n=162

Exhibit 1.2. To which region of Minnesota is your business located? Please select all that apply.



Answer Options	"No" Response Percent	"Yes" Response Percent
Twin Cities	53.3%	56.2%
Northeast	6.7%	11.7%
Northwest	3.3%	11.7%
Southeast	10.0%	16.0%
Southwest	3.3%	8.6%
Western/Central	23.3%	29.0%
	n=30	n=162

Exhibit 1.3. Please select your NAICS (North American Industry Classification System) category from the dropdown below.

Answer Options	Response Percent	"No" Response Percent	"Yes" Response Percent
11 - Agriculture, Forestry, Fishing and Hunting	1.5%	3.3%	1.2%
21 - Mining	1.5%	0.0%	1.9%
22 - Utilities	2.6%	6.7%	1.9%
23 - Construction	5.6%	0.0%	6.8%
31-33 - Manufacturing	23.6%	16.7%	24.7%
42 - Wholesale Trade	7.7%	0.0%	9.3%
44-45 - Retail Trade	8.2%	23.3%	5.6%
48-49 - Transportation and Warehousing	2.1%	0.0%	2.5%
51 - Information	1.5%	0.0%	1.9%
52 - Finance and Insurance	11.3%	10.0%	11.1%
53 - Real Estate Rental and Leasing	3.1%	13.3%	1.2%
54 - Professional, Scientific, and Technical Services	11.3%	3.3%	12.3%
55 - Management of Companies and Enterprises	1.0%	0.0%	1.2%
56 - Administrative and Support and Waste Management and Remediation Services	1.5%	3.3%	1.2%
61 - Educational Services	0.5%	3.3%	0.0%
62 - Health Care and Social Assistance	6.7%	3.3%	7.4%
71 - Arts, Entertainment, and Recreation	1.0%	3.3%	0.6%
72 - Accommodation and Food Services	2.6%	10.0%	1.2%
81 - Other Services (except Public Administration)	6.2%	0.0%	7.4%
92 - Public Administration	0.5%	0.0%	0.6%
	n=195	n=30	n=162

Exhibit 1.4. Do you offer an employer sponsored retirement plan (i.e. 401(k)/Roth 401(k), SIMPLE 401(k), 403(b)/Roth 403(b), SIMPLE IRA, SEP)?

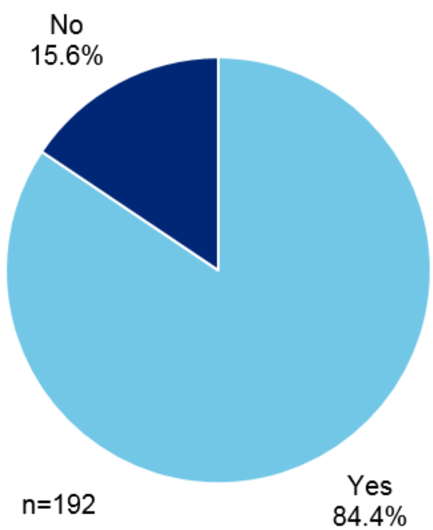


Exhibit 1.5. When a new employee qualifies to join your employer sponsored plan are they automatically enrolled? ("Yes" responses)

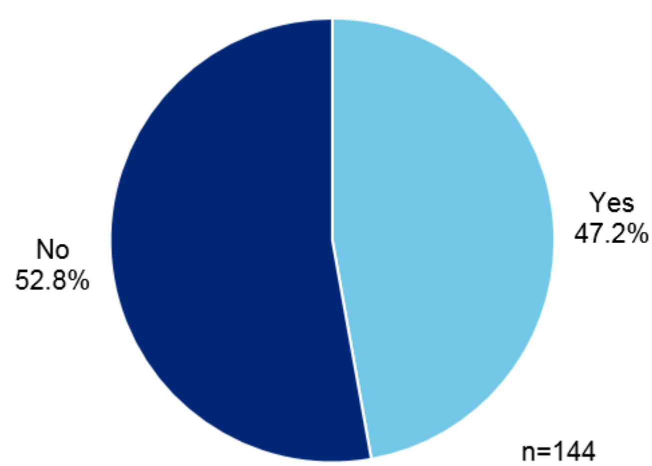


Exhibit 1.6. Are your part-time employees eligible to participate? ("Yes" Responses)

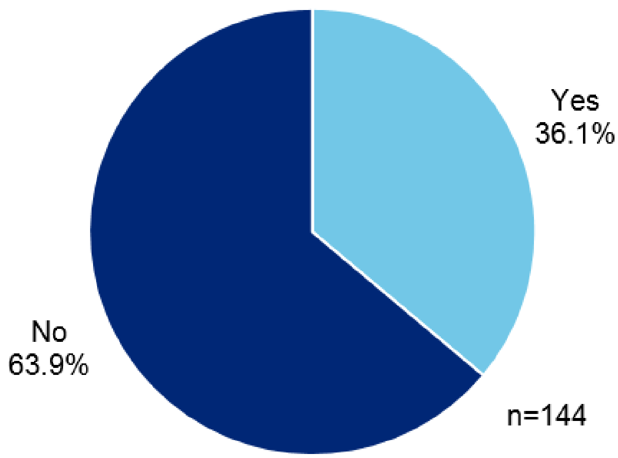


Exhibit 1.7. What percentage of your eligible employees participate in the plan? ("Yes Responses")

Answer Options	Response Percent
0% - 5%	2.1%
6% - 10%	2.8%
11% - 15%	2.8%
16% - 20%	2.1%
21% - 25%	0.7%
26% - 30%	2.8%
36% - 40%	2.8%
41% - 45%	2.8%
46% - 50%	4.2%
51% - 55%	0.7%
56% - 60%	3.5%
61% - 65%	2.1%
66% - 70%	3.5%
71% - 75%	9.7%
76% - 80%	5.6%
81% - 85%	4.9%
86% - 90%	7.6%
91% - 95%	4.9%
96% - 100%	34.7%
	n=144

Exhibit 1.8. What is the average employee contribution rate to your employer sponsored retirement plan? ("Yes" Responses)

Answer Options	Response Percent
0%	2.1%
1%	4.2%
2%	4.2%
3%	22.9%
4%	18.8%
5%	20.8%
6%	10.4%
7%	4.2%
8%	3.5%
9%	1.4%
10%	4.9%
11%	0.0%
12%	0.0%
13%	0.0%
14%	0.0%
15%	2.1%
16%	0.0%
17%	0.0%
18%	0.0%
19%	0.0%
20%	0.0%
21%+	0.7%
	n=144

Exhibit 1.9. How often do you receive questions/concerns about retirement from employees? ("No" Responses)

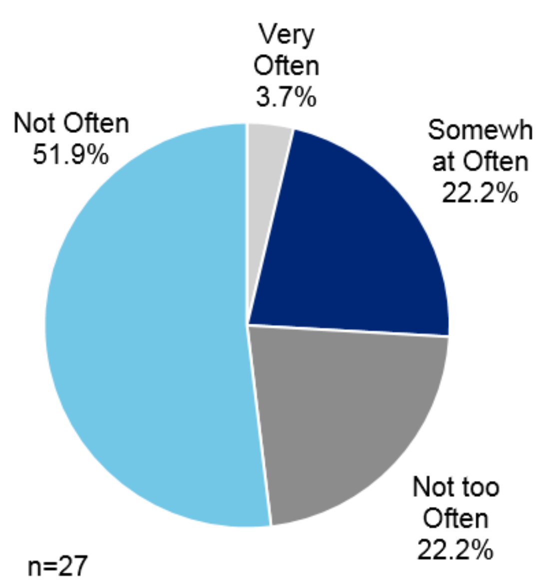
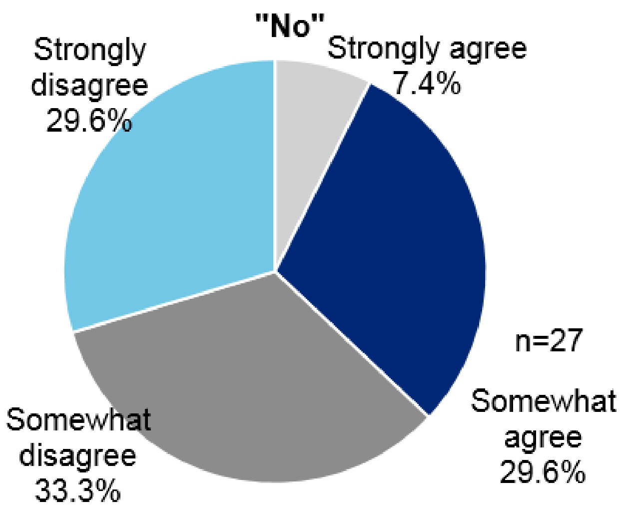


Exhibit 1.10. What are the main reasons that you do not provide a retirement benefit? Choose all that apply. (“No” Responses)

Answer Options	Response Percent
Concerned about cost	55.6%
Business or management not interested	11.1%
Employees prefer other benefits such as health care, childcare assistance, PTO, etc.	14.8%
Business is not big enough	48.1%
Lack of employee interest	22.2%
Concerned about administrative complexity and amount of work involved	25.9%
Business encountering difficult business conditions	14.8%
Concerned about fiduciary liability	22.2%
Lack of knowledge of available retirement products	18.5%
Work is a not for profit	0.0%
Union based	0.0%
Waiting to see if a State run plan is implemented	3.7%
	n=27

Exhibit 1.11. Most employees at my business know as much as they should about retirement planning.



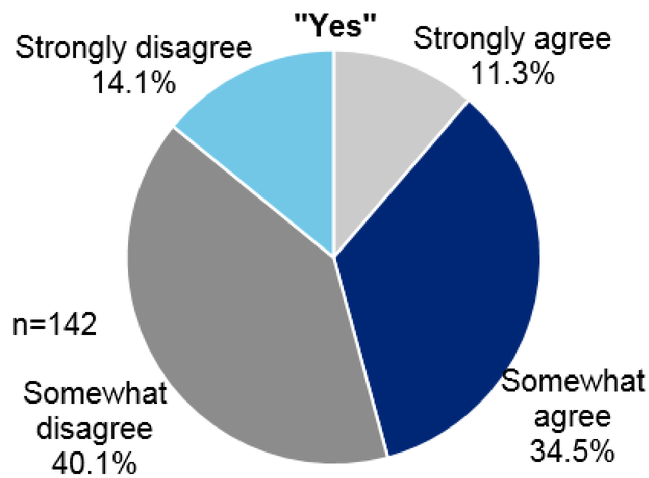
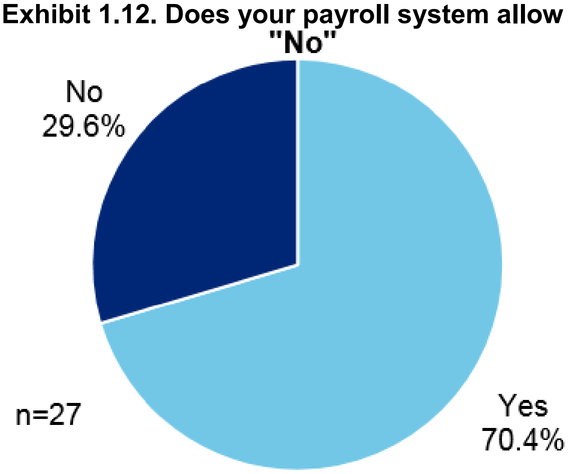
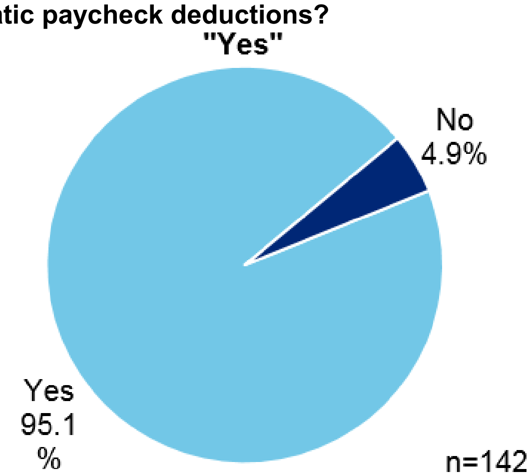


Exhibit 1.12. Does your payroll system allow for automatic paycheck deductions?





PLAN DESIGN OPTIONS

Exhibit 1.13. Retirement Exchange: How strongly would you support a retirement savings plan in which the State provides a retirement exchange (website) that connects employers and employees with currently available low-cost, low-fee private sector retirement savings options? The marketplace would provide employers access to a diverse array of plans, including various types of IRAs. Employers would have the option to contribute to some of the plans, but the plans themselves are completely voluntary.

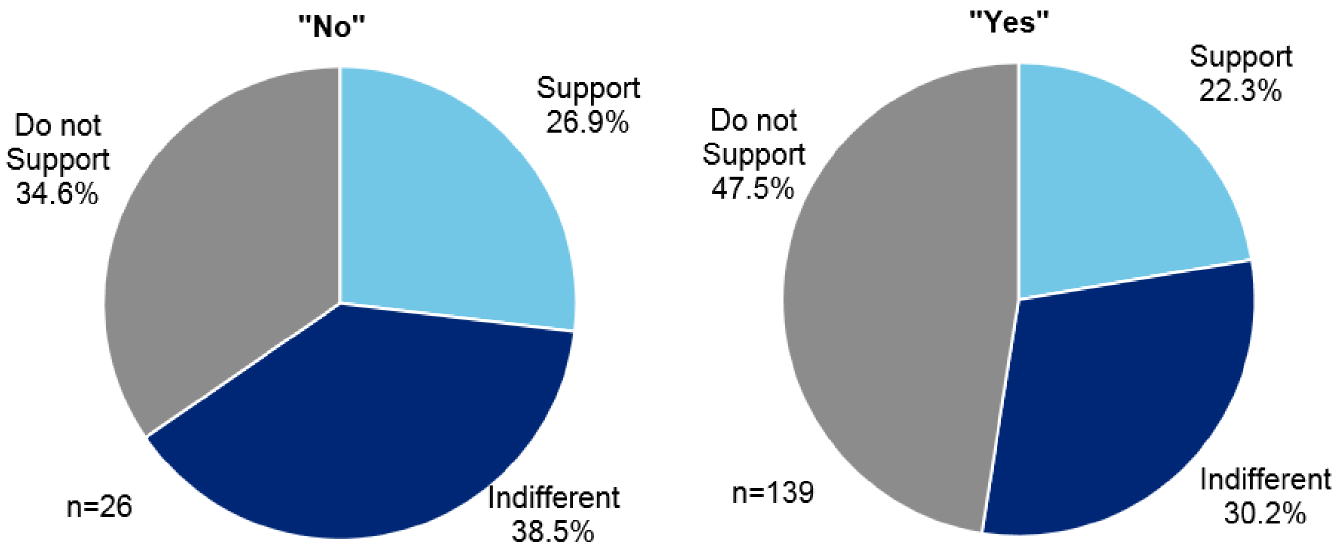
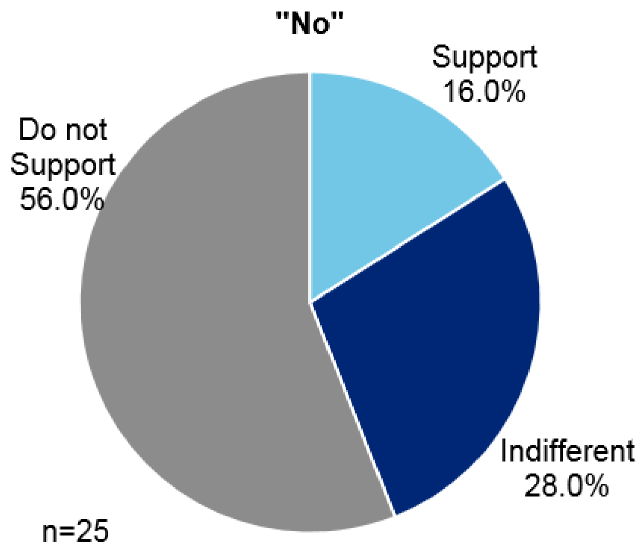


Exhibit 1.14. What are your reasons for not supporting the proposed retirement savings plan?

Answer OptionsThe	"No" Response Percent	"Yes" Response Percent
Concerned about my cost	22.2%	29.2%
Concerned about taxpayers costs and state spending	66.7%	70.8%
Concerned about administrative complexity and amount of work involved	22.2%	55.4%
Employees not interested	22.2%	6.2%
Business or management not interested	33.3%	20.0%
Other (please specify reasoning)	55.6%	50.8%
	n=9	n=65

Exhibit 1.15. Automatic Enrollment: How strongly would you support a retirement savings plan in which employers automatically enroll their employees in the State sponsored plan? Employees would be enrolled at a pre-defined deduction rate from payroll and can subsequently opt out of enrollment. Program costs would be covered by administrative fees on the investment funds.



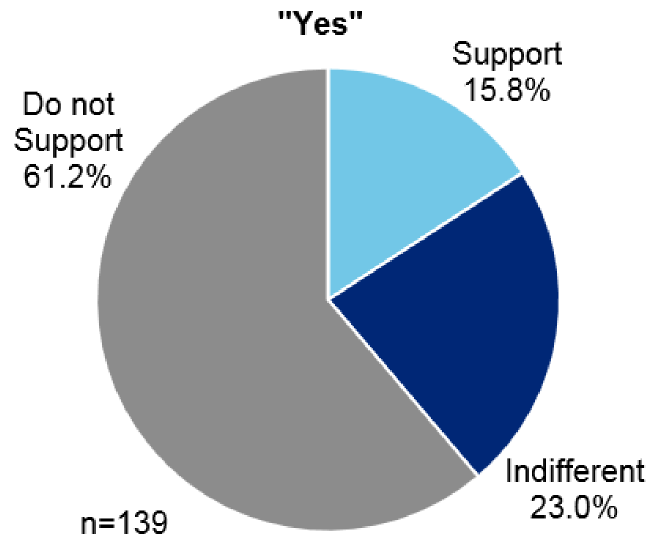


Exhibit 1.16. What are your reasons for not supporting the proposed retirement savings plan?

Answer Options	"No" Response Percent	"Yes" Response Percent
Concerned about my cost	14.3%	27.4%
Concerned about taxpayers costs and state spending	64.3%	64.3%
Concerned about administrative complexity and amount of work involved	21.4%	48.8%
Employees not interested	14.3%	14.3%
Business or management not interested	21.4%	27.4%
Other (please specify reasoning)	35.7%	47.6%
	n=14	n=84

Exhibit 1.17. Voluntary Enrollment: How strongly would you support a plan if the State changed enrollment to be voluntary instead of automatic? Workers would be voluntarily enrolled at a pre-defined deduction rate from payroll and program costs would be covered by administrative fees on the investment funds.

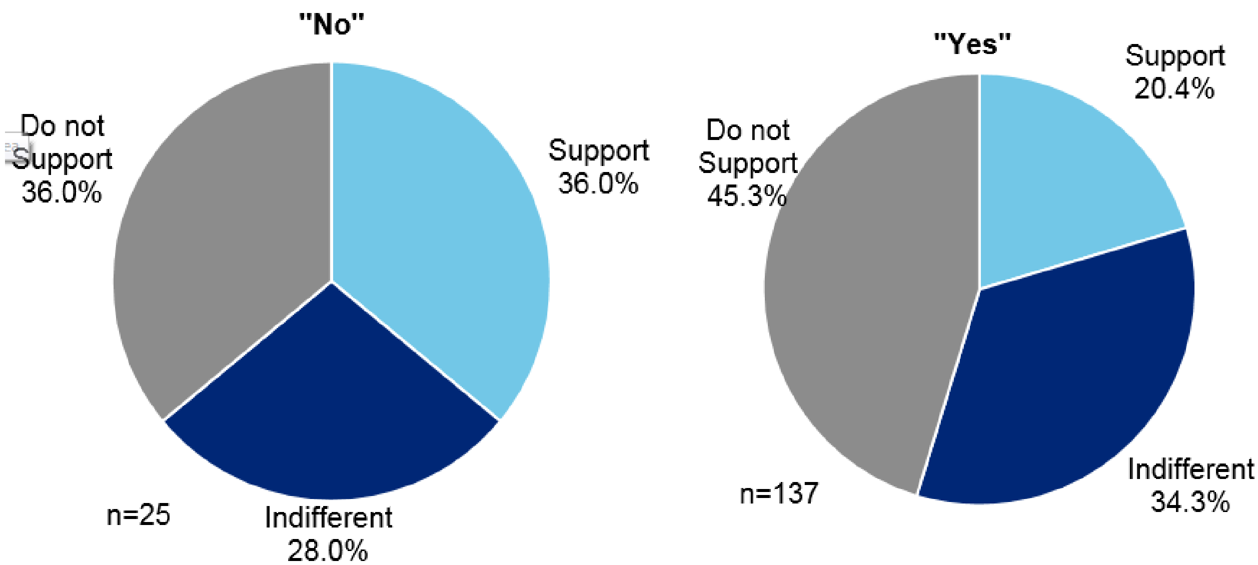
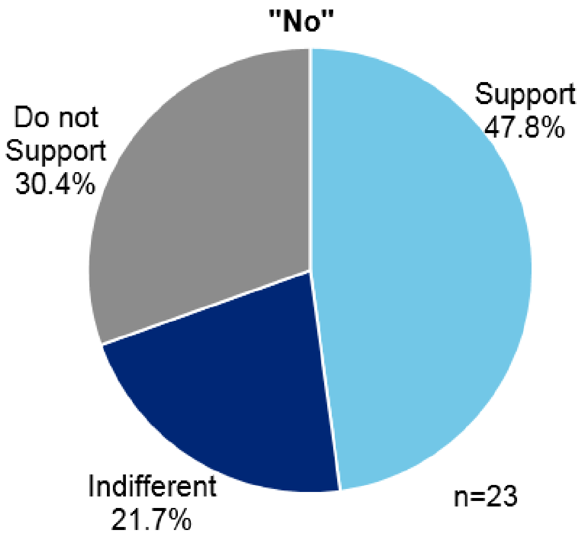


Exhibit 1.18. What are your reasons for not supporting the proposed retirement savings plan?

Answer Options	"No" Response Percent	"Yes" Response Percent
Concerned about my cost	33.3%	27.4%
Concerned about taxpayers costs and state spending	77.8%	62.9%
Concerned about administrative complexity and amount of work involved	33.3%	46.8%
Employees not interested	33.3%	8.1%
Business or management not interested	22.2%	33.9%
Other (please specify reasoning)	22.2%	53.2%
	n=9	n=62

Exhibit 1.19. Education: How strongly would you support the State providing education on retirement? This would range from tips on how much to save, how to save, and what tools are currently available in the private sector marketplace.



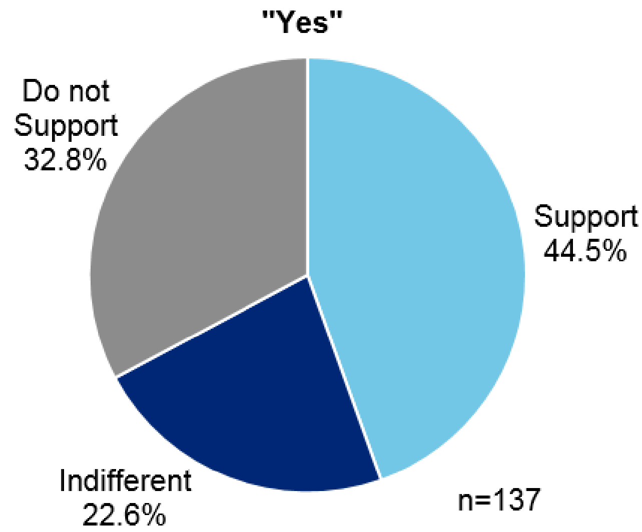
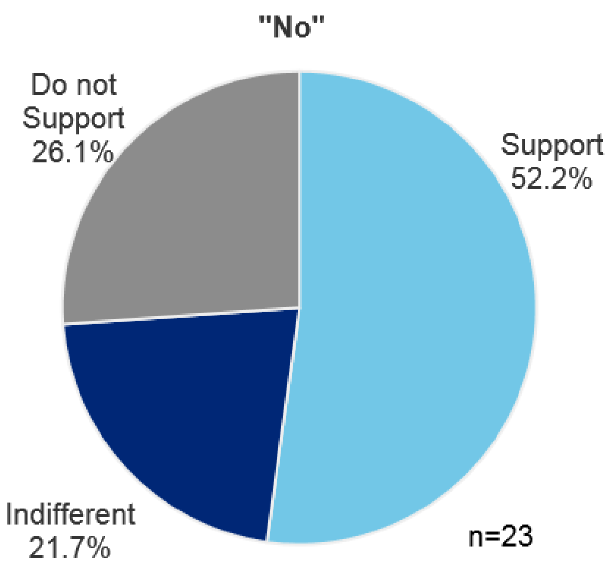


Exhibit 1.20. What are your reasons for not supporting the proposed retirement savings plan?

Answer Options	"No" Response Percent	"Yes" Response Percent
Concerned about my cost	28.6%	17.8%
Concerned about taxpayers costs and state spending	71.4%	60.0%
Concerned about administrative complexity and amount of work involved	28.6%	37.8%
Employees not interested	42.9%	11.1%
Business or management not interested	57.1%	20.0%
Other (please specify reasoning)	28.6%	55.6%
	n=7	n=45

Exhibit 1.21. Incentive: How strongly would you support the State providing incentives, such as a tax credit or subsidy to businesses whom implement an employer sponsored plan, to encourage greater utilization of private sector products?



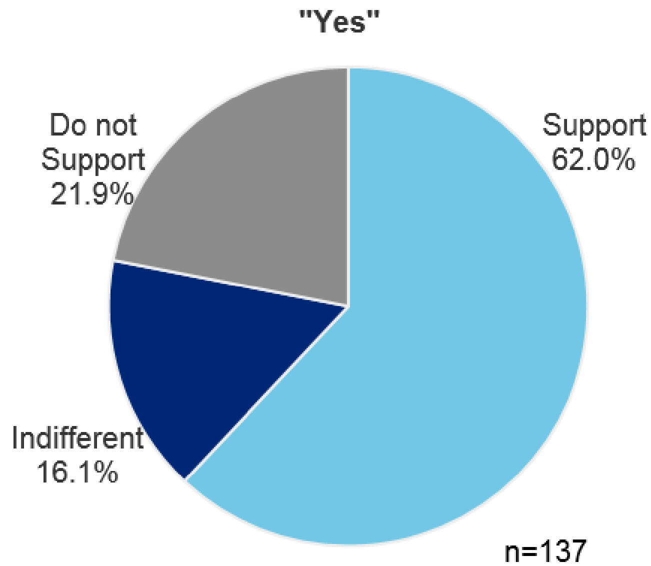
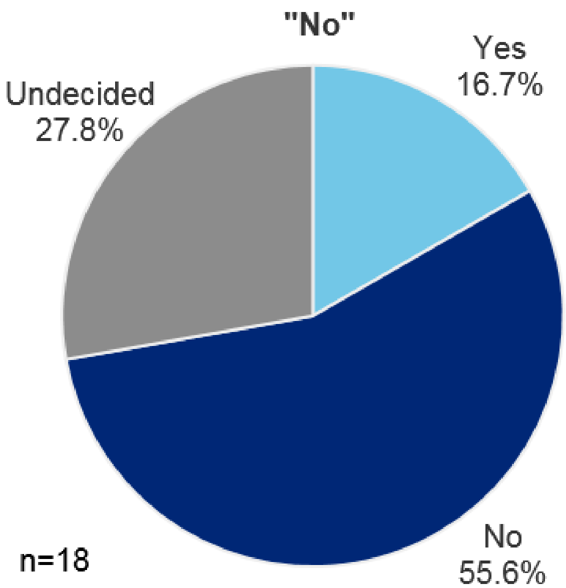


Exhibit 1.22. What are your reasons for not supporting the proposed retirement savings plan?

Answer Options	"No" Response Percent	"Yes" Response Percent
Concerned about my cost	33.3%	20.0%
Concerned about taxpayers costs and state spending	50.0%	66.7%
Concerned about administrative complexity and amount of work involved	16.7%	30.0%
Employees not interested	33.3%	6.7%
Business or management not interested	16.7%	20.0%
Other (please specify reasoning)	16.7%	46.7%
	n=6	n=30

Exhibit 1.23. If there were a cost associated with enrolling your employees in any of the proposed retirement savings plans, would your support change?



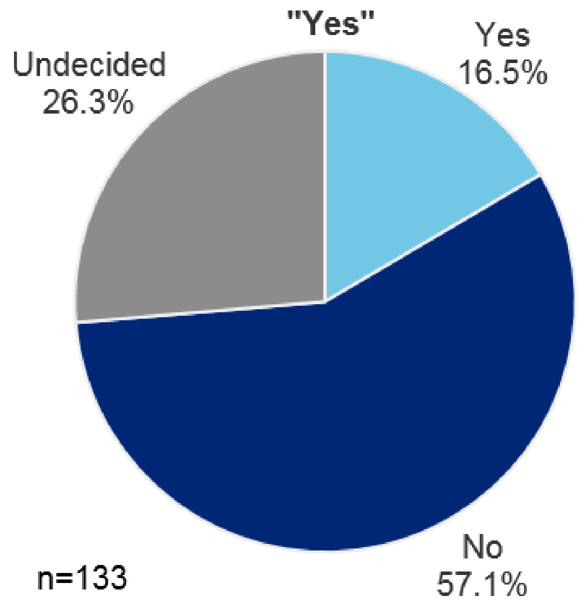
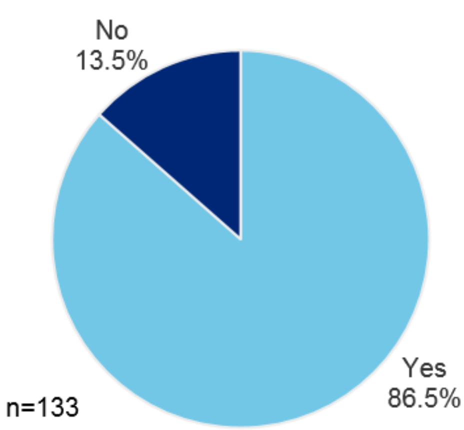


Exhibit 1.24. If there were a cost associated with enrolling your employees in any of the proposed retirement savings plans, would your support change?

Answer Options	"No" Rating Average	"Yes" Rating Average
Retirement Exchange	2.33	3.11
Automatic Enrollment	3.89	4.03
Voluntary Enrollment	2.44	3.19
Education	2.78	2.29
Incentive	3.56	2.38
	n=18	n=133

Exhibit 1.25. If the State were to implement any of the proposed retirement savings plan options would you continue to offer your current plan? ("Yes" Responses")



WORKSHOPS

WORKSHOP PARTCIPANTS

Participants	Workshop 1	Workshop 2
Lorna Smith (MMB)	✓	✓
John Pollard (MMB)	✓	✓
Robyn Rowen (MN Insurance and Financial Services Council)	✓	✓
Tim Soldan (Securian)	✓	blank
Barbara Battiste (Economic Security for Women)	✓	✓
LaRahe Knatterud (Department of Human Services)	✓	✓
Beth Kadoun (Minnesota Chamber)	✓	✓
Roger Fitzgerald (Former small business owner/AARP)	✓	✓
Mary Jo George (AARP)	✓	✓
Sarah Mysiewicz (AARP)	✓	
Anna Odegaard (Asset Building Coalition)	✓	✓
Kenya Mcknight (Coalition of Communities of Color)	✓	blank
Dave Bergstrom (MSRS)	✓	✓
Jon Pratt (Minnesota Council of Nonprofits)	✓	
Patc Ammann (MN State Board of Investment)	✓	✓
Kirsten Libby (Securities Industry and Financial Market)	✓	✓
Bill Strusinski (Securities Industry)	blank	✓
Dominic Sposeto (National Chapter of Insurance Providers)		✓
Susan Lenczewski (Legislative Commission on Pensions and Retirement)		✓
Brian Elliot (SEIU)	blank	✓
Roger Grumdahl (New York Life Insurance Company and National Association of Insurance and Financial Advisors - Minnesota Chapter)		✓

WORKSHOP 1

State Administered Private Sector Employee Retirement Savings Study Workshop

Slide 2: Workshop Agenda

Meeting Item	Duration
Introduction of Attendees	10 min
Background & Summary of Key Findings to Date	20 min
Discussion of Program Design	90 min

Slide 3-4: Introductions

Interested Parties	Organization represented
Lorna Smith	MMB
John Pollard	MMB
Former Rep. Patti Fritz	Legislative Author
Barbara Battiste	Economic Security for Women
Patc Ammann	MN State Board of Investment
Mary Jo George	AARP
Sarah Mysiewicz	AARP
Brian Elliot	SEIU
Robyn Rowan	MN Insurance and Financial Services Council
Beth Kadoun	Minnesota Chamber
Dave Bergstrom	MSRS
Anna Odegaard	MN Asset Building Coalition
Roger Fitzgerald	Former small business owner
Kirsten Libby	Securities Industry and Financial Markets Association
Pat Pechacek	Deloitte
Jamie Helms	Deloitte
Ashleigh Forsell	Deloitte
Anna Slayton	Deloitte
Jolene Bruner	Deloitte

Slide 5: Participant Expectations

- Your participation in these sessions is critical to the success of Minnesota's Retirement Saving Study… so please provide input, ask questions and share your point of view
- Do not assume something will be addressed if you don't raise it… if it's not reflected in the documentation or if you do not raise it, it may get missed
- In addition to representing your point-of-view, also focus on what is best for Minnesota
- Focus on how the State can address the retirement challenge

Slide 6: Background & Summary of Key Findings to Date

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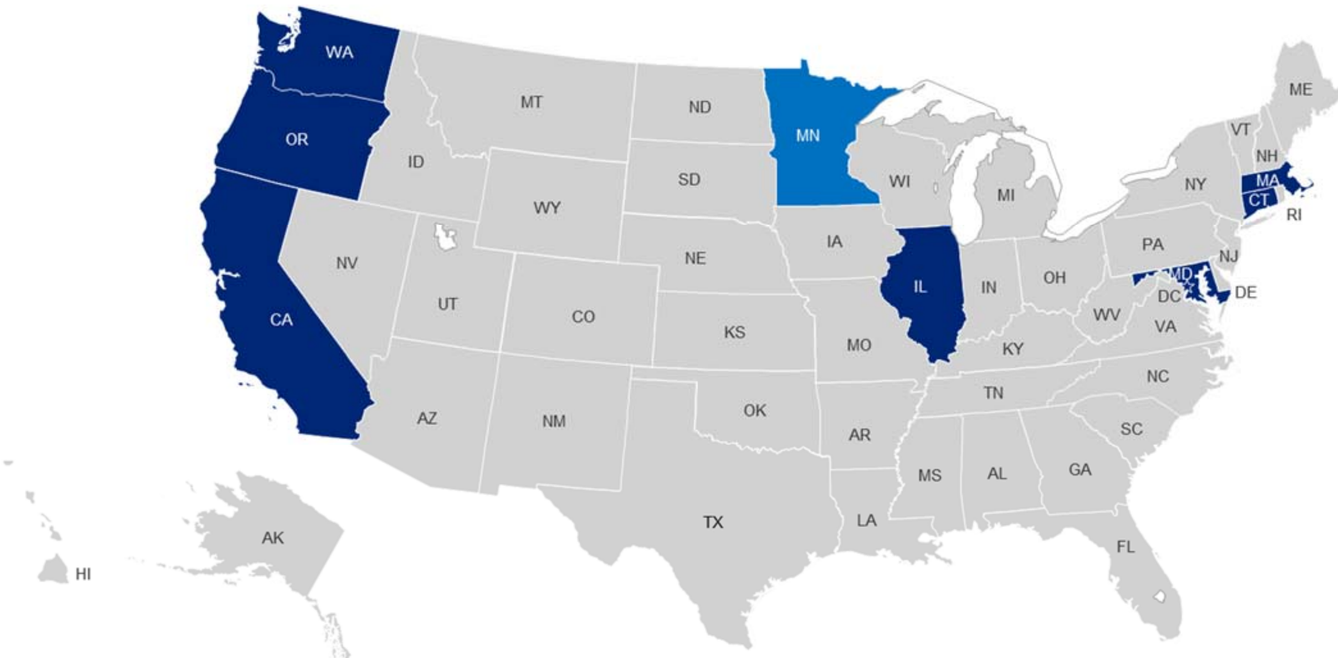
Slide 7: A Secure Retirement is out of Reach for Millions of Americans

Issue	Impact
“At Risk”	• Americans increasingly worry about financial security in retirement and are “at risk” in their ability to have adequate savings[52]
Shift from DB to DC plans	• Shift from less defined benefit plans to more defined contribution plans, placing more responsibility on the individuals to saving enough for retirement[3]
Social Security deficit	• Social Security provide close to 35% of a retiree’s income[3] and is expected to run out by 2034[58]
Lack of access to employer-sponsored plans	• 48% (44.5 million individuals) in the U.S. did not have access to an employer-sponsored retirement plan[3]
Low participation rates	• Workers who do have access to an employer-sponsored retirement plan either elect not to participate or are not saving enough[3, 46]

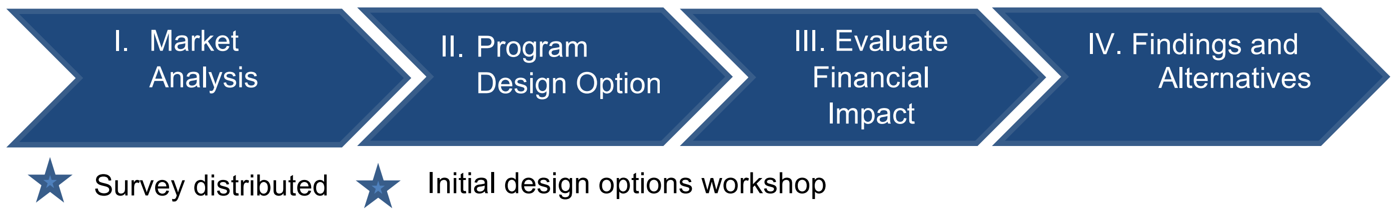
Slide 8: A number of states, like the State of Minnesota, have taken the initiative to understand and address the retirement crisis for private sector employees



<u>Slide 8: Figure Description:</u>

- Washington:
  - Voluntary “marketplace” program; connects employers to existing vendors
- Oregon:
  - Retirement Savings Board created to administer state-run DC plan
  - Pending feasibility study
- California:
  - Currently conducting feasibility study; plan must be self-sustaining and ERISA exempt
- Illinois:
  - Auto-enrolls workers in Roth IRA, money pooled in protected funds
  - Seeking tax opinion on ERISA
- Maryland:
  - “Task Force” studied retirement security and provided next steps
  - Report published in 2015; legislation introduced, but missed cut off
- Connecticut:
  - A bill passed to set up feasibility study and implementation
  - Findings to be presented in 2016
- Massachusetts:
  - Act established; pending before IRS for final authorization
  - Provides retirement options for nonprofits with fewer than 20 employees
- Minnesota:
  - Study analyzes the potential for creating a state-administered retirement savings program to serve private sector employees who do not have access to a retirement program through their employer

Slide 9: A four phase approach has been created to help the State in determining what options to consider for a state-sponsored retirement program



<u>Slide 9 Figure Description:</u>

The four phases of the approach are:

1. Market Analysis – includes Survey distributed
2. Program Design Option – includes Initial design options workshop
3. Evaluate Financial Impact
4. Findings and Alternatives

As part of the Market Analysis phase, Deloitte worked with the State of Minnesota in distributing a survey to:

- Gain insights into the retirement security challenge for small businesses' and their employees
- Gauge small businesses' interest in a possible state-sponsored retirement savings programs

Survey Summary

- A total of 195 employers responded, approximately 65% of those employers have fewer than 50 employees.
- Of those who responded, approximately 16% do not offer a retirement plan to their employees
    - Of the 84.4% of employers who offer an employer-sponsored plan, approximately 64% do not allow part-time employees to participate in the plan
    - Given the part-time national average workforce is 23.8%[48] this would equate to 12.8% in addition to the 15.6% of workers without access to an employer-sponsored retirement plan (or 28% total)
- Five potential program design options were shared with the employers:
    - Education
    - Incentives
    - Retirement exchange
    - Voluntary program
    - Automatic enrollment program
- Education and incentives were supported most by employers surveyed.

Slide 10: Based on the market analysis and survey findings, there are three groups of private sector workers that would benefit from the state-sponsored retirement savings program

Private Sector Workers	Survey Findings
Access, but not saving enough	• Recommendation is to **save at least 8-11 times** of income[3] • 92% of Americans retirement assets do not meet this minimum[3] • Average defined contribution balance in Minnesota in 2012 per account holder was **$38,492** among all groups[10]
Not offered a plan	• About **873,000**, or **39%**, of private sector workers **do not have access** to an **employer-sponsored benefit plan** in Minnesota[45] • Only 4.6% of workers who are not offered employer-sponsored plans save in their own IRAs, meaning this group is 15x less likely to save than those workers offered plans[59]
Part-time Employees	• Of the employers surveyed, 64% employers that offer an employer sponsored plan do not offer their plan to part-time workers* • This gap is further supported as the national average suggests there **61%** of part-time private sector workers **do not have access** to an **employer-sponsored benefit plan**[46]

Utah conducted a study and the findings indicated that if the bottom of one-third of workers increased their net worth by just 10% over their career, this would decrease expected government outlays on safety net spending by more than $194 million over the next 15 years.[41]

Slide 11: Barriers exist for employers and employees when it comes to participating in private sector retirement plans

Employer Barriers to Offering Retirement Plans	Short Term Employees	Not always eligible to participate[45]
	Complex Administrative Burdens	Implementation, start up and ongoing costs[50, 51]
	Fiduciary Responsibility	Confusing to choose the right plan and options[50, 51]
	Administrative Costs/Fees	Challenging to negotiate low fees[50, 51]
	Competing Benefits	Demand for other benefits such as healthcare prioritized[50]

Employee Barriers to Participating and Saving in Retirement Plans	Income	Lower income individuals are less likely to participate[15]
	Age	Younger individuals are less likely to save for retirement[15]
	Gender	Women are less likely to have retirement plans than men[14]
	Race and Ethnicity	Households of color have less in retirement savings[17]
	Competing Financial Needs	Student loans, house payments and raising a family[7]
	Personal Circumstances	Forgetfulness, lack of education, lack of planning and procrastination[15]

Slide 12: Private sector employers have adopted various strategies that have been successful in encouraging employees to participate and increase their retirement savings

Strategies	**Survey Findings**
Automatic Enrollment	• Plan participation among those automatically enrolled came in at 91%, compared to a 42% participation rate when new employees had the option[63]
Automatic Contribution Escalation	• 62% of plan sponsors use auto escalation feature[57] • Can increase an individual's account balance more than 100%[67]
Matching Threshold	• Serves as a strong focal point as workers decide how much to save[12]
Limited Options	• Offering a small number of plan options has a positive correlation with participation[12]
Planning Aids	• Planning aids can increase employee participation up to 21%[12]
Education	• 69% of plan sponsors who made changes to their communication strategies within the previous 2 years reported an increase in plan participation[64]

While these strategies are being implemented, they represent a solution only available to those employed by companies that offer a retirement savings program.

Slide 13: Discussion of Program Design Options

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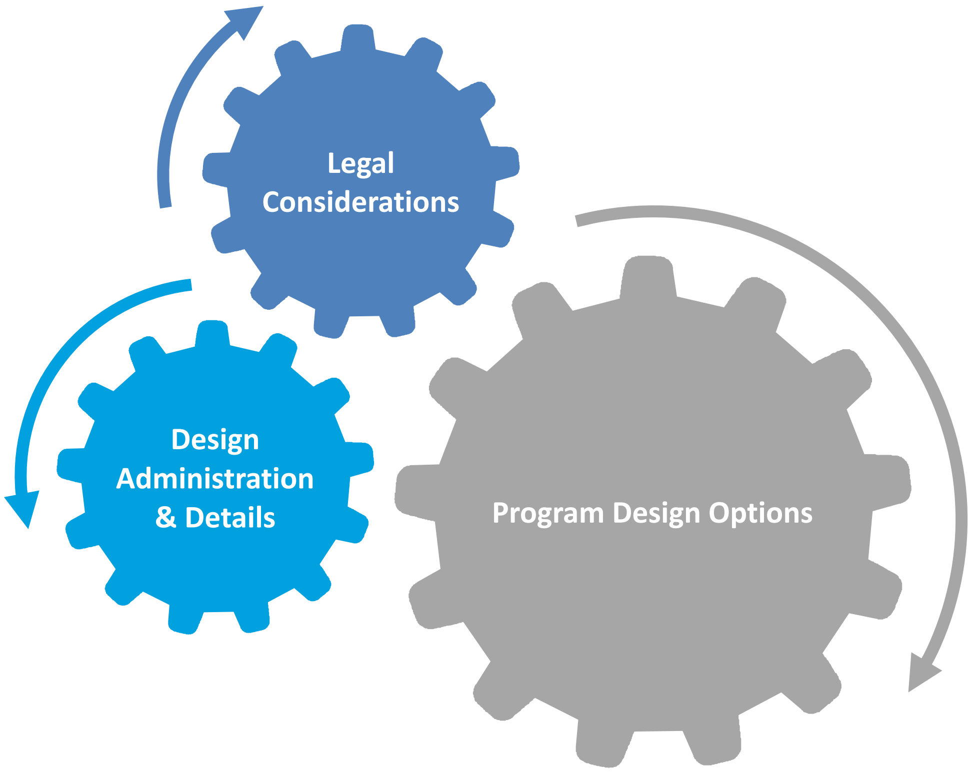
Slide 14: Goals and Expectations

- Various retirement program design aspects presented to guide today's discussion
- Feedback received will help establish guiding principles and will serve as inputs into potential program designs and recommendations
- All thoughts and opinions are welcome and encouraged

Slide 15: There are various retirement program aspects that should be considered in solving the retirement challenge in Minnesota

<u>Slide 15 Figure Description</u>

Solving the Retirement Challenge in Minnesota:



- Legal Considerations
    - Investment Risk
    - Fiduciary Responsibility
- Design Administration & Details
    - Administration & Fees
    - Contribution Source
    - Tax Status
    - Enrollment
- Program Design Options
    - Savings Vehicle Options
    - Incentives
    - Retirement Education
    - Retirement Exchange

Slide 16: Savings Vehicle Options

What type of savings options should the state consider?

- Defined Contribution Plan
    - Establish a traditional DC plan like those offered by many employers
    - Employees contribute through payroll deduction
    - The only option available to reduce FICA tax for employee and employers
    - Higher contribution limits[61]
- myRA-like Plan
    - Similar to Federal myRA
    - Simple, safe, and affordable way to save up a lifetime maximum of $15,000[62]
    - Investment will grow risk free, earning interest at the same rate as investments in the government securities fund
    - No cost to employees
- Payroll Deduction IRA
    - Employer sets up the payroll deduction IRA program with a bank, insurance company or other financial institution
    - Employees choose whether to participate and how much
    - Simplifies the process of individuals enrolling in an IRA
    - No employer responsibility to administer plan[61]

Slide 17: Incentives?

Should the State consider different types of incentives to encourage employers to sponsor a savings program?

- Current Incentives
    - **Tax incentives**
        - Employer contributions are tax deductible from employer's income
        - Tax credit for some of the ordinary and necessary costs of starting an SEP, SIMPLE IRA, or qualified plan for employers with 100 or fewer employees
            - Credit is 50% of employer's eligible startup costs up to a maximum of $500 per year[61]
- Additional Incentives
    - **Additional Tax incentives**
        - Determine target business size and provide additional tax-incentives
            - According to the survey conducted, 90% of businesses who don't offer a retirement plan have fewer than 50 employees
    - **Other Incentives**
        - Negotiate lower program fees with providers

Slide 18: Retirement Education

1. Should the State consider an educational campaign?
2. Separate or in conjunction with other programs?
3. Whose responsibility is it to educate individuals on retirement?

- State
    - Raise awareness of the importance of saving for retirement, how much to save, when to start saving, retirement readiness
        - Educational seminars for employers and individuals
        - Sponsor billboards, print ads, commercials
        - Educational curriculum in schools
        - Education in conjunction with social safety net programs
- Employer
    - Educate on existing plan if offered or to educate on private sector products if they don't offer one
        - Online resources / Company intranet
        - Trainings / learning seminars focused on saving for retirement
        - Annual enrollment meetings
        - New hire orientation sessions
        - Emails / targeted communications based whether an employee is saving or not
- Securities Industry
    - Educate consumers on the importance of saving for retirement, cost of retirement, and available vehicles as well as educating employers (plan sponsors)
        - Interactive tools to show an individual's retirement readiness
        - Marketing channels – mailings, commercials, ads
        - Tailoring communication based on the individual's life stage / age
        - Trainings / learning seminars focused on saving for retirement

Slide 19: Retirement Exchange

Should the State consider a retirement exchange as an alternative approach to a state-sponsored program?

State Facilitates Relationships with Private Sector Brokers

- The State connects employers with available private sector retirement savings options
- The State of Washington enacted "Washington Small Business Retirement Marketplace,"[60]
  - A voluntary retirement exchange (website) in which employers participate
  - Connects employers with currently available low-cost, low-fee private sector retirement savings options (SIMPLE IRA, IRA, MyRA, etc.)

Considerations

- Should employers be required to select one of the exchange options or should it be voluntary?
- Should the State select specific providers and options for the marketplace or should the market be open to all private insurers?

Slide 20: Administration & Fees

1. Should the State/Quasi State, employer, or a third-party administer the program?
2. Who should pay for the program fees?

- Administrative Responsibilities
  - Monitoring of the program and updating as necessary so it's achieving the defined objectives (whether it is an education outreach, exchange or a state-sponsored plan)
  - Ensuring programs meet current laws and update as necessary
  - Responding to participant questions
  - Day-to-day program operations and administration
  - Development of educational materials (including communications) for employers, employees, and/or the public informing them of the program design, eligibility, and benefits
- Fees
  - Paid from plan assets
  - Taxpayers
  - Participants
  - Employer
  - Combination of the above

Administrative work and cost is dependent on the program design option selected.

Slide 21: Contribution Source

Who should be able to contribute to the potential state-sponsored plan?

- Employer Contributions Only
    - All contributions in the plan come from the employer
        - Similar to a defined benefit format
- Employee Contributions with Employer Match
    - Optional Match
        - The employer has the option to match employee contributions
    - Mandatory Match
        - The employer must match a pre-defined % of employee contributions
- Employee Contributions Only
    - All contributions in the plan come from the employee
        - The employer is not allowed to provide a match
- State Contributions
    - This is not an option

Slide 22: Tax on Contributions

Should employee contributions be pre-tax or post-tax?

- Pre-Tax Contributions (Traditional)
  - Tax Deferred – allows the participant to postpone paying taxes on the amount contributed and the earnings that are generated as long as they remain in the account
  - Potential Advantages:
    - Reduced taxable income in savings years
    - Contributions and earnings may be taxed at a lower rate if the participant's taxable income is lower than it was during their working years
  - Potential Disadvantage
    - Contributions to the plan are excluded from the state income tax, resulting in potential revenue loss
- Post-Tax Contributions (Roth)
  - Tax Now – the participant pays income tax on their contributions up front
  - Potential Advantages
    - The money in a Roth account grows tax free, meaning no taxes will be paid at time of withdrawal

Slide 23: Enrollment

Should the State automatically enroll individuals into a potential state-sponsored plan or should it be voluntary enrollment?

- Automatic Enrollment
    - The employees would be automatically enrolled in the plan
        - Pre-defined deduction rate from payroll
        - Automatic contribution escalation
        - Reenrollment
        - Opt out
    - State of Illinois
        - Eligible workers are automatically enrolled with a 3% payroll deduction per paycheck. They may opt out if they wish[34]
        - Only employees can contribute to their accounts
- Voluntary Enrollment
    - The employee would voluntarily enroll into the plan
        - Employees decide how much to contribute
        - Opt in

Slide 24: Investment Risk

Who should accept the risk?

- Employer Accepts Risk
  - The employer must decide:
    - How much to contribute to plan assets
    - How to allocate those contributions among different investment options
  - Bears the investment risk during the accumulation phase and then absorbs longevity risk and much of inflation risk after retirement
    - Responsible for replacing lost funds to cover promised benefits
- Employee Accepts Risk
  - The employee must decide:
    - Whether to join the plan
    - How much to contribute
    - How to allocate those contributions among different investment options
    - How to change those allocations over time
    - How to withdraw the accumulated funds at retirement
  - Exposes employee to the risks of saving too little, losing funds when financial markets fluctuate, seeing the value of their retirement income eroded by inflation, and outliving their resources since payment is generally not in the form of an annuity
- State Accepts Risk
  - Guaranteed return option
    - Responsible for funding enough to cover promised benefits

Slide 25: Plan Fiduciary

Who is to take on the fiduciary responsibility, if required*: the State or the employer?

*There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.

- Fiduciary Responsibilities
    - The Employee Retirement income Security Act (ERISA) protects plan assets by requiring that those persons or entities who exercise discretionary control or authority over plan management or plan assets, anyone with discretionary authority or responsibility for the administration of a plan, or anyone who provides investment advice to a plan for compensation or has any authority or responsibility to do so are subject to fiduciary responsibilities[61]
    - Run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses
    - Fiduciaries who do not follow these principles of conduct may be personally liable to restore any losses to the plan, or to restore any profits made through improper use of plan assets[61]

*There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.

Slide 26: What other considerations related to a potential state-sponsored retirement savings program do you want to discuss today?

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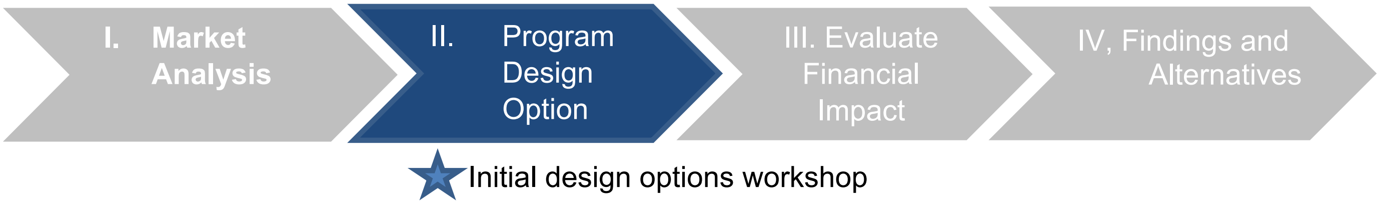
Slide 27: Next Steps



<u>Slide 27 Figure Description:</u>

Phase 2 is Program Design Option. This phase includes the Initial design options workshop.

Incorporate today's discussion, market research, and survey results as inputs into the development of potential options for the State to consider in offering a state-sponsored retirement savings program. Options will be shared and discussed at the next workshop a month from now.

Slide 28: Appendix

Topic	Page
Market Analysis	29 - 41
Survey Findings	42 - 49
Sources	50 – 54

Slide 29: Market Analysis

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Slide 30: Americans are "at risk" in their ability to have adequate retirement funds

There is a national crisis with Americans saving enough for retirement

- Based on the EBRI Issue Brief Retirement Income Preparation and Future Prospects, 43.7% of Late Baby Boomers and 44.5% of Gen Xers are considered to be "at risk" in their ability to pay for basic retirement expenditures and uninsured health costs; 70.3% of households in the lowest 1/3 of preretirement income are "at risk" further reinforcing the issue of adequate retirement savings[52]
- After 10 years of retirement, 41% of those in the lowest income quartile are estimated to run out of money. This percentage increases to 57% after 20 years in retirement[52]
- Workers who are younger, have lower earnings, and have less attachment to the workforce typically work for employers who do not sponsor a retirement plan and saving for retirement is not a top priority[53]

Slide 31: The average amount of savings Minnesota residents have upon retirement is less than the recommended amount to be financially secure

The median net worth (excluding retirement assets) for those aged 55-64 with retirement accounts is $245,000 and $40,000 for those without.[3]

The recommended rate for a person to start saving at age 25 more than doubles if they wait until age 45, and triples if they wait until age 55.[13]

Only 4.6% of workers who are not offered employer-sponsored plans save in their own IRAs, meaning this group is 15x less likely to save than those workers offered plans.[59]

To maintain standard of living, a typical American household needs to replace 85% of pre-retirement income. Social security provides roughly 35% of this replacement.[3]

The average yearly benefit of a retiree on Social Security was $15,270.[20]

The average defined contribution balance in Minnesota in 2012 per account holder was $38,492 among all groups.[10]

Slide 32: Barriers to Savings: Why employers are not offering a plan

Short Term Employees	• Firms feel no need to offer for minimal time working.
Administrative Burden	• The burden of paperwork and administration is a common concern among small employers. Many smaller firms lack the sufficient financial resources, time and personnel to take on the administrative tasks in offering a plan to employees. The startup and ongoing costs in administering a plan was the key barrier for small employers. • Some firms cannot offer a company match and therefore don't offer a retirement plan.
Fiduciary Responsibility and Investment Selections	• Firms find it challenging to pick the right plans (especially for younger and older workers), and they often do not know the rules and want to avoid being held liable. [50, 51]
Competing Benefits	• Demand for retirement savings benefits among employees may be lower than the demand for health care benefits and with limited employer funds for benefits, smaller employers tend to offer health care benefits. • Offering health care benefits is a key recruiting tool used by smaller employers. [50, 51]
Fees	• Demand for retirement savings benefits among employees may be lower than the demand for health care benefits and with limited employer funds for benefits, smaller employers tend to offer health care benefits. • Offering health care benefits is a key recruiting tool used by smaller employers. [50, 51]

Slide 33: Recent burdens on small Minnesota businesses may be impacting employers from offering private sector retirement plans to their employees

MNsure Health Insurance Program[35]	• Insurance costs for small businesses are high compared to big business costs which benefit from economies of scale • MNsure is a government run marketplace that was expected to cover 155,000 people in small group plans by the end of 2015. As of May 2015, it only covered 1,405 people due to ongoing technical challenges, administrative burdens, and a lack of tax credits to encourage small employers to participate in the exchange[56]
Minimum Wage Law [36]	• As of 2014, the minimum wage for small businesses (firms with annual revenue at $500,000 or less) in Minnesota is $6.50 • Minimum wage in Minnesota is to increase to $7.25 on August 1, 2015 for small businesses • Minimum wage in Minnesota is to increase to $7.75 on August 1, 2016 for small businesses
Women's Economy Security Act [37]	• May increase costs to small businesses by requiring more leave time and extra accommodations for pregnant and nursing women, as well as the ability to transfer positions
Taxes [35]	• Utility rates were lowered for many big businesses and raised for many small businesses • New customers of solar and wind energy will be assessed a fee - discouraging customers from buying them and preventing future small businesses in this segment from operating in MN • Property tax legislation had a positive effect for big businesses and a negative effect for small firms
Other Concerns	• Problem of limited internet access - the House recently tried to shut down a bill for improved internet access across greater Minnesota, but after much protest it returned with only 10% of its funding [35] • Many small businesses lack the newest technologies [38] • Loans come at a higher price [34]

Slide 34: Barriers to Savings: Why employees are not participating in a plan

Early Distributions	• Withdrawing of retirement savings prior to 59.5 is often and accompanied by a 10% excise tax[7] • Before the economic downturn, approximately 5% of participants took withdrawals per year, with 20% being hardship withdrawals averaging $5,500 and 80% being non-hardship withdrawals, including "59 ½ withdrawals" (a plan feature that allows employees who reach 59 ½ to withdraw funds on a pre-tax basis without a hardship), averaging about $15,500[11] • Lower income Americans are more apt to withdraw; about 9% withdrawing per year have an income between $20,000 and $60,000[11]
Age and Income of the Individual	• As income increases, so does the participation rate. The participation rate of those who make between $10,000-$19,999 is 18%, 34% for those who make between $20,000-$29,999, and 65% if income is between $40,000-$49,000[15] • 38% of individuals aged 25-34 participate in an employer-based retirement plan whereas 49% aged 35-44 participated and participation increases for the next age groups[15] • Younger workers place retirement as less of a priority than older workers due to competing financial needs
Competing Financial Needs	• Examples are school loans, house payments, and raising a family[7] • 34% of Minnesotan's pay more than 30% of their income on housing costs[10]
Other Factors	• Forgetfulness, lack of education, lack of planning and procrastination[12] • 56% of those with a bachelor degree participated in an employment based retirement plan, whereas only 38% participated if they had a high school diploma, and 20% with no high school diploma

Slide 35: Gaps exists in retirement savings by gender

Overall, women are less likely to have retirement plans than men due to their overall lower average wage earnings and lower rates of full-time work in comparison to males[15]

However, among full-time, full-year workers, women have higher participation rates in retirement plans than do men[15]

Women are more likely to participate in a defined contribution plan than men if offered one through their employer[15]

Women near retirement have about $34,000 in retirement assets compared to $70,000 for the male counterpart[14]

Females have a lower median income than males[16]

Females also live longer than males, requiring them to save more[30]

The average annual Social Security benefit awarded in 2012 for a retiree 65 years of age was $19,194 for a male and $14,523 for a female[1]

Slide 36: Gaps exists in retirement savings by race and ethnicity

75% of Black households and 80% Latino households age 25-64 have less than $10,000 in retirement savings, compared to 50% of white households[17]

Hispanic wage and salary workers were significantly less likely than both white and black workers to participate in a retirement plan, although native-born Hispanics were more likely to participate than non-native born Hispanics[29]

Among near-retirees, the per-household average retirement savings balance among households of color ($30,000) is one-fourth that of white households ($120,000) of increasing participation and savings[17]

Note: Poverty rates vary greatly among different races, of which white people have the lowest poverty rate.[15] There is a significant earning gap between households of color and whites.[18]

Solving the race and ethnicity gap in saving for retirement may not be achieved through the state-sponsored retirement plan, however, this gap should not be ignored and could be supported with a targeted educational campaign encouraging retirement savings

Slide 37: Private sector employers have adopted various strategies that have been successful in encouraging employees to participate and increase their retirement savings

Automatic Enrollment	• Proven the most successful means of increasing participation and savings • A study showed that new hires automatically enrolled have a 91% participation rate compared to only a 42% participation rate for those who voluntarily enrolled[63]
Automatic Contribution Escalation	• Increasing the contribution rate annually is an important strategy for employees reaching their retirement goals. Only 6% of employees will sign up for it on their own, whereas 80% will participate if it's part of the plan's default option[66] • 62% of plan sponsors use auto escalation features to encourage increased savings[57]
Matching Threshold	• Serves as a strong focal point as workers decide how much to save[12] • However many participants elect to contribute the minimum amount to get the full company match, which can result in a lower savings rate than may be required for a secure retirement[64]
Limited Options	• Offering a small number of plan options has a positive correlation with participation[12] • Behavioral research studies have shown that participants feel overwhelmed by too many investment choices, which may deter employees from participating[64]
Education	• 83% of plan sponsors reported that they use communications to encourage employees to save for retirement and to raise awareness of assets needed for retirement[57] • 69% of plan sponsors who made changes to their communication strategies within the previous 2 years reported an increase in plan participation[64]
Planning Aids	• When planning aids are offered to new hires, studies show that these materials encouraged employees to participate more than those who do not have any help in enrolling; Planning aids can increase employee participation up to 21%[12] • Offering planning aids can have 2 to 3 times the estimated impact of matching contributions on savings plan participation[12]

While these strategies are being implemented, there are still many private sector workers who do not have access to an employer-sponsored plan and are not saving enough for their retirement. Thus, the State of Minnesota wants to reduce this large gap in retirement savings.

Slide 38: The current expenditures on publicly funded social safety net programs by Minnesota are impacted by the insufficient retirement savings of retirees

Federally Funded

- **92% of Minnesotans** over 65 are receiving Social Security[20]
- Without Social Security, **45% of Minnesota's 65+ population** would have incomes **below poverty line**[20]
- Social Security **makes up 50% or more** the income for **61% of Minnesotans age 65 and older**, with 28% relying solely on Social Security[20]
- The **trust fund** from which Social Security benefits are paid is expected to be **depleted by 2034** and continuous tax income is expected to be able to **cover only 75% of scheduled benefits**[39]
- Of the federal budget, **24% goes to Social Security**, 24% to Medicare/Medicaid/CHIP/etc., **11% to safety net programs**, and 41% to others[24]
- In fiscal year 2012, the Federal Government's estimated **revenue loss** (due to tax preferences) associated with DC accounts was **$51.8 billion** and **$16.1 billion** with IRAs[39]
- **73% of the total government outlays for retirees** are spent on **1/3 of the US retiring population**, roughly $2.7 billion[41]

State Funded

- Minnesota was the **second highest state in 2008 in safety net spending** (ratio of public welfare spending to total direct state general expenditure), at 44%, with the average of all states at 34%[19]
- In FY 2011, states spent an **estimated $149 billion** of their own funds **on Medicaid**. State spending on the program is **projected to grow at an 8.3%** annual rate for the next decade, in part reflecting program expansions under the Affordable Care Act[19]
- 21% (48,726) of Minnesota SNAP-eligible adults are age 60+ [21]
- Locally (MN), **7.5 percent of seniors** (about 1 in 13) are at **100% of poverty** and 24.9% (1 in 4) are at or below 200% of poverty[22]
- Minnesota Medicaid spending per "aged" enrollee is $17,053[23]

Slide 39: Minnesota ranks fifth of the highest expenditure states when it comes to safety net programs

In 2014, Minnesota spent $11.3 billion on social safety net programs. Total estimated government spending in MN was $35.4 billion for 2014.[55]

2014 Data[54]				
Program	MN Average Benefit per person	National Average	Percent of MN spending vs National spending	MN Rank
Workers Compensation	$147	$266	(44.8%)	22
Temporary Disability Insurance	$44	$150	(70.7%)	24
Minnesota Medicaid and Children's Health Insurance Program	$13,318	$7,435	79.1%	3
Minnesota Supplemental Security Income	$1,028	$906	13.5%	16
Minnesota Temporary Assistance for Needy Families (TANF)	$444	$347	27.8%	13
Minnesota Supplemental Nutrition Assistance Program (SNAP)	$1,152	$1,292	(10.8%)	44
Minnesota General Assistance Program*	$3,333	$2,065	61.4%	5
Unemployment Insurance	$1,985	$1,468	35.2%	11
Total	$21,451	$13,930	54%	5

*Consists largely of general assistance; expenditures for food under the special supplemental nutrition program for women, infants, and children (WIC); other needs assistance; refugee assistance; foster home care and adoption assistance; the 2008 economic stimulus act rebates; earned income tax credits (EITC); child tax credits; ARRA funded tax credits; other tax credits; and energy assistance.

Slide 40: Based on a Utah Study, Minnesota has the potential to significantly reduce safety net spending for retirees

Utah's Social Safety Net Program Spending due to Insufficient Retirement Savings[29]

Selected Public Programs	Maximum Benefit
Property Tax Abatement	$924
Utah Retired Credit Tax	$450
Medicare Cost Sharing Program (Utah Medicaid)	$7,859
Home Energy Assistance Target	$450
Supplemental Security Income	$8,796
Supplemental Nutrition Assistance Program	$2,328

Total Program Outlays through 2030 (in Millions)	
All Retirees	$3,782
Top One-Third	$2,747
Top Quarter	$2,529
Top 10%	$2,065
Top 5%	$1,677

- Through 2030, new retirees entering program eligibility will be eligible for $3.7 billion in program benefits
- An increase in net worth among the bottom one-third of retirees by just 10% over the worker's career would decrease expected government outlays by more than $194 million over the next 15 years – amounting to only $14k in savings over their career[41]
- The ratio of Minnesota to Utah new retirees through 2030 (aged 45 and above) is 2.6. Minnesota spends more on safety net programs than Utah; through this comparison we can assume Minnesota eligible program benefits would be at least $9.6 billion and expected outlays would decrease by at least $504 million[28]

Slide 41: The Department of Labor will propose regulations to help states in offering potential state-administered programs

State Savings Plans

- The President directed the DOL to develop a regulation to support the states in trying to promote broader access to workplace retirement savings
- The department will propose a regulation, near the end of 2015, that will clarify how states can move forward with state-sponsored retirement savings programs, with respect to auto-enrollment and for employers to offer coverage
- Obama has long supported federal legislation that would auto-enroll new workers into payroll deduction IRAs, so he is likely to back this similar agenda[47]

Legal Background

- The most pressing issue is whether ERISA will preempt or nullify state efforts
- The DOL believes ERISA preemption should not be an insurmountable barrier to the states' good faith efforts to bolster the retirement security of their workers
- The DOL already has a safe harbor regulation in place that states payroll deduction IRAs in private sector workplaces are not ERISA-regulated employee benefit plans so long as certain conditions are met[47]

Slide 42: Survey Findings

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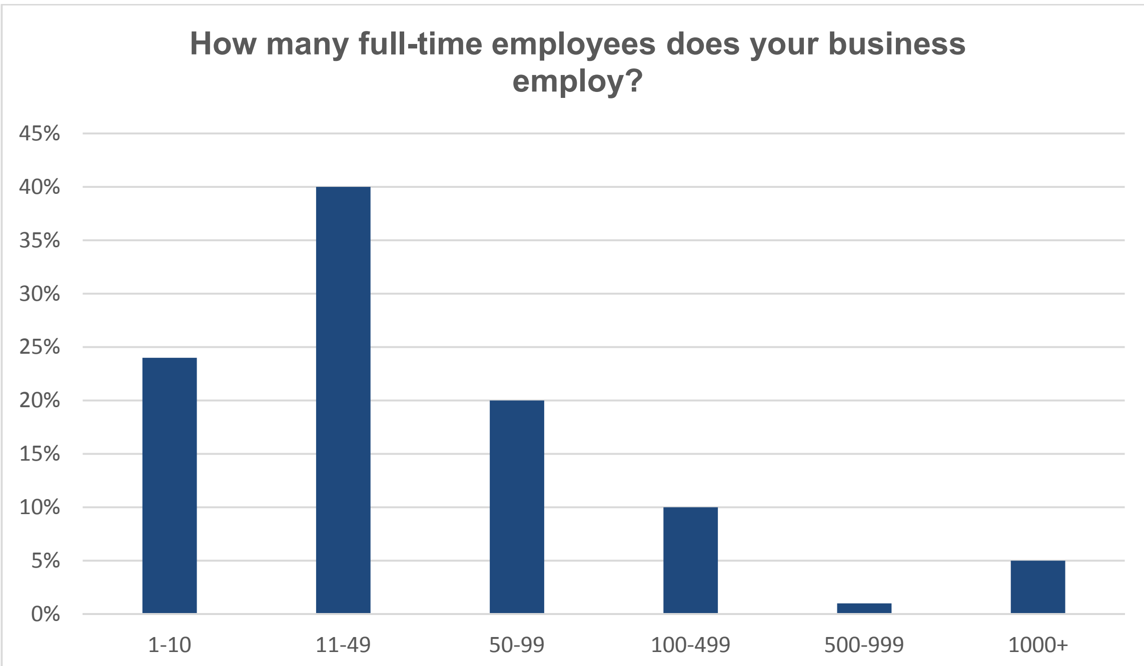
Slide 43: The survey was distributed to help the State of Minnesota gain insights into the retirement security challenge for small businesses' employees

- The online survey was conducted by Deloitte Consulting, on behalf of the State, and primarily targeted to small businesses of various industries and locations in Minnesota
- The list of employers given the opportunity to participate in the survey was provided by the Minnesota Chamber of Commerce
- A total of 195 employers responded, approximately 65% of those employers have fewer than 50 employees
- Results of this survey were analyzed by Deloitte Consulting



<u>Slide 43: Figure Description</u>

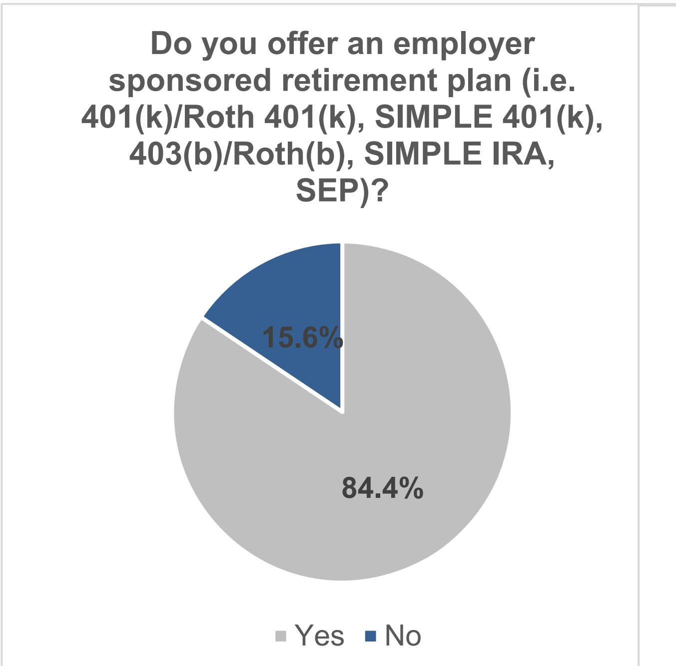
Bar Graph: How many full-time employees does your business employ?

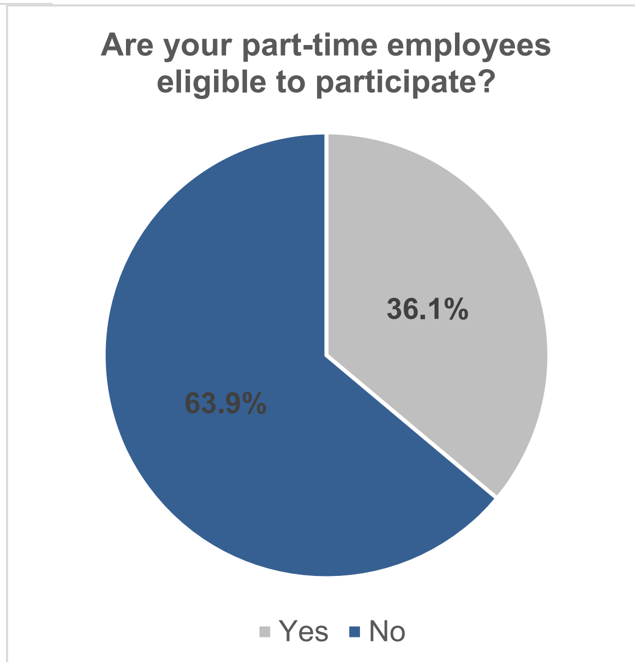
- Approximately 24% responded 1-10 full-time employees
- Approximately 40% responded 11-49 full-time employees
- Approximately 20% responded 50-99 full-time employees
- Approximately 10% responded 100-499 full-time employees
- Approximately 1% responded 500-999 full-time employees
- Approximately 5% responded 1000+ full-time employees

Slide 44: Gaps exist in the number of Minnesota private sector workers who have access to employer-sponsored retirement saving plans

There are numerous Minnesotan's who could potentially benefit from having retirement savings access.

- Approximately 16% of Minnesota employers that responded do not offer a retirement plan
- Of the 84.4% of employers who offer an employer-sponsored plan, approximately 64% do not allow part-time employees to participate in the plan
- Given the part-time national average workforce is 23.8%[48], this would equate to 12.8% in addition to the 15.6% of workers without access to an employer-sponsored retirement plan





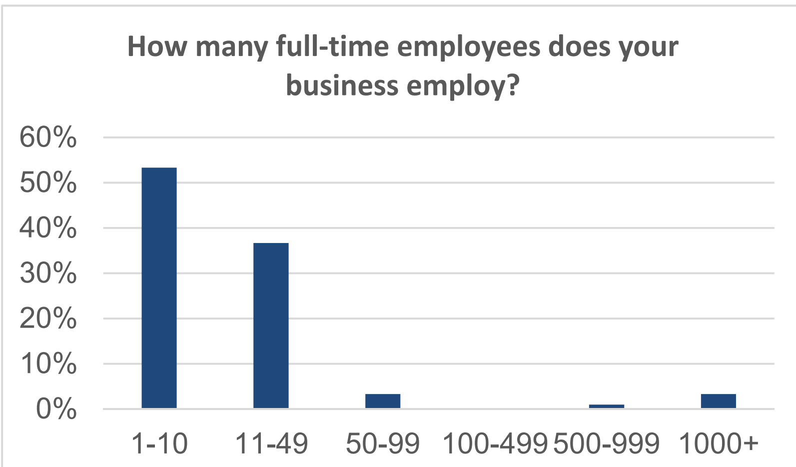
<u>Slide 44 Figure Description:</u>

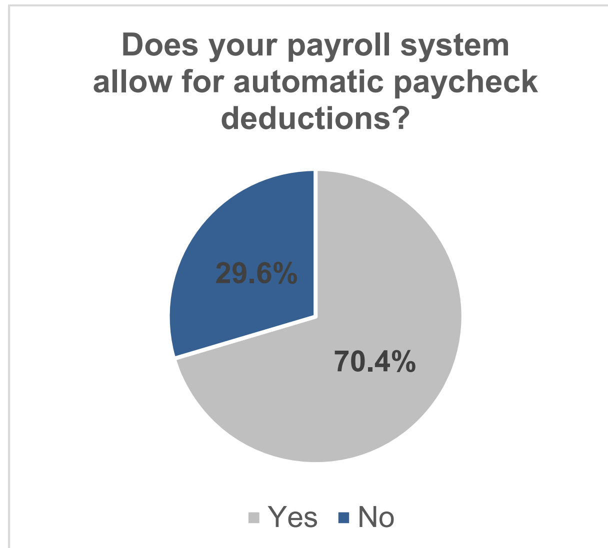
- Pie Chart 1: Do you offer an employer sponsored retirement plan (i.e. 401(k)/Roth 401(k), SIMPLE 401(k), 403(b)/Roth 403(b), SIMPLE IRA, SEP)?
    - Yes: 84.4%
    - No 16.6%
- Pie Chart 2: Are your part-time employees eligible to participate?
    - Yes: 36.1%
    - No 63.9%

Slide 45: The majority of employers who do not offer an employer-sponsored retirement plan have less than 50 employees

A number of barriers were identified as to why some private sector employers have elected not to provide retirement plans to their employees.

- The main reasons for not providing a plan are due to the size of company (too small), high costs, administrative complexity, and the amount of work involved; all of which were expected[27]
- 90% of businesses who don't offer a retirement plan have fewer than 50 employees
- 30% of employers not offering a retirement plan have payroll systems that do not allow for automatic withdrawals, which suggests any plan requiring payroll deductions would be an additional cost burden to these businesses





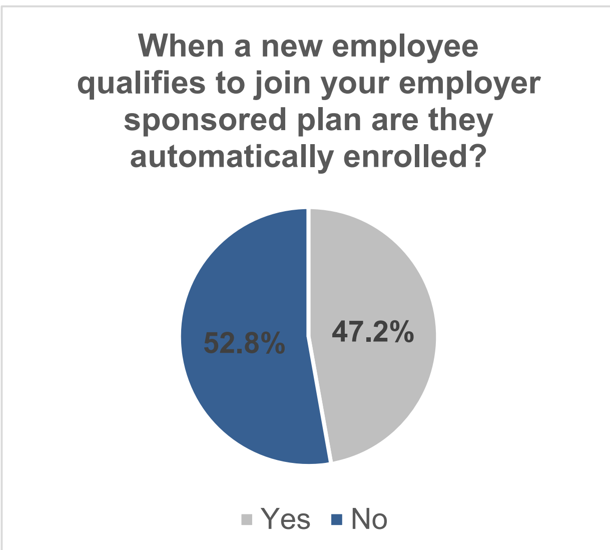
<u>Slide 45 Figure Description:</u>

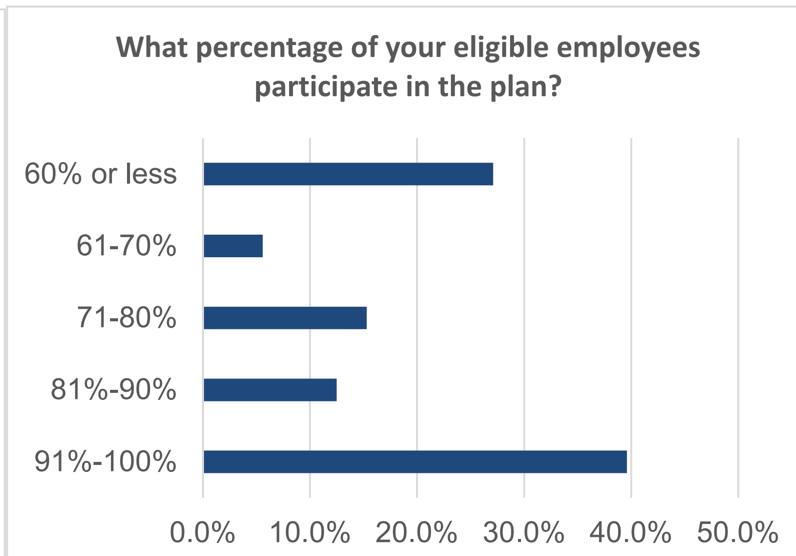
- Bar Graph: How many full-time employees does your business employ?
  - Approximately 53% responded 1-10 full-time employees
  - Approximately 37% responded 11-49 full-time employees
  - Approximately 3% responded 50-99 full-time employees
  - Approximately 3% responded 100-499 full-time employees
  - Approximately 0% responded 500-999 full-time employees
  - Approximately 3% responded 1000+ full-time employees
- Pie Chart: Does your payroll system allow for automatic paycheck deductions?
  - Yes: 70.4%
  - No: 29.6%

Slide 46: Survey results suggest that most employees would participate in an employer-sponsored retirement plan if one was offered

Results indicate that if an employee is offered a retirement savings plan through their employer, they are more likely to participate than not.

- The average participation rate among the 84% that offer a plan is 73% and the median participation rate is 80%
- Auto-enrollment is a common consideration for other states and is currently in place with 47% of employers surveyed who offer a retirement plan
- 91% of employers reported that less than 10% of employees opted-out with automatic enrollment[57]





<u>Slide 46 Figure Description:</u>

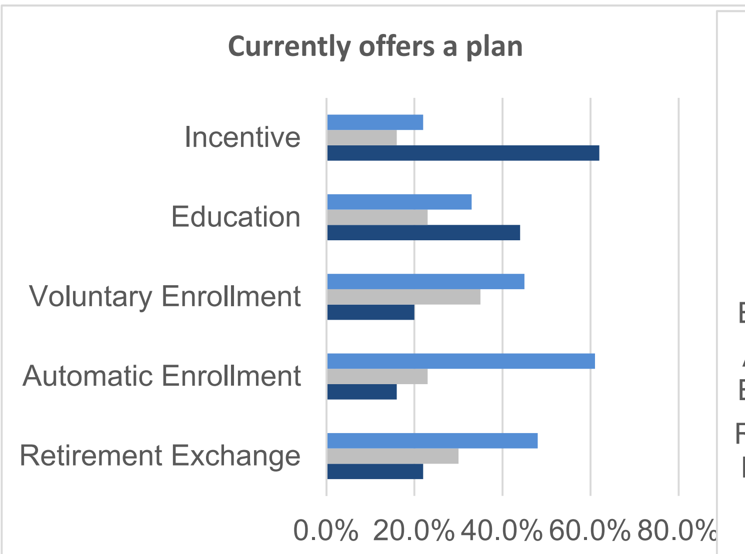
- Pie Chart: When a new employee qualifies to join your employer sponsored plan are they automatically enrolled?
  - Yes: 47.2%
  - No: 52.8%
- Bar chart: What percentage of your eligible employees participate in the plan?
  - 27.1% responded 60% and less
  - 5.6% responded 61% - 70%
  - 15.3% responded 71% - 80%
  - 12.5% responded 81% - 90%
  - 39.6% responded 91% - 100%

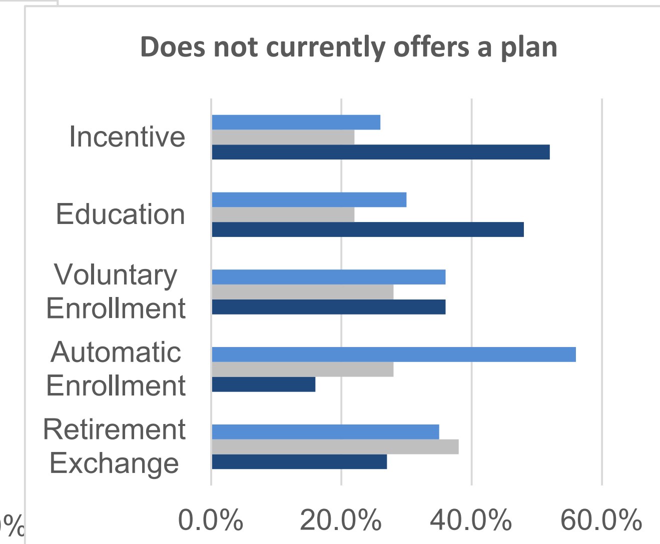
Slide 47: Five potential plan design aspects were presented to determine the level of support from employers

There is low support from small businesses for a state-sponsored plan.

- Of the aspects listed, providing retirement education and incentives were the only two options for which "support" outweighed "do not support"
- When asked if there was a cost associated for enrolling employees in any of the potential retirement savings plans, 17% said their support of the plan would change and 26% were undecided
- Automatic Enrollment was the least supported plan of all the options

How strongly would you support the proposed retirement savings plan?





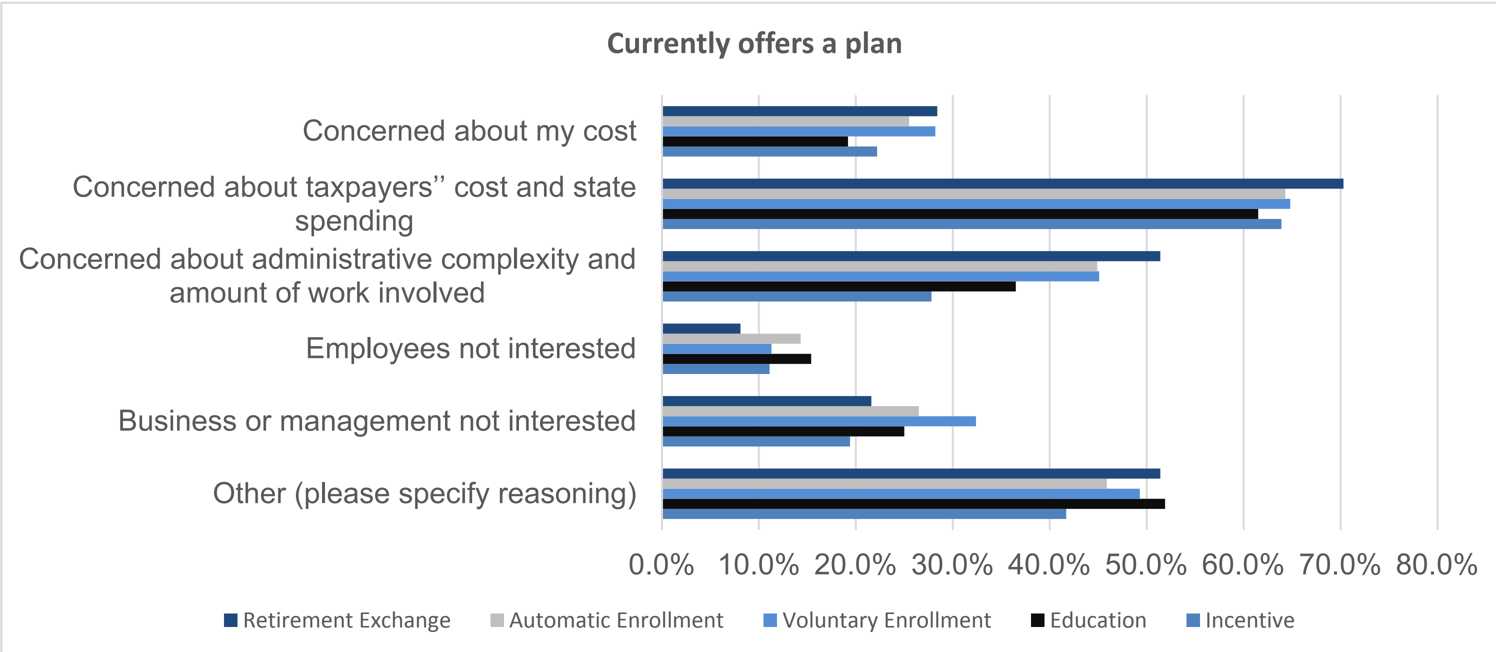
<u>Slide 47 Figure Description:</u>

How strongly would you support the proposed retirement savings plan?

- Bar Graph 1: Currently offers a plan
  - Retirement Exchange
    - Support: approximately 22%
    - Indifferent: approximately 30%
    - Do not support: 48%
  - Automatic Enrollment
    - Support: approximately 16%
    - Indifferent: approximately 23%
    - Do not support 61%
  - Voluntary Enrollment
    - Support: approximately 20%
    - Indifferent: approximately 35%
    - Do not support: approximately 45%
  - Education
    - Support: approximately 44%

        - Indifferent: approximately 23%
        - Do not support: 33%
    - Incentive
        - Support: approximately 62%
        - Indifferent: approximately 16%
        - Do not support: 22%
- Bar Graph 2: Does not currently offer a plan
    - Retirement Exchange
        - Support: approximately 27%
        - Indifferent: approximately 38%
        - Do not support: 35%
    - Automatic Enrollment
        - Support: approximately 16%
        - Indifferent: approximately 28%
        - Do not support: 56%
    - Voluntary Enrollment
        - Support: approximately 36%
        - Indifferent: approximately 28%
        - Do not support: 36%
    - Education
        - Support: approximately 48%
        - Indifferent: approximately 22%
        - Do not support: approximately 30%
    - Incentive
        - Support: approximately 52%
        - Indifferent: approximately 22%
        - Do not support: approximately 26%

Slide 48: Majority of the respondents opposed the proposed retirement savings plans due to concerns about taxpayers' costs and state spending



<u>Slide 48 Figure Description:</u>

Bar Graph:

- Concerned about my cost
  - Retirement Exchange: 28.4%
  - Automatic Enrollment: 25.5%
  - Voluntary Enrollment: 28.2%
  - Education: 19.2%
  - Incentive: 22.2%
- Concerned about taxpayers'' cost and state spending
  - Retirement Exchange: 70.3%
  - Automatic Enrollment: 64.3%
  - Voluntary Enrollment: 64.8%
  - Education: 61.5%
  - Incentive: 63.9%
- Concerned about administrative complexity and amount of work involved
  - Retirement Exchange: 51.4%
  - Automatic Enrollment: 44.9%
  - Voluntary Enrollment: 45.1%
  - Education: 36.5%
  - Incentive: 27.8%
- Employees not interested
  - Retirement Exchange: 8.1%
  - Automatic Enrollment: 14.3%
  - Voluntary Enrollment: 11.3%
  - Education: 15.4%
  - Incentive: 11.1%

- Business or management not interested
    - Retirement Exchange: 21.6%
    - Automatic Enrollment: 26.5%
    - Voluntary Enrollment: 32.4%
    - Education: 25.0%
    - Incentive: 19.4%
- Other (please specify reasoning)
    - Retirement Exchange: 51.4%
    - Automatic Enrollment: 45.9%
    - Voluntary Enrollment: 49.3%
    - Education: 51.9%
    - Incentive: 41.7%

“Other” responses for not supporting a plan were consistent for all plan design options.

- Not the role of the government
- Lack of trust and confidence in the government
- The private sector is already professional, efficient and has the tools available to effectively assist MN private sector workers in saving for retirement

Slide 49: When asked to rank the plan design options, education and incentives were the most preferred among employers

Please drag and drop the following five plan features in order of importance, with your top choice in the first position.	
1	**Education:** Employees would receive information to educate them on how to best save for their retirement
2	**Incentive:** Employers would receive an incentive for offering an employer sponsored retirement plan
3	**Retirement Exchange:** A marketplace connecting employers and employees with financial service firms offering retirement plans
4	**Voluntary Enrollment:** Employees would enroll in the State administered retirement plan when interested in participating
5	**Automatic Enrollment:** Employees would be automatically enrolled in the State administered retirement plan and would need to opt out if they did not want to participate

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WORKSHOP 2

State Administered Private Sector Employee Retirement Savings Study
Program Design Advantages/Disadvantages Workshop

November 2015

Slide 2: Workshop Agenda

Meeting Item	Duration
Introductions, Recap Objectives and Workshop 1	15 min
Discussion of Program Design Options • Option A: Defined Contribution Plan • Option B: Payroll Deduction IRA • Option C: Retirement Marketplace • Option D: Retirement Education Campaign • Option E: Federal myRA	105 min

Slide 3-4: Introductions

Interested Parties	Organization represented
Lorna Smith	MMB
John Pollard	MMB
LaRhae Knatterud	DHS
Barbara Battiste	Economic Security for Women
Patc Ammann	MN State Board of Investment
Dominic Sposeto	National Chapter of Insurance Providers
Susan Lenczewski	Legislative Commission on Pensions and Retirement
Mary Jo George	AARP
Brian Elliot	SEIU
Beth Kadoun	Minnesota Chamber
Bill Strisinski	Securities Industry
Anna Odegaard	MN Asset Building Coalition
Roger Fitzgerald	Former small business owner
Others	
Pat Pechacek	Deloitte
Jamie Helms	Deloitte
Ashleigh Forsell	Deloitte
Anna Slayton	Deloitte
Jolene Bruner	Deloitte

Slide 5: Objectives and Expectations

- Workshop Objectives
  - As a group, discuss *advantages and disadvantages* of multiple program design options based on the previous workshop's key takeaways
- Participant Expectations
  - Your participation in these sessions is critical to the success of Minnesota's Retirement Saving Study… so please *provide input, ask questions and share your point of view*
  - *Do not assume something will be addressed if you don't raise it*… if it's not reflected in the documentation or if you do not raise it, it may get missed
  - In addition to representing your point-of-view, also *focus on what is best for Minnesota*
  - *Focus on how* the State can address the retirement challenge

Slide 6: Recap

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Slide 7: To develop the report, a four phase approach was agreed upon with the State and we are currently moving from the Program Design Option phase through the Evaluate Financial Impact phase and approaching the Findings and Alternatives phase

I. Market Analysis	II. Program Design Option	III. Evaluate Financial Impact	IV. Findings and Alternatives
• Understand the current retirement savings landscape • Understand what's available currently in the marketplace • Understand barriers to saving • Impact on social safety net program • Identify existing gaps in retirement savings	• Identify 1 – 3 program design options • Workshop #1: Brainstorm important aspects of any program design • Workshop #2: Discuss pros and cons of proposed program design options	• Review cost of each program design option • Identify start-up costs • Detail start-up requirements • Detail ongoing costs	• Summarize findings • Detail program alternatives • Highlight pros and cons of each program alternative

The feasibility study Deloitte has been contracted to complete on behalf of MMB is to include **at least one option** for a State-sponsored retirement savings program. An **implementation plan**, **startup cost**, and **advantages/disadvantages** are to be included for each program option included in the final report.

Slide 8: Recap of Workshop 1

Below we have summarized the key program design features that were discussed during Workshop #1.

Considerations of a potential program design option:

- Easy for employers / little disruption to existing operations
- Education needs to be included throughout every program
- Guarantee low fees
- Discourage early distributions
- Portable from employer to employer
- Easy for participants – don't overwhelm them too many options
- Mandatory participation
- Automatic enrollment

Slide 9: Discussion of Program Design Options

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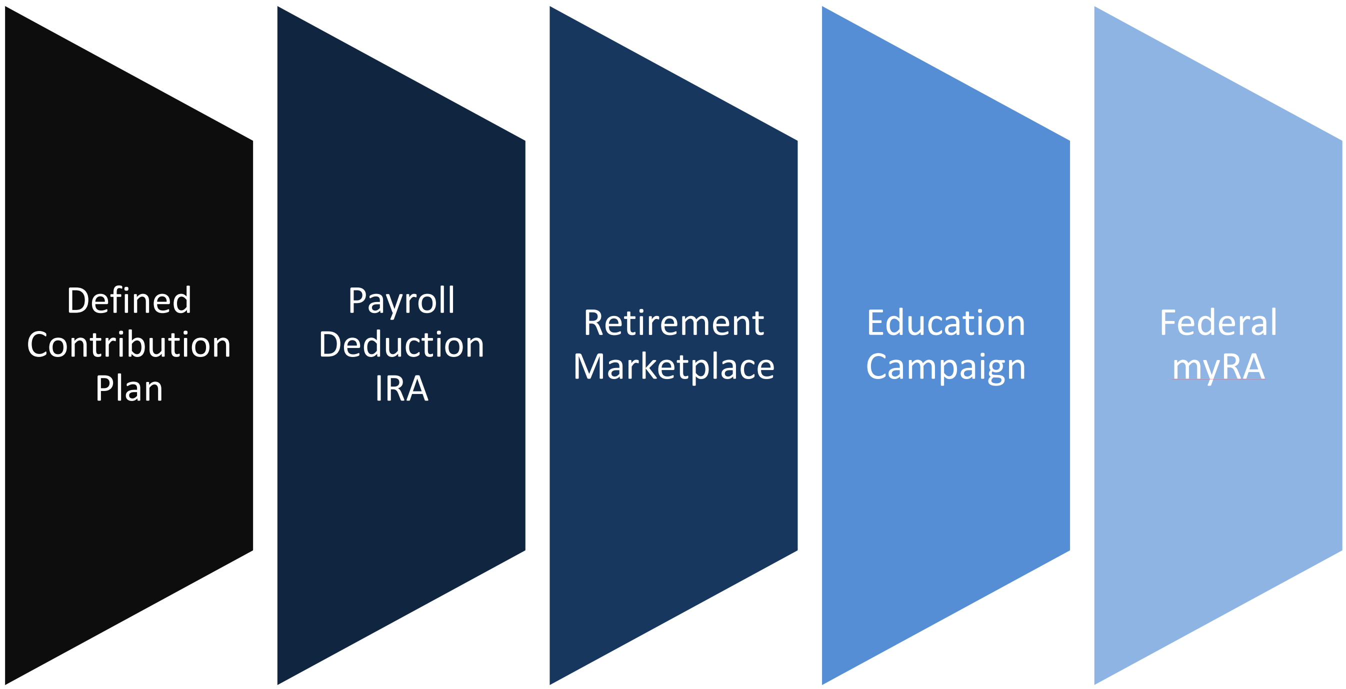
Slide 10: Retirement Savings Program Design Options

Five program design options have been developed. Each has the potential to increase savings among employees and require varying levels of Employer and State involvement.



<u>Slide 10 Figure Description:</u>

The 5 Program Design Options are shown on a continuum of levels of Employer and State involvement.

- High State Involvement
    - Defined Contribution Plan
    - Payroll Deduction IRA
- Limited State Involvement
    - Retirement Marketplace
    - Education Campaign
- No State Involvement
    - Federal myRA

Slide 11: Option A: Defined Contribution Plan

Program Summary	
• State of Minnesota would establish a state-sponsored defined contribution plan for small businesses not currently offering a retirement plan • A third party would administer the plan • Higher plan limits compared to an IRA-like plan • Contributions can be made by employer, employee, or both • Program would be subject to ERISA regulations*	
Key Components	
Participation	• Mandated participation
Enrollment	• Employees automatically enrolled at a 3% contribution rate, with automatic escalation (not to exceed a contribution rate of 10%) • Employees can opt out • Automatically re-enrolled each year
Target Audience	• Employers who don't offer a plan: • 10+ employees - Mandatory • Less than 10 employees – Voluntary
Education	• Offer eligible employers guidance, support, & educational materials • Educate employees on the importance of retirement savings
Incentives	• Existing tax incentives would exist for employers who decided to contribute to the employee's retirement savings plan
Administration	• Administrative fee charged to participants must be 1% or less • Recordkeeping and other administration services to be provided by third—party
Communication	• Initial and annual electronic and print communications provided to employers and employees that the plan is available and how to participate • Notice of automatic enrollment, default contribution level, opt out process

**There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.*

Slide 12: Option A: Defined Contribution Plan

Impact of the Program	
Employer	• Establishing payroll deduction arrangement • Higher administrative/recordkeeping costs versus payroll deduction IRA • Enrolling new hires into the plan • Offering open enrollment • Potential contributions to employee's savings plan • Potentially subject to ERISA requirements (i.e. nondiscrimination testing, annual notices, fiduciary responsibility)*
Employee	• Administrative and investment management services
State	• Establish program standards • Monitor program participation • Continuously measure success of program • Support education campaigns to increase awareness among employers and employees • Potentially subject to ERISA requirements (i.e. nondiscrimination testing, annual notices, fiduciary responsibility)* • Estimated program startup costs range from $8 million - $15 million • Estimated program on-going costs range from $500,000 - $2 million

**There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.*

Slide 13: Option B: Payroll Deduction IRA

Program Summary	
• State of Minnesota would establish a state-sponsored defined contribution plan for small businesses not currently offering a retirement plan • A third party would administer the plan • Higher plan limits compared to an IRA-like plan • Contributions can be made by employer, employee, or both • Program would be subject to ERISA regulations*	
Key Components	
Participation	• Mandated participation
Enrollment	• Employees automatically enrolled at a 3% contribution rate, with automatic escalation (not to exceed a contribution rate of 10%) • Employees can opt out • Automatically re-enrolled each year
Target Audience	• Employers who don't offer plan: • 10+ employees - Mandatory • Less than 10 employees – Voluntary
Education	• Offer eligible employers guidance, support, & educational materials • Educate employees on the importance of retirement savings
Incentives	• Existing tax incentives would exist for employers who decided to contribute to the employee's retirement savings plan
Administration	• Administrative fee charged to participants must be 1% or less • Recordkeeping and other administration services to be provided by third—party
Communication	• Initial and annual electronic and print communications provided to employers and employees that the plan is available and how to participate • Notice of automatic enrollment, default contribution level, opt out process

**There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.*

Slide 14: Option B: Payroll Deduction IRA

Impact of the Program	
Employer	• Enrolling new hires into the plan • Establishing payroll deduction arrangement • Some administrative/recordkeeping costs • Offering open enrollment • Potentially subject to ERISA requirements (i.e. annual notices, fiduciary responsibility)*
Employee	• Administrative and investment fees charged to participants' account
State	• Establish program standards • Monitor program participation • Responsible for recordkeeping, administration, and investment options • Continuously measure success of program • Support education campaigns to increase awareness among employers and employees • Potentially subject to ERISA requirements (i.e. annual notices, fiduciary responsibility)* • Estimated program startup costs range from $8 million - $20 million • Estimated program on-going costs range from $500,000 - $2 million

**There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.*

Slide 15: Option C: Retirement Marketplace

Program Summary		
• Connects employers and employees with currently available low-cost, low-fee private sector retirement savings options • Provides access to a diverse array of plans and investment products		
Key Components		
	Employer	**Employee**
Participation	• Mandated participation	• Voluntary Participation
Enrollment	• Decides if the enrollment should be automatic* or voluntary	• NA
Closed Marketplace	• Limited number of providers • Must meet minimum requirements, including: o Administrative fees of 1% or less o Offer specific funds, including target-date and balanced fund o Retirement options must include SIMPLE IRA, IRA, and myRA*	• Limited number of providers • Must meet minimum requirements o Administrative fees of 1% or less o Offer specific funds, including a target-date and balanced fund o Retirement options can include traditional IRA, Roth IRA, and myRA
Target Audience	• Employers who don't offer plan: o 10+ employees - Mandatory o Less than 10 employees – Voluntary	• Employees not eligible to participate in their employer-sponsored plan (i.e. part-time employees)
Education	• Educate on available retirement product • Value of offering a retirement plan to employees • Website with available resources • Call center would be available	• Importance and benefits of saving for retirement • Simplicity of signing up through the Marketplace • Website with available resources • Call center would be available
Incentives	• Existing incentives (both tax and others)	• Potential tax incentives
Communication	• Notified through electronic and print communication that Marketplace is open • Provided instructions on how to choose a program • Annual notifications will be sent regarding changes to Marketplace providers	• NA

**If myRA is selected employees cannot be automatically enrolled*

Slide 16: Option C: Retirement Marketplace

Impact of the Program	

Employer	• Establishing payroll deduction arrangement if not currently offered
	• On-going administration costs between providers and employers (transferring of contributions from payroll to provider)
	• Potential fiduciary responsibility depending on the retirement plan option selected
	    o ERISA requirements
	    o Additional paperwork

Employee	• Participant-based administrative fees
State	• Design and operate website • Set standards, reviews, and approves qualified providers • Provided oversight to ensure providers and employers are in compliance with the program • Estimated program startup costs range from $500,000 - $2 million • Estimated program on-going costs range from $100,000 - $500,000

Slide 17: Option D: Retirement Education Campaign

Program Summary	
• Help raise awareness among employees of the importance of saving for retirement, how much to save, when to start saving, and where to access to retirement products • Foster a better understanding among Employers of the options available to them in the marketplace	
Key Components	
Who to Target	• Individuals • With access, but not participating • Without access • Employers • Not offering a retirement plan
Key Message	• Individuals with access but not participating: o Importance and benefits of saving and participating in employer sponsored retirement savings plans • Individuals without access: o The importance of saving for retirement o Available retirement products in the marketplace o Resources available to better educate the decision process • Small employers not offering a retirement plan: o Available retirement products in the marketplace
Frequency	• Regular education campaigns created by dedicated staff
Metrics	• Success of Program: o Decrease of Minnesotans who aren’t saving for retirement o Increase in average savings balances o Measured through the analysis of surveys and polling of employers and individuals

Slide 18: Option D: Retirement Education Campaign

Impact of the Program	
Employer	• Time and resources to support the development and distribution of the materials • Employers have option to use information provided to enhance their new hire orientation / current retirement education materials
Employee	• No direct cost to employees

State	• State runs campaign
	• Need to pay for staff to educate in the marketplace (salary and benefits)
	    o Develop educational materials
	    o Identify and promote retirement savings and financial literacy
	    o Setup and ongoing maintenance of an educational website
	• Select targeted audience (employers, public, employees, schools)
	• Determine the most effective outreach tools
	• Cost estimated between $500,000 - $3 million depending on level of involvement the State wants to have

Slide 19: Option E: Federal myRA (my Retirement Account)

Program Summary
• Federally sponsored program • Investment grow risk free, earning interest at the same rate as investments in the government securities fund • Fund by direct deposit of contributions from paycheck, checking or savings account, or from one's federal tax refund • Current Roth IRA limits cap annual contributions

Key Components	
Participation/Enrollment	• Voluntary participation and enrollment ○ Eligible if income is below $131,000 if single, or below $193,000 if married filing jointly
Portability	• When a maximum balance of $15,000, or a lower balance for up to 30 years is reached, savings will be transferred or rolled over into a private-sector Roth IRA • Cannot be transferred or rolled over into an employer-sponsored retirement plan or a traditional IRA

Impact of the Program	
Employer	• Potentially would have to set up a direct deposit to the account for employees • No other involvement
Employee	• No cost to open and no fees • No minimum contribution • Savings capped at $15,000 • Portable between States and Employers
State	• No State involvement

The State can choose to delay action and see if myRA helps solve the retirement challenge through its offering of a free and simple way to save

Slide 20: Next Steps

<u>Slide 20 Figure Description:</u>

<u>4 Phase Approach:</u>

I. Market Analysis – Complete
II. Program Design Options – Complete
III. Evaluate Financial Impact – In Progress
IV. Findings and Alternatives – In Progress

- Incorporate pros and cons discussed today into final report
- Continue to refine financial impact of program design options
- Including: recordkeeping and administrative costs
- Reduce program options down to final recommendation
- Finalize implementation plan for recommended program designs
- Determine use of alternative investment strategies
- Look for regulation from DOL regarding effect of federal tax laws
- Finalize report

NBER WORKING PAPER SERIES

MATCHING CONTRIBUTIONS AND SAVINGS OUTCOMES: A BEHAVIORAL ECONOMICS PERSPECTIVE

Brigitte C. Madrian Working Paper 18220
http://www.nber.org/papers/w18220

NATIONAL BUREAU OF ECONOMIC RESEARCH
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July 2012

This paper was prepared for the World Bank Conference "The Potential for Matching Defined Contribution (MDC) Design Features in Pension Systems to Increase Coverage in Low and Middle Income Countries" held June 6-7, 2011, in Washington, DC. I thank Gwen Reynolds and Jamie Georgia for their research assistance, and Richard Hinz, Robert Holzmann, Dina Pomeranz and conference attendees for helpful discussions. Financial support from The World Bank and the National Institute on Aging (grants R01-AG021650 and P01-AG005842) is gratefully acknowledged. The opinions and conclusions expressed are solely those of the author. The views expressed herein are those of the author and do not necessarily reflect the views of The World Bank, the National Institute on Aging, Harvard University or the National Bureau of Economic Research. The views expressed herein are those of the author and do not necessarily reflect the views of the National Bureau of Economic Research.

Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective Brigitte C. Madrian
NBER Working Paper No. 18220 July 2012
JEL No. D14,D91,G23,H31,J32

ABSTRACT

Including a matching contribution increases savings plan participation and contributions, although the impact is less significant than the impact of nonfinancial approaches. Conditional on participation, a higher match rate has only a small effect on savings plan contributions. In contrast, the match threshold has a substantial impact, probably because it serves as a natural reference point when individuals are deciding how much to save and may be viewed as advice from the savings program sponsor on how much to save. Other behavioral approaches to changing savings plan outcomes—including automatic enrollment, simplification, planning aids, reminders, and commitment features—potentially have a much greater impact on savings outcomes than do financial incentives, often at a much lower cost.

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A common feature of schemes designed to increase individual savings is providing a matching contribution, to create an incentive for participation in the program and induce higher levels of savings. The vast majority of employer-sponsored savings plans include an employer match, as do many employer-sponsored health savings accounts. The saver's credit, a feature of the U.S. tax code designed to encourage savings by lower-income households, also provides a government match to individual savings. Many field experiments aimed at encouraging savings have also included a match in their experimental design. This rich set of experience informs the understanding of behavioral responses to various matching contribution arrangements.

Traditional economic models point to financial incentives, such as a matching contribution, as the logical mechanism to increase savings plan participation. This first part of the chapter summarizes the literature on the impact of providing a match on savings plan outcomes, including participation, contributions, and net worth. The evidence comes from a variety of sources, including observational data from surveys, natural experiments, and large- scale field experiments. Although the empirical evidence largely supports the predictions of traditional economic models, these models fail to incorporate the many psychological frictions that impede savings, including present bias, complexity, inattention, and temptation, which in many cases exert a much stronger impact on savings outcomes than do financial incentives.

Traditional economic models also fail to characterize some significant behavioral aspects of savings outcomes, including inertia and the important role of focal points. The second part of the chapter evaluates the literature on other, nonfinancial approaches to increasing individual savings.

The evidence suggests that matching contributions increase savings plan participation and contributions, although the impact is less significant than the impact of nonfinancial approaches. Conditional on participation, a higher match rate has only a small effect on savings plan contributions. In contrast, the match threshold has a substantial impact, probably because it serves as a natural reference point when individuals are deciding how much to save and may be viewed as advice from the savings program sponsor on how much to save. Automatic enrollment, simplification, planning aids, reminders, and various commitment devices potentially have a much greater impact on savings plan participation and contributions, often at a much lower cost.

The Impact of Matching Contributions on Savings Outcomes: Theory

In traditional models, the impact of a match on savings outcomes depends in part on the structure of the match. The simplest form is a flat match rate on all incremental savings (for example, all new contributions are matched 100 percent). In practice, offering an unlimited match is expensive for the party providing the match; as a consequence, savings schemes typically limit the contributions that are matched (for example, all contributions up to $1,000 are matched 100 percent, and contributions above that level are not matched).

Savings schemes with more complicated match structures are common. For example, the match might be tiered, with contributions up to $500 matched 100 percent, contributions of $501–$1,000 matched 50 percent, and contributions above $1,000 not matched. Alternatively, contributions might be matched only after a certain level of contributions is reached (for example, contributions below $500 are not matched, contributions of $501–$1,000 are matched 100 percent, and contributions above $1,000 are not matched).

In standard economic models of intertemporal decision making, adding a matching contribution, or increasing the generosity of a match, whatever its form, should increase participation in a savings scheme through a substitution effect. The match makes consuming income more expensive than saving it, motivating individuals to substitute savings for consumption in response to the match.

The theoretical impact on individuals already contributing to the savings plan, however, is ambiguous. Consider, for example, introducing a scheme in which contributions are matched only up to a certain threshold. Such a scheme would increase contributions for individuals who were not previously participating, as some of these nonparticipants may be induced to start saving by the match. In contrast, individuals who were already contributing in excess of the match threshold are predicted to respond to the new match by reducing their contributions, through an income effect. The match on their existing contributions acts like an additional source of income, some of which individuals use to increase their consumption and correspondingly reduce their saving. Their combined own plus matching contributions, however, should still be higher than before the match.

The impact on individuals previously contributing at or below the match threshold is ambiguous; they are affected by both the income and substitution effects described above.

Because they are saving below the match threshold, the match creates an incentive to substitute additional savings, up to the match threshold, for consumption. But the match on contributions already made acts like additional income, some of which will be used to increase consumption and reduce contributions.

The effects would be similar for increasing the match rate while maintaining the same match threshold. The effects of increasing the match threshold while keeping the match rate constant are more complicated. Such a change should have no effect on people contributing below the old threshold. It should increase contributions by people at the old threshold (a substitution effect), have an ambiguous effect on people above the old threshold but at or below the new threshold (opposing income and substitution effects), and decrease contribution rates by people above the new threshold (an income effect).

The Impact of Matching Contributions on Savings Outcomes: Evidence

What is the evidence on how people actually respond? Estimating the impact of a matching contribution on saving outcomes requires introducing some variation in the extent or structure of the match. The research has used three sources of match variation: naturally occurring cross-sectional variation (for example, differences in the match rate or match threshold in employer-sponsored savings plans); natural experiments, or changes in the structure of the match, within a savings scheme; and experimental variation generated by researchers, in which some individuals are offered a match, or a more generous match, and others are not.

The advantage of naturally occurring cross-sectional variation is that there can be considerable heterogeneity in the types of matching incentives different individuals face. For example, the match rates in employer-sponsored 401(k) savings plans in the United States range from no match to match rates as high as 200 percent, and the match thresholds range 1 percent of salary to \$17,000 a year.[1] This type of variation can be useful if, for example, one wants to simulate what would happen under a match structure that is very different from what is currently used. A severe limitation of using this type of variation, however, is that it may be difficult to disentangle the impact of differences in the match structure on individual behavior from other factors that might also affect outcomes. For example, individuals who have a strong saving motive may seek employment in firms that offer a saving plan with a generous match, whereas individuals with a weak saving motive may select into firms with a less generous or no match (or

[1] Individuals 50 and older may also be allowed to make additional "catch-up" contributions of up to \$5,000 a year.

no savings plan at all). If this type of sorting occurs, the estimated relationship between the match and savings outcomes will be biased.

The advantage of natural and field experiments is that there are generally fewer concerns about the endogeneity between the generosity of the match and individual savings preferences. In field experiments, individuals are usually randomly assigned to receive different match structures. With natural experiments, concerns about endogeneity can be minimized by focusing on the same group of individuals before and after a policy change, essentially holding savings motives fixed. The limitation of field and natural experiments is that they typically examine a much smaller range of variation in matching schemes, with only two, or perhaps three, different types of match. The generalizability of the results from these studies is limited by the extent of the variation that is actually analyzed. These studies also typically focus on a specific group of individuals (for example, employees at a single firm, customers of a particular financial services provider, or low-income workers), limiting the extent to which the results can be generalized.

Most of the empirical studies on matching and saving outcomes have exploited the naturally occurring variation in the match rates of employer-sponsored savings plans in the United States to examine the impact of matching on savings outcomes. Most of these studies find, consistent with theoretical predictions, that matching increases savings plan participation rates (Andrews 1992; GAO 1997; Papke and Poterba 1995; Even and Macpherson 1997 and 2005; Clark and Schieber 1998; Bassett, Fleming and Rogrigues 1998; Clark, Goodfellow, Schieber and Warwick 2000; Huberman, Iyengar and Jiang 2007; Mitchell, Utkus and Yang 2007; Dworak-Fisher 2008). Some studies, however, find no relationship between matching and savings plan participation (Papke 1995; Kusko, Poterba, and Wilcox 1998).

In evaluating how matching affects savings plan contributions, the empirical evidence is less decisive (as noted above, the theoretical predictions are also not unambiguous). A few studies find a positive relationship between matching and savings plan contributions (Andrews 1992; Papke and Poterba 1995; Even and Macpherson 1997; Kusko, Poterba and Wilcox 1998). One, Basset, Fleming and Rodrigues (1998), finds no relationship between matching and savings plan contributions. Several studies estimate that a higher match is associated with lower contributions (Clark and others 2000; Munnell, Sundén, and Taylor 2001; Vanderhei and Holden 2001; Mitchell, Utkus, and Yang 2007). Some studies find heterogeneous effects. Huberman, Iyengar, and Jiang (2007) find that a higher match increases contributions for low-income individuals but decreases contributions for middle- and high-income individuals. Papke (1995) and GAO (1997) find a positive effect of the match rate on contributions when the match rate is low but a negative effect on contributions when the match rate is high.

The most careful and convincing study using naturally occurring variation in match rates is Engelhardt and Kumar (2007). This study has several attractive features:

- It is the only study that appropriately accounts for the nonlinear savings incentives generated by the employer match.
- It uses administrative data on savings plan contributions and earnings (from tax authority records on earnings and savings plan contributions) and on the structure of the employer match (from employer plan documents) to accurately model the incentives that individuals face and to get more accurate measures of their choices than is the case in self-reported survey data.
- It accounts for factors other than the employer match that might also influence savings outcomes, including taxes and alternative savings opportunities that may be equally or more attractive (specifically, IRAs).

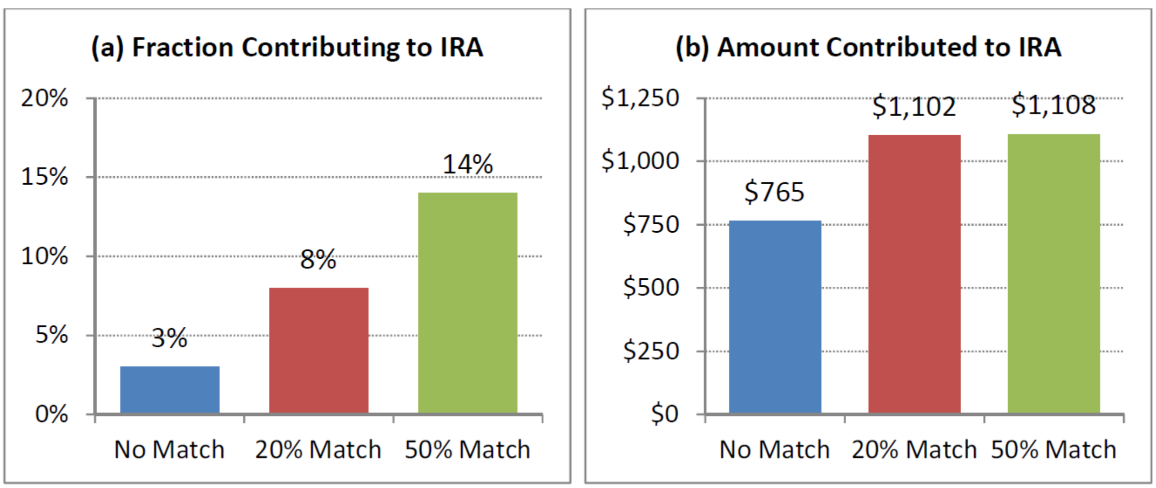
The biggest limitation of this study is that the data comes from the Health and Retirement Study and thus focuses on older individuals (average age is 55), whose behavior may differ from that of younger groups.

Engelhardt and Kumar estimate that increasing the match rate by 25 percentage points (for example, from $0.25 per $1 to $0.50 per $1 contributed) raises savings plan participation by 5 percentage points and increases contributions by plan participants by $365 (in 1991 dollars). They estimate that responsiveness to the employer match increases with the reported education level of respondents. Their overall conclusion is that neither participation nor contributions are very responsive to changes in the employer match and that "matching is a rather poor policy instrument with which to raise retirement saving" (p. 1921).

Duflo and others (2006) report the results of a field experiment on matching and savings outcomes. This study offered clients of the U.S. tax preparation firm H&R Block the opportunity to use their federal tax refund to open an IRA. Some individuals were offered the opportunity to open such an account with no match; others were offered a match of either 20 percent or 50 percent on contributions up to $1,000. Figure 1 shows the fraction contributing to an IRA and the amount contributed by those who chose to open an account. Only 3 percent of the study participants in the no-match group elected to open an IRA. With a 20 percent match, 8 percent opened and IRA, and with a 50 percent match, 14 percent opened an IRA.

The magnitude of the effects estimated by Duflo and others (2006) is strikingly similar to that estimated by Engelhardt and Kumar (2007), even though the two studies examined different mechanisms (saving out of a tax refund versus enrolling in an employer-sponsored savings plan) and different types of individuals (middle-income H&R Block clients versus older Health and Retirement Study survey respondents). Engelhardt and Kumar estimate that increasing the match rate by 25 percent of contributions increases savings plan participation by about 5 percentage points; Duflo and others estimate that increasing the match rate from 0 to 20 percent of contributions increases savings plan participation by 5 percentage points and increasing the match rate from 20 percent to 50 percent of contributions increases participation by 6 percentage points.

Figure 1. Evidence on the Effect of Matching and Savings from the H&R Block Experiment

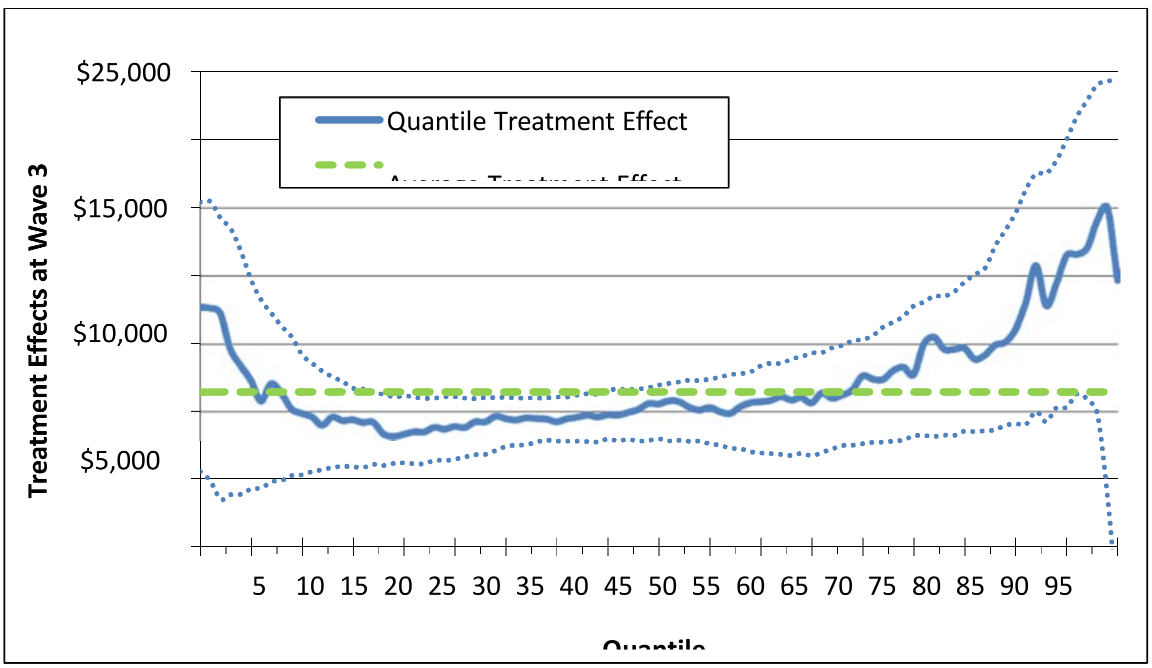


Source: Duflo and others 2006.

Mills and others (2008) report the results from a different multiyear field experiment on saving in individual development accounts (IDAs) in the United States. Lower-income families (income of less than 150 percent of the poverty level) were randomly assigned to either a treatment or a control group. Members of the treatment group were allowed to open an IDA to which contributions of up to $750 per year were potentially matched. Members of the control group were not allowed to open an IDA. One difference between this program and other savings schemes is that contributions were matched upon withdrawal, with the rate of the match dependent on the purpose of the withdrawal. Contributions withdrawn to purchase a home were matched 200 percent, whereas contributions withdrawn for other qualified purposes, such as education, starting a business, home improvement, or retirement saving, were matched 100 percent. Contributions withdrawn for nonqualified purposes were not matched.

Overall, the results indicate that there is no significant relationship between IDA participation and net worth (figure 2). For most of the distribution, the effect is small but negative; in the upper and lower quantiles, the point estimates are positive, and sometimes large, but never statistically significant. These results challenge the effectiveness of match-based savings schemes for increasing the net worth of very low-income families.

Figure 2. The Impact of Opening and Contributing to an Individual Development Account on Net Worth after Three Years



Source: Mills and others 2008.

Choi and others (2002, 2004b, 2006) adopt the natural experiment approach to analyze the impact of matching on savings outcomes. They examine two companies with employer-sponsored savings plans that changed their employer match: one added a match to a plan that did not previously have one, and one increased its match threshold while keeping its match rate constant. This approach uses individual behavior before the changes as a control for employee behavior after the changes in the matching formulas as a way address concerns about the endogeneity of individual savings preferences with respect to the generosity of the employer match.

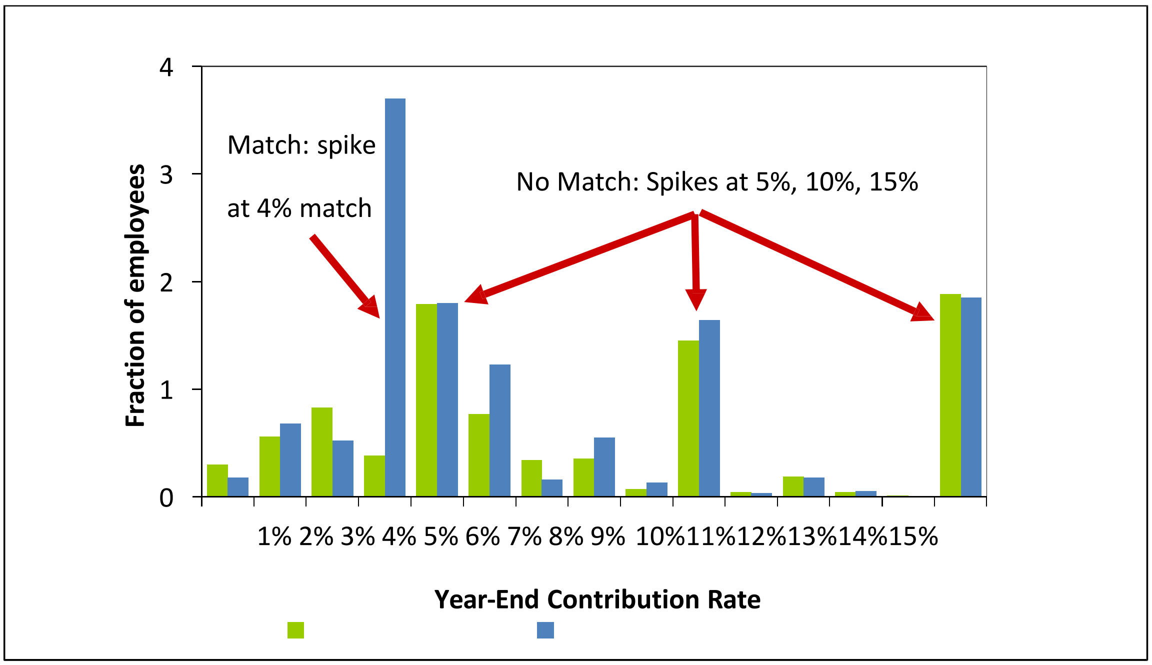
The first company (Firm A) introduced a 25 percent match on employee contributions up to 4 percent of income in October 2000; before that date, the plan offered no match. Using data on employees hired up to 26 months before the plan change and up to 14 months after the plan change, Choi and others estimate a hazard model of the time from hire to the date of initial savings plan participation. They find that the introduction of the employer match increased the rate at which employees enrolled in the savings plan by about 25 percent. However, because participation rates at this company were low before the introduction of the match, the absolute magnitude of the estimated participation increases was not large. For example, their model predicts that the 25 percent match adopted by this firm leads to a 4.7 percentage point increase in savings plan participation for 40-year-old men with 3 years of tenure. This effect is roughly in line with the effect estimated by Engelhardt and Kumar (2007) and Duflo and others (2006).

The second company (Firm B) increased the match threshold in its savings plan in January 1997 while keeping its match rate constant. Before January 1997, unionized employees received a 50 percent match on the first 5 percent of income contributed to the savings plan, and non-union employees received a 50 percent match on the first 6 percent of income contributed. In January 1997, the match threshold for both groups of employees was increased by 2 percent, from 5 percent to 7 percent of pay for union employees and from 6 percent to 8 percent of pay for non-union employees. Contributions up to the new threshold were still matched at 50 percent.

Using data on employees hired up to one year before and one year after the plan change, Choi and others estimate a hazard model of the time from hire to the date of initial savings plan participation. They find no significant impact of the increase in the match threshold on savings plan participation. This result is consistent with the theoretical arguments outlined earlier, which posit that an increase in the match threshold does not affect the marginal incentives to participate in the savings plan. As expected, Choi and others find no effect on participation of such a plan change.

The more interesting results in Choi and others (2002, 2004b, 2006) address the impact of the match threshold on savings plan contributions. Figure 3 shows the distribution of contribution rates in the savings plan at Firm A for participants who joined the plan when it had no match and for participants who joined the plan after it introduced a 25 percent match on employee contributions up to 4 percent of income. With no match, the most frequently chosen contribution rates were 5 percent, 10 percent, and 15 percent of income—numbers that are multiples of 5. After the employer match, many participants also chose contribution rates that were multiples of 5. In addition, there was a large increase in the fraction of participants who made a 4 percent contribution, the new match threshold. In the absence of an employer match, very few employees chose to participate in the savings plan at a 4 percent contribution rate; with the employer match, the 4 percent match threshold became the modal contribution rate.

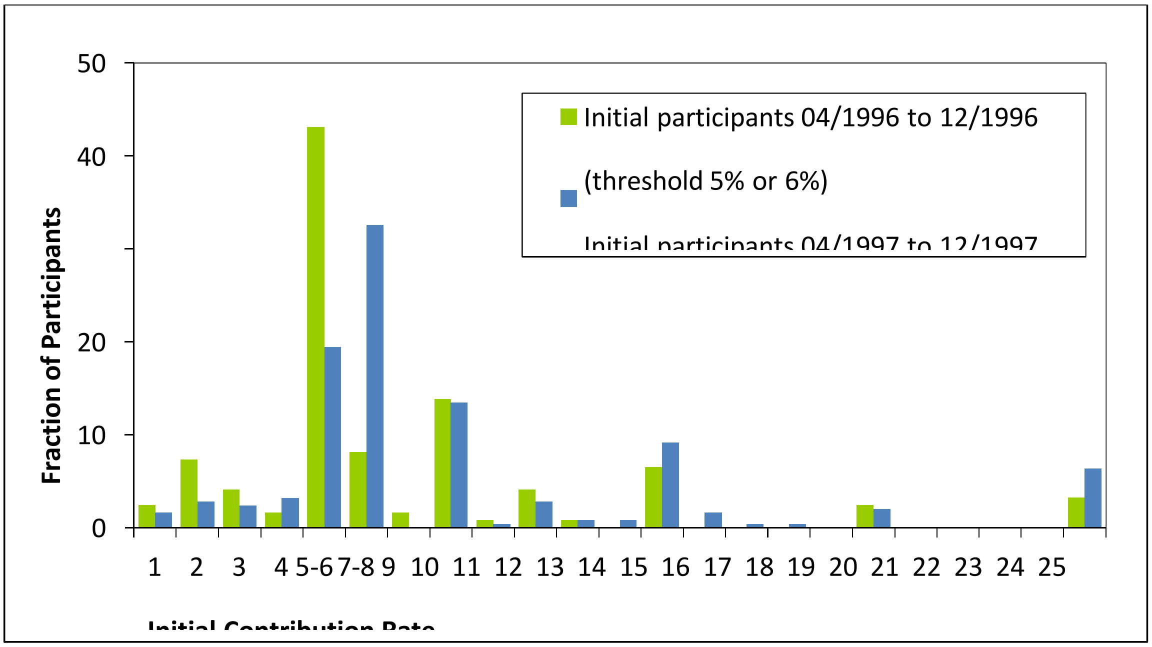
Figure 3. The Distribution of Contribution Rates at a Firm that Added an Employer Match: Firm A



Source: Choi and others 2006.

The distribution of contribution rates at Firm B, which increased its match threshold, exhibits a similar pattern. Figure 4 shows the distribution of contribution rates to the savings plan for two groups of participants: those who joined the plan in the nine months before the increase in the match threshold, and those who joined the plan over a similar period of time after the increase in the match threshold. As in figure 3, there are clear spikes in the distribution of contribution rates both before and after the change in the match threshold at multiples of 5 (5 percent, 10 percent, 15 percent, 20 percent and 25 percent of pay). And, as in figure 3, the modal contribution rate under both distributions is at the match threshold: 5 percent or 6 percent of pay before the change in the match threshold and 7 percent or 8 percent of pay after the match threshold.

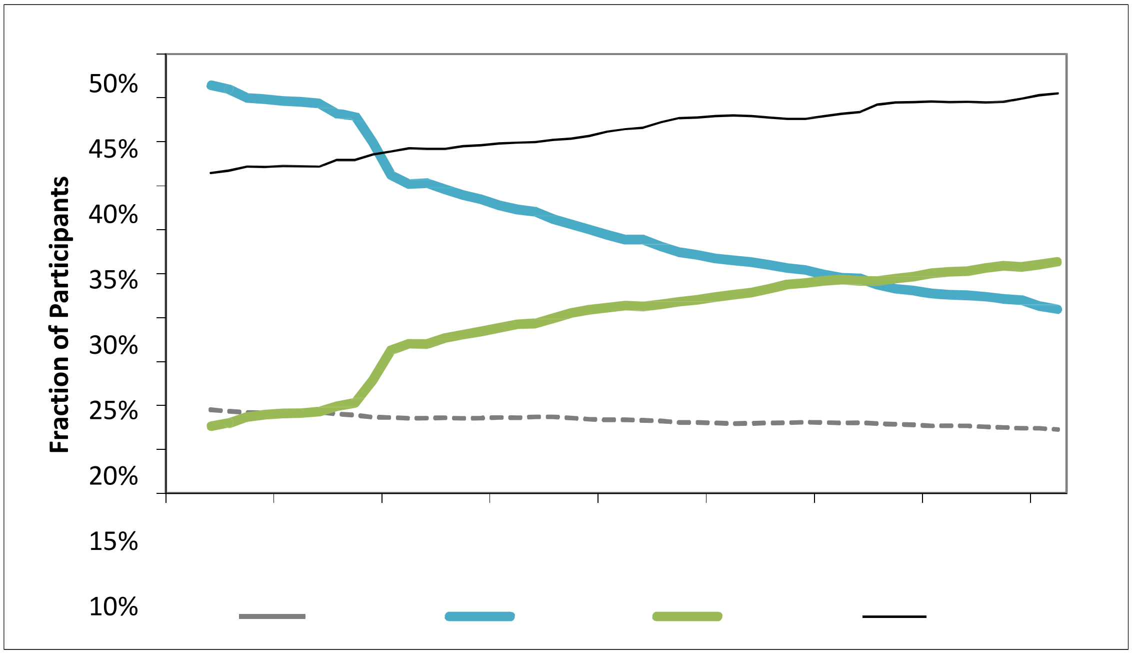
Figure 4. The Distribution of Initial Contribution Rates at a Firm that Changed Its Match Threshold: Company B



Source: Choi and others 2004b.

Figure 5 examines the impact of the increase in the match threshold of the Firm B savings plan for individuals participating in the plan before the match threshold changed. It shows how the contribution rates of these participants evolved over time after the plan change. The sample in figure 5 is restricted to employees contributing to the Firm B savings plan nine months before the increase in the match threshold. As in figure 4, a large proportion of participants (more than 45 percent) start with a contribution rate of 5 percent or 6 percent of pay. The switch from the old threshold to the new threshold is clearly apparent: there is an immediate shift from the old threshold (5 percent or 6 percent of pay) to the new threshold (7 percent or 8 percent of pay) when the match threshold change occurred, in January 1997, and a slower adjustment over the next three years, as more and more participants shifted from the old to the new threshold. In contrast, the fraction of participants at the other contribution rates remained fairly stable over the entire time period.

Figure 5. The Evolution of Contribution Rates Over Time: Firm C



Source: Choi and others 2002, 2006.

The patterns in figures 3, 4, and 5 reveal the behavioral nature of savings plan participation. The fact that the contribution rates spike at multiples of 5 suggest an important role for focal points in savings choices. When individuals face complicated decisions, such as deciding how much to save, they adopt heuristics to simplify the decision-making process. This pattern of contribution rate outcomes suggests that one such heuristic is to winnow the set of potential contribution rates to a subset of the possible options—in this case, those that are multiples of 5. The predominance of the match threshold in the distribution of contribution rates suggests that it also serves as a focal point in participants' considerations about how much to save. The kink in the budget set generated by the match threshold would be expected to result in bunching at the match threshold, absent any behavioral considerations. But it is likely that the match threshold gets additional consideration as participants evaluate how much to save because it serves as a natural focal point (precisely because it is where the financial incentives to save change); individuals may also view the match threshold as carrying an implicit recommendation about how much they should save; this endorsement effect would further reinforce the focal nature of the match threshold. Finally, the slow movement of existing participants away from the old match threshold and toward the new match threshold in figure 5 suggests inertia on the part of savings plan participants. Such inertia in savings plan outcomes has been well documented (see Beshears and others 2008 for a review of this literature). It is also consistent with participants' anchoring on the original match threshold.

Perhaps the most surprising finding in the literature on matching and savings plan outcomes is that even with a match, participation rates are often surprisingly low (Choi, Laibson, and Madrian 2011). Collectively, the research on matching and savings outcomes suggests that at best, increasing the match rate on savings leads to small increases in participation and contributions conditional on participation. The more important match-related tool is the match threshold, which serves as a strong focal point as individuals decide how much to save. A lower match rate with a higher match threshold may be a more effective way to increase individual contributions than a higher match rate with a lower match threshold—that is, providing a match of 25 percent on contributions up to 10 percent of pay will induce individuals to save more than a match of 50 percent up to 5 percent of pay at a similar (or lower) cost to the organization providing the match.

Complementary and Alternative Approaches to Increasing Savings

The literature on behavioral economics and savings plan outcomes suggests several alternative, and potentially more cost-effective, strategies to increase individual savings. This section reviews some of these approaches.

Automatic Enrollment

By far the most effective method to increase participation in defined contribution savings schemes is automatic enrollment. The research on participation in employer-sponsored savings plans in the United States shows that participation rates are substantially higher when the default is enrollment in the savings plan (that is, individuals must opt out if they prefer not to save) than it is when individuals must take action to participate in the savings plan. The impact of automatic enrollment on participation rates can be sizable. In the first study of the impact of automatic enrollment on savings outcomes, Madrian and Shea (2001) document a 50 percentage point increase in savings plan participation for newly hired employees (less than 15 months of tenure) at a large employer that switched from an opt-in to an opt-out automatic enrollment regime. Other studies also document significant increases in participation as a result of automatic enrollment (see Vanguard 2001; Choi and others 2002, 2004a, 2004b; Beshears and others 2008). The impact of automatic enrollment is greatest for groups with the lowest savings rates initially: younger, lower-income workers.

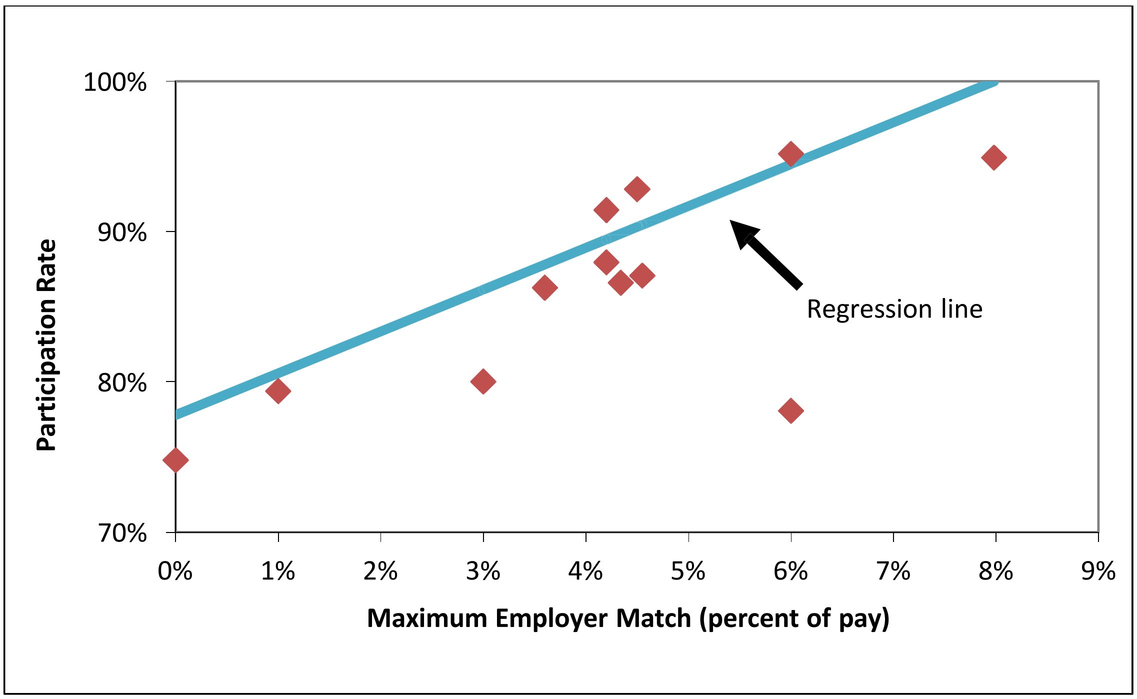
Matching is not completely irrelevant in plans that have automatic enrollment. A more generous match is associated with higher participation rates, with effects that are roughly in line with those discussed earlier in the context of savings schemes without automatic enrollment.

Beshears and others (2010) take two different approaches to evaluating the importance of the match in employer-sponsored savings plans that have automatic enrollment. First, they examine a firm that replaced its employer match of 25 percent on the first 4 percent of pay contributed to the plan with a noncontingent employer contribution (that is, the firm made a savings plan contribution on behalf of all employees, regardless of whether employees made any contributions of their own to the savings plan). They estimate that eliminating the employer match reduced participation by at most 5–6 percentage points, an effect very similar to that estimated by Engelhardt and Kumar (2007), Duflo and others (2006), and Choi and others (2002, 2004b, 2006) for similar changes in the match rate in savings plans without automatic enrollment.

The second approach taken by Beshears and others (2010) in evaluating the impact of matching in savings plans with automatic enrollment is to exploit variation in the match structure both within (for firms that changed their matching policy) and across a sample of nine firms with employer-sponsored savings plans with automatic enrollment. This analysis is potentially confounded by endogeneity between the generosity of the match and employee savings preferences; in addition, the sample of firms included in the analysis is small. With these caveats in mind, Beshears and others find that a 1 percentage point increase in the maximum potential match as a fraction of salary is associated with a 2–4 percentage point increase in savings plan participation (figure 6). Based on these estimates, decreasing the match rate from the modal match in employer-sponsored savings plans in the United States of 50 percent on the first 6 percent of pay to a 25 percent on the first 6 percent of pay (a reduction in the match rate of 25 percentage points) is predicted to reduce savings plan participation under automatic enrollment by 3–6 percentage points. This estimate aligns with that from the single firm case study discussed in Beshears and others (2009); it also consistent with the studies of similar match changes in savings plans without automatic enrollment discussed earlier.

These results confirm the earlier conclusion: increasing the match rate on savings leads to small increases in savings plan participation. This conclusion holds for schemes with and without automatic enrollment.

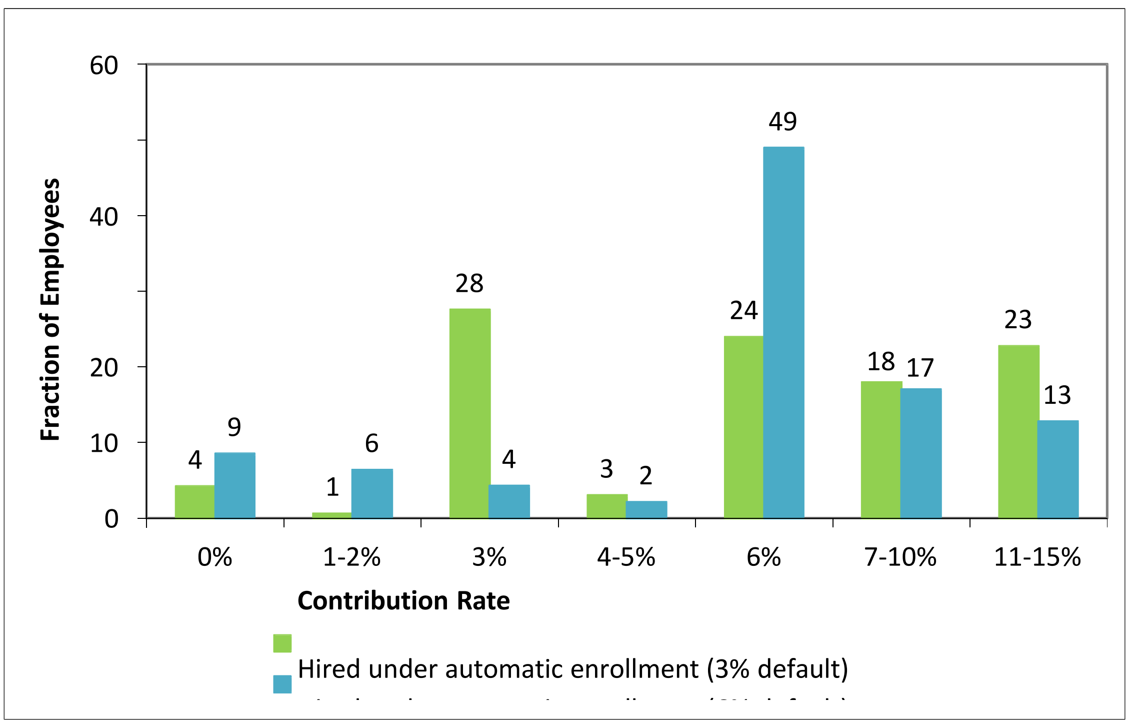
Figure 6. Matching Contributions and Savings Plan Participation in Firms with Automatic Enrollment



Source: Beshears and others 2010.

Although automatic enrollment leads to unambiguous increases in savings plan participation, its effects on savings plan contributions conditional on participation depend very much on the default contribution rate at which individuals are automatically enrolled. Just as the match threshold for savings plan contributions attracts the largest share of savings plan participants when there is a match, so too does the automatic enrollment default contribution rate when there is automatic enrollment. Contributions are higher with a higher default contribution rate under automatic enrollment than with a lower default contribution rate. The distribution of contribution rates for employees at a U.S. company that increased the default contribution rate in its savings plan from 3 percent of pay to 6 percent of pay is shown in figure 7. With a default contribution rate of 3 percent, 28 percent of plan participants contribute 3 percent of pay to the plan; another 24 percent contribute 6 percent to the plan, the match threshold; and 41 percent contribute at a rate above 6 percent, primarily either 10 percent or 15 percent of pay (although these two contribution rates are aggregated with other contribution rates in the figure). With a default contribution rate of 6 percent of pay, which coincides with the match threshold, almost half of employees contribute 6 percent of pay to the plan, twice the fraction observed with a default contribution rate of 3 percent; the fraction of employees contributing 3 percent of pay to the plan is an almost negligible 4 percent.

Figure 7. Automatic Enrollment for New Hires and the Distribution of Savings Plan Contribution Rates



Source: Beshears and others 2008.

A more extreme form of automatic enrollment is mandatory enrollment: individuals are automatically enrolled without the option of subsequently opting out. Most of the literature on defined contribution savings plans has focused on employer-sponsored 401(k)–type plans in the United States, where voluntary participation is standard. In other contexts, participation in defined contribution savings schemes is mandatory. For example, public sector entities in the United States that have a defined contribution scheme as their primary retirement savings plan (or one of their primary plans if participants have a choice of plans) tend to have mandatory enrollment with no option to opt out (Beshears and others 2011). Countries with defined contribution social security systems typically have automatic and mandatory participation, at least for workers in the formal sector. Whether to make participation voluntary or mandatory is an important policy question for defined contribution savings plans.

Simplification

One limitation of automatic and mandatory savings plan enrollment schemes is that these approaches work only in formal sector labor markets with developed financial institutions that can facilitate payroll deduction. In informal labor markets, these approaches are more difficult to implement. Lessons from the effect of automatic enrollment on increasing participation rates in these contexts can inform the structuring of savings schemes in other contexts.

The success of automatic enrollment in employer-sponsored savings plans in the United States is predicated on two factors: (a) that most people recognize the need for retirement income above and beyond what they will get from Social Security and therefore want to save and (b) that automatic enrollment simplifies what individuals already want to do. Several pieces of evidence support the notion that people generally want to save. First, when asked, individuals typically state a desire to save.[2]

Second, when asked to actively make a choice about whether and how much to save, most people choose to save. Carroll and others (2009) compare the savings outcomes in an employer-sponsored savings plan before and after employees were compelled to make an active choice about whether or not to participate in the savings plan. They find that when not required to make a choice, only 41 percent of newly hired employees enrolled in the savings plan. In

2 For example, Choi and others (2002 and 2006) report the results of a survey on retirement savings adequacy conducted by a large U.S. employer. Two-thirds of the responding employees stated a desire to save more than they were currently saving; one-third reported that they were saving about the right amount; and less than 1 percent responded that they were saving too much.

contrast, when required to make an active choice about savings plan participation (which could include not participating in the savings plan), 69 percent enrolled. They conclude that most employees want to save but that an opt-in enrollment regime does not accurately reflect these preferences, because nonparticipation is consistent with both a preference not to save as well as with a preference to save accompanied by a delay in execution.

Third, very few people opt-out of savings plan participation when they are automatically enrolled. Choi and others (2002, 2006) show that savings plan participation is very persistent regardless of whether employees are automatically enrolled. In particular, only 2–3 percent of automatically enrolled employees opt out of savings plan participation in a 12-month period. That savings rates are high and persistent under automatic enrollment is further evidence that most people generally want to save.

An important caveat to these findings is that they yield evidence on savings preferences for a specific set of individuals in a very specific context: employees in U.S. firms with access to employer-sponsored savings plans. These findings say nothing about savings preferences outside the United States (although one would surmise that many individuals throughout the world also want to save; see for example, Soman and Cheema 2011) or about savings preferences in other types of savings vehicles. Most employer-sponsored savings plans in the United States offer an employer match, which may induce some otherwise reluctant individuals to save. The evidence suggests that the effect of a match on savings plan participation is not large; nonetheless, a financial inducement is one way to shape savings preferences.

A potentially more important contextual factor is the level of trust individuals have that their savings will be secure. Guiso, Sapienza, and Zingales (2008) show that differences in the level of trust across countries explain a sizable share of the cross-country variation in individual stock holding: in countries with higher levels of trust, citizens are more willing to invest in equities. Adopting a regulatory framework that increases trust in financial institutions and the financial system may be a prerequisite to successfully increasing saving with any savings scheme.[3]

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3 There is no evidence on how financial incentives interact with the level of trust to affect savings. If financial incentives substitute for trust, the small impact of financial incentives on savings in the United States may reflect a high level of trust in the United States but might not rule out a larger effect of financial incentives in countries with lower levels of trust. Alternatively, trust may be a precondition for financial incentives to have any impact at all.

The second factor accounting for the success of automatic enrollment is that it simplifies the execution of what individuals already want to do—save. Indeed, automatic enrollment is an extreme form of simplification; individuals who want to save need not do anything. Psychologists have long recognized that choice complexity can affect decision-making outcomes. One result is procrastination—individuals put off decision making as choices become more complicated (Tversky and Shafir 1992; Shafir, Simonson, and Tversky 1993; Dhar and Nowlis 1999; Iyengar and Lepper 2000).

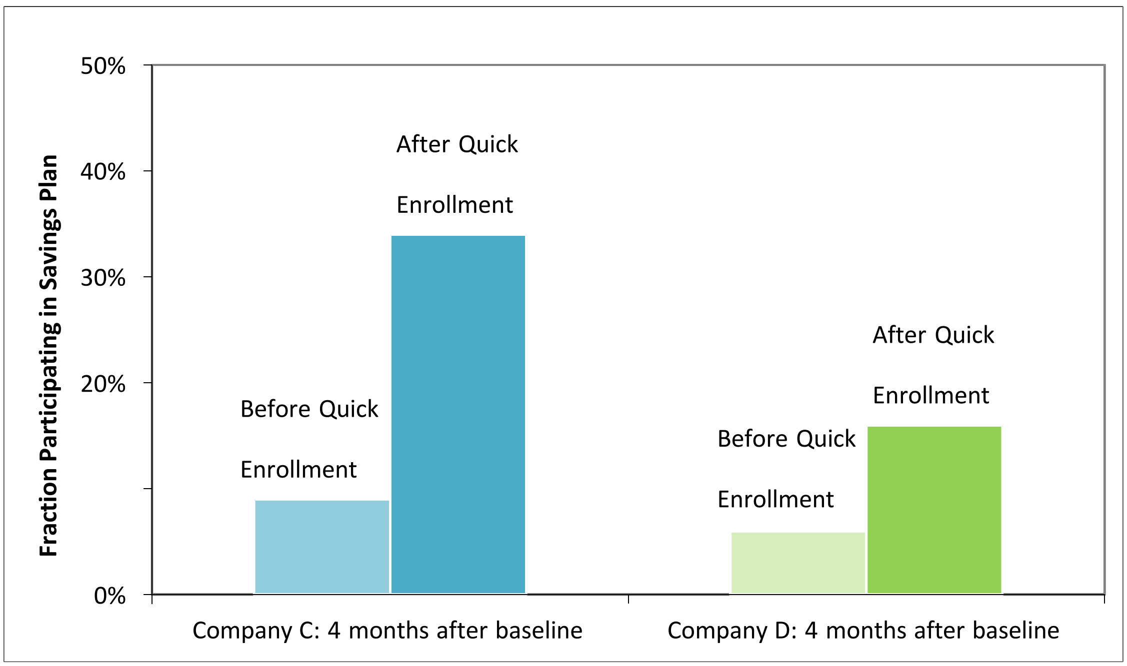
Iyengar, Huberman, and Jiang (2004) show that in the United States, enrollment in employer-sponsored savings plan is negatively correlated with the number of investment options in the savings plans: having 10 additional options in the investment menu lead to a 1.5–2.0 percentage point decline in participation.[4] They hypothesize that having more investment options increases the complexity of choosing an asset allocation. Automatic enrollment decouples the choice about whether to save from the choice about how much to save or which asset allocation to select. The initial participation decision is simplified from one that involves evaluating a myriad of options to a simple comparison of two alternatives: nonparticipation (consumption or saving outside of the savings plan) versus participating at a prespecified contribution rate with a prespecified asset allocation. Madrian and Shea (2001) and Choi and others (2004a) find that automatic enrollment has its largest impact on participation for workers who are least financially sophisticated—the young and people with lower levels of income. These are the individuals for whom the complexity of the participation decision under an opt-in savings regime poses the greatest deterrent to participation (Beshears and others 2008).

If complexity is a deterrent to participation in a savings plan, then simplifying the task of savings plan enrollment, even if less extreme than automatic enrollment, should increase participation. Choi, Laibson, and Madrian (2009) and Beshears and others (2012) study the impact of a simplified enrollment process on outcomes in employer-sponsored savings plans. The intervention they evaluate, Quick Enrollment, gives employees a way to enroll in their employer-sponsored savings plan at a contribution rate and with an asset allocation preselected by their employer. Like automatic enrollment, this approach allows individuals to evaluate savings plan participation (at the preselected contribution rate and asset allocation), a simple binary choice, without having to confront the multidimensional challenge of choosing a

[4] This correlation is documented only among plans that do not have automatic enrollment.

contribution rate or an asset allocation. At the two firms studied, Quick Enrollment increased savings plan participation by 10–20 percentage points relative to a standard opt-in enrollment regime (figure 8). This finding suggests that complexity can be a significant deterrent to savings plan participation and that other measures to simplify the process of saving in this or other contexts could materially affect savings outcomes.[5] Although the participation increases from this simplified approach to savings plan enrollment are not nearly as large as the estimated effects of automatic enrollment, they are sizable and much larger than the estimated effects of matching contributions. Simplifying and streamlining the savings process can have a sizable impact on outcomes and may be a much more cost-effective approach to changing behavior than financial incentives.

Figure 8. Quick Enrollment and Savings Plan Participation: Firms C and D



Source: Beshears and others 2012.

5 Research has documented sizable impacts of simplification in contexts other than saving, including school choice (Hastings and Weinstein 2008); health plan choice (Kling and others 2008); mutual fund selection (Choi, Laibson, and Madrian 2010); and both college financial aid applications and college attendance (Bettinger and others 2009).

Merely providing access to a simple and straightforward way to save may increase savings. Dupas and Robinson (2009) in rural Kenya and Aportela (1999) in rural Mexico find that increasing access to the formal savings sector leads to higher levels of savings. In the case of the field experiment evaluated in Dupas and Robinson (2009), the newly available savings account offered no interest and charged withdrawal fees, yet demand for the account was still high.

Execution Aids

Even if individuals want to save, forgetfulness and procrastination may prevent execution of even the best laid plans. Many strategies have been adopted to help individuals follow through on their savings goals. Research has identified a lack of planning as a primary reason why individuals fail to achieve their goals (Gollwitzer 1999; Gollwitzer and Sheeran 2006).

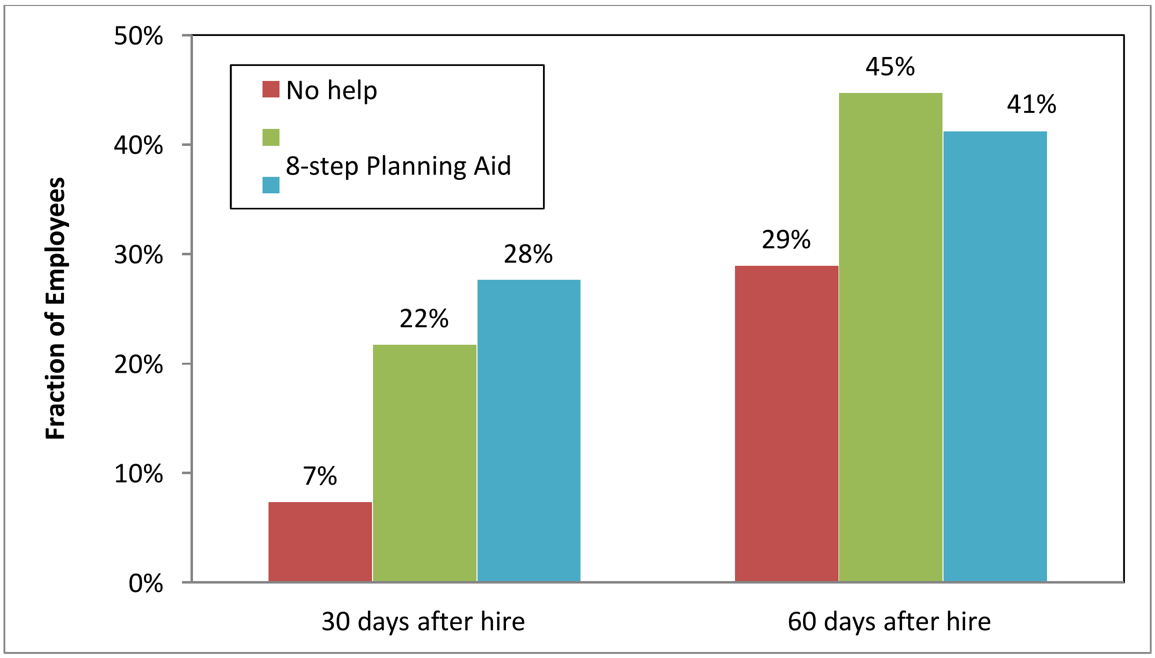
Lusardi, Keller, and Keller (2009) study the impact of helping individuals form and implement a savings plan on savings outcomes. The intervention they study—a planning aid for savings plan enrollment at a U.S. employer—encourages individuals to set aside a specific time for enrolling in their savings plan; outlines the steps involved in enrolling in a savings plan (for example, choosing a contribution rate and an asset allocation); gives an approximation of the time each step will take; and provides tips on what to do if individuals get stuck. Provision of this planning aid increased enrollment in an employer-sponsored savings plan by 12–21 percentage points for newly hired employees (figure 9). This effect is two to three times the estimated impact of matching contributions on savings plan participation. Like simplifying the savings process, providing execution aids is extremely cost-effective.

In a series of field experiments conducted in cooperation with banks in Bolivia, Peru, and the Philippines, Karlan and others (2010) evaluate the impact of providing savings reminders (text messages or letters) on savings outcomes in bank savings accounts. They find that people who received reminders were 3 percent more likely to achieve a prespecified savings goal and saved 6 percent more in the bank sending the reminders than did people who did not receive reminders. They also find that reminders that highlighted individuals' savings goals were twice as effective as generic reminders.

Kast, Meier and Pomeranz (2012) evaluate the impact of providing text message reminders on bank savings outcomes in Chile. They also find that individuals who received text message reminders saved substantially more than individuals who did not.

For the populations in the developing countries targeted in the field experiments of these two studies, ongoing savings requires ongoing action—automatic enrollment and direct deposit are not relevant alternatives. These results suggest that limited attention can be an important impediment to savings in such contexts. Text messages are a cost-effective and scalable way to create attention shocks that motivate people to take action and follow through on prespecified savings goals.

Figure 9. The Impact of Planning Aids on Savings Plan Participation



Source: Lusardi, Keller, and Keller 2009.

The field experiments discussed in Karlan and others (2010) and Kast, Meier, and Pomeranz (2012) included treatment arms that offered individuals higher than market interest rates as an inducement to save. Neither study finds any statistically significant impact of a higher interest rate on savings outcomes. The higher interest rates were admittedly much lower than the match rates that typically characterize matched savings schemes (in Kast, Meier, and Pomeranz (2012), for example, the high interest rate treatment group was offered an interest rate of 5 percent as compared to a then-prevailing interest rate of 0.3 percent). Although these studies are not directly comparable to the studies discussed earlier on the impact of matching contributions on savings outcomes, the results support the general qualitative conclusion that financial incentives have at best modest effects on outcomes.

A growing body of literature examines a broad class of execution aids known as commitment savings products. In the most influential paper in this literature, Ashraf, Karlan, and Yin (2006) evaluate a field experiment in the Philippines that offered one such product to current or former clients of a local bank. In this field experiment, participating bank clients who opted for the commitment savings product voluntarily restricted the right to withdraw their savings until reaching either an individually chosen goal date or an individually chosen goal amount. They show that there is a demand for commitment: among people who were offered the option to open a commitment savings account, 28 percent did so, even though it offered reduced flexibility and no higher interest than a standard bank account. Commitment products can have a sizable impact on savings. Relative to a control group not offered the commitment savings product, people offered a commitment account had bank balances that were 82 percent higher 12 months later. Corroborating work on commitment savings products in other countries includes Gugerty (2007), Ashraf and others (2011), Brune, and others (2011), and Dupas and Robinson (2011). The reasons why commitment savings products are so effective at increasing saving are both internal (reducing the temptation to spend) and external (credibly telling others, primarily friends and family, that one's savings are inaccesible).

Soman and Cheema (2011) evaluate one interesting variant of a commitment savings technology in a field experiment targeted at unbanked construction laborers in rural India who are paid cash wages. In this experiment, individuals earmarked a certain amount of their weekly wages as savings. A social worker visited participating households every pay day to set aside the earmarked savings amount into either one (nonpartitioned) or two (partitioned) sealed envelopes. The challenge in this field experiment was not to motivate individuals to set aside money for savings but to prevent them from raiding their savings. The authors show that partitioning earmarked savings into multiple "accounts" increased realized savings by 39–216 percent. They hypothesize that opening a savings envelope, or violating the partition, induces guilt. Having multiple accounts, or partitions, increases the psychological cost of spending money that has been set aside for a specific purpose. This simple, low-cost execution aid has obvious extensions to other contexts. For example, having multiple retirement savings accounts may be more effective than relying on one type of savings account (for example, having both a retirement income account and a retirement health account may induce higher savings than a single generic retirement account).

Collectively, the research on execution aids suggests that many psychological impediments stand in the way of carrying out even the best-laid plans to save. Financial incentives do little in the face of such barriers. A more effective strategy is to directly address the barriers themselves.

Conclusions

A large body of literature has examined a wide variety of approaches to encouraging individuals to increase their savings. Traditional economic models point to financial incentives, such as a matching contribution, as the logical mechanism for increasing savings plan participation. The research on matching contributions and savings plan participation is largely consistent with traditional economic models: a matching contribution does increase participation. But the quantitative impact matching contributions on savings plan participations is small. The studies using the most credible empirical methods find strikingly similar results in a variety of different contexts using a variety of different data sources: a matching contribution of 25 percent increases savings plan participation by roughly 5 percentage points.

The theoretical impact of matching contributions on the level of savings in traditional models depends on how much an individual would save in the absence of a match. The empirical results on this question finds results are inconsistent, although the most credible empirical work corroborates the predictions of traditional economic models.

Traditional economic models fail to characterize the most interesting features of the savings choices that individual make. Savings rates cluster heavily around focal points, including the match threshold (as traditional economic theory would predict) and numbers that are multiples of five (something traditional economic theory would not predict). This finding suggests that the match threshold may be a much more important parameter in a matching scheme than the match rate.

Traditional economic models also fail to incorporate the many psychological frictions that impede savings, including present bias, complexity, inattention, and temptation. In many cases, countering these frictions leads to increases in saving plan participation and asset accumulation that surpass the effects of a typical matching contribution, potentially at a lower cost.

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NEWS RELEASE

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EMPLOYEE BENEFITS IN THE UNITED STATES – MARCH 2015

Retirement benefits were available to 66 percent of private industry workers in the United States in March 2015, the U.S. Bureau of Labor Statistics reported today. Employer-provided retirement benefits were available to 31 percent of private industry workers in the lowest wage category (the 10th percentile). By contrast 88 percent of workers in the highest wage category (the 90th percentile) had access to retirement benefits. In state and local government, 61 percent of workers in the lowest wage category had access to retirement benefits, compared with 98 percent of workers in the highest wage category. (See chart 1 and table 1.)

The share of premiums workers were required to pay for their medical coverage varied by bargaining status. Private industry nonunion workers were responsible for 23 percent of the total single coverage medical premium, whereas the share of premiums for union workers was 13 percent. The share of premiums for family coverage was 35 percent for nonunion workers and 16 percent for union workers. (See chart 2 and tables 3 and 4.)

Chart 1. Access to retirement benefits by lowest and highest wage categories, March 2015

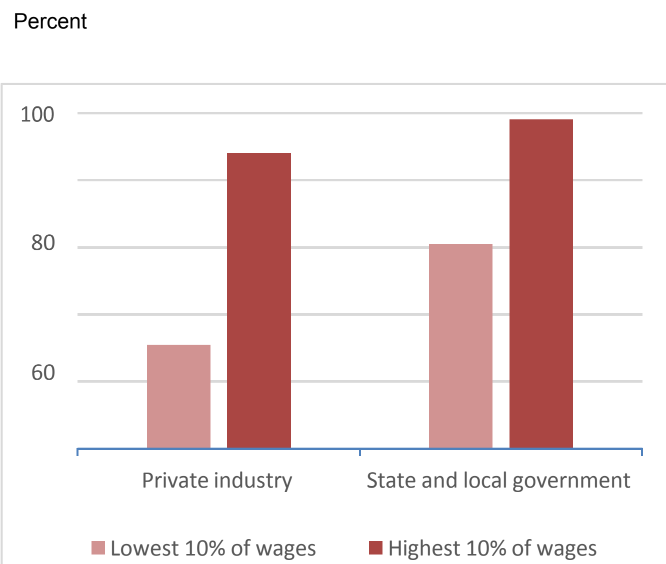
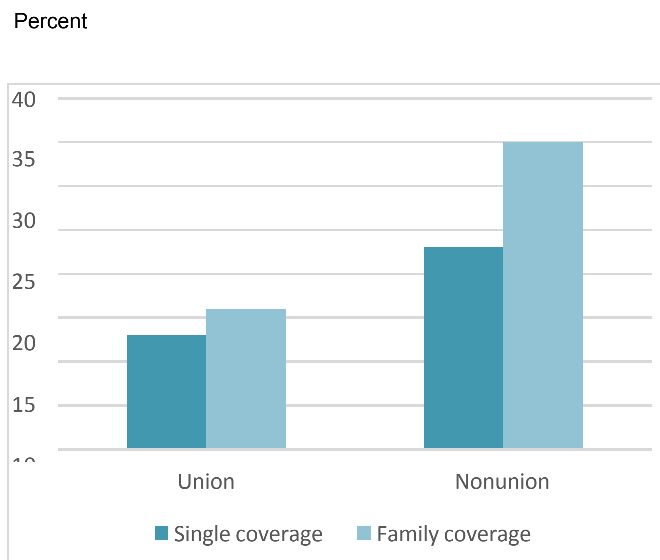


Chart 2. Share of medical premiums paid by private industry workers, March 2015



These data are from the National Compensation Survey (NCS), which provides comprehensive measures of compensation cost levels and trends as well as incidence and provisions of employee benefit plans.

Additional findings include:

- **Full-time workers** in state and local government had high rates of access to major benefits: 99 percent had access to retirement and medical care benefits, and 98 percent to paid sick leave. For **part-time workers**, 39 percent had access to retirement benefits, 24 percent to medical care benefits, and 42 percent to paid sick leave. (See tables 1, 2, and 6.)

- Paid holidays were provided to 90 percent of full-time and 37 percent of part-time workers in **private industry**. In **state and local government**, 74 percent of full-time workers and 30 percent of part-time workers had access. (See table 6 and Technical Note.)

- Access to benefits differed among some **occupational groups**. For private industry, 87 percent of workers in management, professional, and related occupations had access to medical care, compared with 41 percent in service occupations. In state and local government, the corresponding figures were 89 percent and 82 percent, respectively. (See table 2.)

- For civilian workers, access rates to medical care ranged from 53 percent for the smallest **establishments** (those with fewer than 50 workers) to 90 percent for the largest establishments (those employing 500 workers or more). Access to retirement benefits ranged by establishment size from 46 percent to 91 percent. (See tables 1 and 2.)

- Access to medical care benefits for **private industry** workers was 86 percent in goods-producing industries, compared with 66 percent for workers in service-providing industries. The employee share of family medical premiums was 27 percent for workers in goods-producing industries and 33 percent for workers in service-providing industries. (See tables 2 and 4.)

More information can be obtained by calling (202) 691-6199, sending e-mail to ncsinfo@bls.gov, or by visiting www.bls.gov/ebs.

NOTE

More information will be published in September 2015 on the incidence and provisions of health care benefits, retirement benefits, life insurance, short-term and long-term disability benefits, paid holidays and vacations, and other selected benefits. For the latest benefit publications see www.bls.gov/ebs.

TECHNICAL NOTE

Data in this release are from the National Compensation Survey (NCS), conducted by the U.S. Department of Labor, Bureau of Labor Statistics (BLS). This release contains March 2015 data on civilian, private industry, and state and local government workers in the United States. Excluded are federal government workers, the military, agricultural workers, private household workers, and the self-employed. This news release provides data on the incidence of (access to and participation in) selected benefits and the share of premiums paid by employers and employees for medical care.

Calculation details

Average hourly earnings from sampled occupations within an establishment were used to produce estimates for worker groups within six earnings categories: the lowest 10 percent, the lowest 25 percent, the second 25 percent, the third 25 percent, the highest 25 percent, and the highest 10 percent. The categories are based on unpublished March 2015 wages and salaries from the *Employer Costs for Employee Compensation*.

The percentiles were computed using earnings and scheduled hours of work reported for individual workers in sampled establishment jobs. Establishments in the survey are asked to report only individual worker earnings for each sampled job. For the calculation of the hourly percentile values, the individual worker hourly earnings are weighted and arrayed from lowest to highest. The values corresponding to the percentiles are:

Characteristics	Hourly wage percentiles				
	10	25	50 (median)	75	90
Civilian workers	$9.09	$12.02	$18.18	$29.10	$44.36
Private industry workers	9.00	11.64	17.40	27.89	43.27
State and local government workers	12.40	16.35	23.76	35.56	49.40

The lowest 10-percent and 25-percent wage categories include those occupations with an average hourly wage less than the 10th percentile value and 25th percentile value, respectively. The second 25-percent category includes those occupations that earn at or above the 25th percentile value but less than the 50th percentile value. The third 25-percent category includes those occupations that earn at or above the 50th percentile value but less than the 75th percentile value. Finally, the highest 25- and 10-percent wage categories include those occupations with an average wage value greater than or equal to the 75th and 90th percentile value, respectively.

(Note: Individual workers can fall into an earnings category different from the average for the occupation into which they are classified because average hourly earnings for the occupation are used to produce the benefit estimates.)

The tables on employer and employee medical premiums (tables 3 and 4) include participants in all medical plans, with calculations for both single and family coverage. The calculations are not based on actual decisions regarding medical coverage made by employees within the occupations. Rather, the premium calculations are based on the assumption that all employees in the occupation can opt for either single or family coverage.

Medical care
Medical care plans provide services or payments for services rendered in the hospital or by a qualified medical care provider.

Retirement plans
Differences in retirement plan participation are influenced by type of plan offered. In defined benefit plans participation is often mandatory, after meeting eligibility requirements, while participation in defined contribution plans is often voluntary.

Take-up rates
Take-up rates are the percentage of workers with access to a plan who participate in the plan. They are computed by using the number of workers participating in a plan divided by the number of workers with access to the plan, multiplied by 100, and rounded to the nearest one percent. Since the computation of take-up rates is based on the number of workers collected rather than rounded percentage estimates, the take-up rates in the tables may not equal the ratio of participation to access estimates.

Comparing private and public sector data
Incidence of employee benefits in state and local government should not be directly compared to private industry. Differences between these sectors stem from factors such as variation in work activities and occupational structures. Manufacturing and sales, for example, make up a large part of private industry work activities but are rare in state and local government. Professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, compared with one-half of private industry.

Leave benefits for teachers
Primary, secondary, and special education teachers typically have a work schedule of 37 or 38 weeks per year. Because of this work schedule, they are generally not offered vacation or holidays. In many cases, the time off during winter and spring breaks during the school year are not considered vacation days for the purposes of this survey.

Sample size
Data for the March 2015 reference period were collected from a probability sample of about 8,600 establishments in private industry and approximately 1,500 establishments in state and local government.

Survey scope
The March 2015 NCS benefits survey represented approximately 131 million civilian workers; of this number, about 112 million were private industry workers and nearly 19 million were state and local government workers.

Obtaining information
For research articles on employee benefits, see the *Monthly Labor Review* at www.bls.gov/opub/mlr/home.htm and *Beyond the Numbers: Pay and Benefits* at www.bls.gov/opub/btn. For further technical information, see Chapter 8, "National Compensation Measures," of the *BLS Handbook of Methods* at www.bls.gov/opub/hom/pdf/homch8.pdf.

Table 1. Retirement benefits:[1] Access, participation, and take-up rates,[2] National Compensation Survey, March 2015

(All workers = 100 percent)

Characteristics	Civilian[3]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
All workers	69	53	77	66	49	74	90	81	90
Worker characteristics									
Management, professional, and related	83	71	85	80	67	84	92	82	89
Management, business, and financial	85	75	88	84	74	88	-	-	-
Professional and related	82	69	84	78	63	81	92	81	89
Teachers	84	74	87	–	–	–	91	81	89
Primary, secondary, and special education school teachers	95	84	88	–	–	–	99	89	90
Registered nurses	83	68	82	–	–	–	–	–	–
Service	46	30	64	39	22	55	85	77	91
Protective service	79	62	79	62	31	50	92	84	92
Sales and office	72	52	72	70	49	70	89	81	91
Sales and related	68	39	57	68	38	57	–	–	–
Office and administrative support	74	60	80	72	56	78	90	82	91
Natural resources, construction, and maintenance	69	56	81	66	52	80	96	88	92

Characteristics	Civilian[3]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Construction, extraction, farming, fishing, and forestry.	64	52	82	59	47	79	–	–	–
Installation, maintenance, and repair	73	59	81	71	57	80	–	–	–
Production, transportation, and material moving	72	54	76	71	53	75	85	78	91
Production	75	59	79	75	59	78	–	–	–
Transportation and material moving	68	50	73	67	48	71	–	–	–
Full time	80	64	81	76	59	78	99	89	90
Part time	38	20	54	37	19	51	39	33	85
Union	94	85	90	92	82	90	97	88	90
Nonunion	65	48	74	63	46	72	84	75	90
Average wage within the following categories:[4]									
Lowest 25 percent	42	22	52	40	19	48	75	67	90
Lowest 10 percent	31	12	40	31	12	39	61	54	89
Second 25 percent	71	53	75	67	47	70	93	83	89
Third 25 percent	81	68	83	78	63	81	94	84	89
Highest 25 percent	89	79	88	86	75	88	98	89	91
Highest 10 percent	90	80	90	88	78	89	98	89	91

Table 2. Retirement benefit:[1] Access, participation, and take-up rates,[2] National Compensation Survey, March 2015 – Continued
(All workers = 100 percent)

Characteristics	Civilian[3]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Establishment characteristics									
Goods-producing industries	75	61	82	75	61	81	–	–	–
Service-providing industries	68	52	76	64	46	72	90	81	90
Education and health services	77	63	82	69	53	77	91	80	88
Educational services	86	76	88	69	59	86	91	81	89
Elementary and secondary schools	89	80	89	–	–	–	92	82	89
Junior colleges, colleges, and universities	87	76	87	87	76	88	87	76	87
Health care and social assistance	71	54	76	69	52	75	89	77	87
Hospitals	91	78	85	–	–	–	95	81	85
Public administration	91	84	92	–	–	–	91	84	92
1 to 99 workers	52	36	70	51	35	69	78	70	89
1 to 49 workers	46	33	71	46	32	70	70	63	90
50 to 99 workers	67	46	69	66	44	67	91	80	89
100 workers or more	86	69	81	84	65	78	91	82	90
100 to 499 workers	81	61	75	80	58	72	88	80	91
500 workers or more	91	79	87	89	76	85	93	83	89
Geographic areas									
Northeast	70	57	80	67	53	78	91	81	89

New England	71	56	79	69	52	76	86	78	91
Middle Atlantic	70	57	81	67	53	79	93	82	89
South	69	52	75	66	46	71	91	81	89
South Atlantic	70	53	75	67	48	72	91	80	88
East South Central	72	52	72	67	45	67	93	81	87
West South Central	67	50	75	63	44	70	90	83	92
Midwest	73	57	78	70	53	76	87	78	90
East North Central	71	56	78	69	53	76	85	78	92
West North Central	75	58	78	73	55	75	91	79	87
West	64	50	77	60	44	74	90	82	91
Mountain	65	46	71	61	42	68	88	76	86
Pacific	64	51	80	59	45	76	91	85	93

[1]Includes defined benefit pension plans and defined contribution retirement plans. Workers are considered as having access or as participating if they have access to or are participating in at least one of these plan types.
[2]The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan, rounded for presentation. See Technical Note for more details.
[3]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[4]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Table 2. Medical care benefits: Access, participation, and take-up rates,[1] National Compensation Survey, March 2015
(All workers = 100 percent)

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate	Access	Particip ation	Take -up rate
All workers	72	53	74	69	50	72	87	73	83
Worker characteristics									
Management, professional, and related	87	68	78	87	66	76	89	74	82
Management, business, and financial	94	72	76	95	71	75	–	–	–
Professional and related	85	66	78	83	63	76	89	73	82
Teachers	83	67	80	–	–	–	88	72	82
Primary, secondary, and special education school teachers	97	77	80	–	–	–	98	79	81
Registered nurses	85	61	72	–	–	–	–	–	–
Service	46	31	66	41	24	60	82	69	85
Protective service	70	58	83	42	28	68	89	78	88
Sales and office	71	51	73	69	49	71	88	74	84
Sales and related	59	40	69	59	40	69	–	–	–
Office and administrative support	78	58	74	77	56	73	88	74	84
Natural resources, construction, and maintenance	78	62	80	76	60	79	94	81	85
Construction, extraction, farming, fishing, and forestry.	78	62	80	76	60	79	94	81	85

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Installation, maintenance, and repair	73	61	83	71	58	82	–	–	–
Production, transportation, and material moving	81	63	78	80	62	77	–	–	–
Production	76	56	74	76	56	73	82	70	85
Transportation and material moving	83	62	74	83	62	74	–	–	–
Full time	70	51	72	69	50	71	–	–	–
Part time	88	67	76	86	64	74	99	83	84
Union	22	13	59	21	12	57	24	18	73
Nonunion	68	49	72	67	47	71	81	67	83
Average wage within the following categories:[3]									
Lowest 25 percent	37	22	60	34	20	57	70	56	80
Lowest 10 percent	23	12	51	23	11	50	54	43	80
Second 25 percent	77	56	73	75	52	70	91	78	85
Third 25 percent	88	69	78	86	65	76	93	78	84
Highest 25 percent	94	74	79	93	72	78	97	81	84
Highest 10 percent	94	75	80	94	74	79	97	82	85

Table 2. Medical care benefits: Access, participation, and take-up rates,[1] National Compensation Survey, March 2015 – Continued
(All workers = 100 percent)

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Establishment characteristics									
Goods-producing industries	86	67	78	86	67	78	–	–	–
Service-providing industries	70	51	74	66	47	71	87	73	83
Education and health services	80	59	75	75	52	70	88	72	81
Educational services	85	68	80	75	56	75	88	72	81
Elementary and secondary schools	87	69	79	–	–	–	88	70	80
Junior colleges, colleges, and universities	87	72	83	89	67	76	86	75	87
Health care and social assistance	76	54	70	75	52	69	88	72	81
Hospitals	91	68	75	–	–	–	94	78	83
Public administration	88	77	87	–	–	–	88	77	87
1 to 99 workers	58	41	71	57	40	71	75	63	83
1 to 49 workers	53	38	72	53	38	71	66	56	84
50 to 99 workers	71	50	71	70	49	70	89	73	82
100 workers or more	85	65	76	84	62	74	89	74	83
100 to 499 workers	81	60	73	81	58	72	85	72	84
500 workers or more	90	71	79	89	68	76	91	75	83
Geographic areas									

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Northeast	72	54	75	70	50	72	87	76	87
New England	71	50	70	69	46	68	86	72	84
Middle Atlantic	73	55	76	70	52	74	88	78	88
South	73	53	73	70	49	71	90	74	82
South Atlantic	73	52	72	70	49	71	89	70	78
East South Central	75	56	75	70	49	70	93	83	90
West South Central	72	53	73	69	49	71	91	75	83
Midwest	72	53	73	71	51	72	82	66	80
East North Central	73	53	73	72	52	72	80	64	80
West North Central	72	53	73	69	49	71	86	70	81
West	70	54	78	67	51	76	88	75	85
Mountain	68	52	77	66	49	75	87	73	84
Pacific	71	55	78	67	52	76	88	75	86

[1]The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan, rounded for presentation. See Technical Note for more details.
[2]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[3]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Table 3. Medical plans: Share of premiums paid by employer and employee for single coverage, National Compensation Survey, March 2015
(In percent)

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
All workers participating in single coverage medical plans	80	20	78	22	87	13
Worker characteristics						
Management, professional, and related	82	18	80	20	87	13
Management, business, and financial	80	20	79	21	–	–
Professional and related	83	17	81	19	87	13
Teachers	87	13	–	–	88	12
Primary, secondary, and special education school teachers	87	13	–	–	87	13
Registered nurses	80	20	–	–	–	–
Service	79	21	75	25	87	13
Protective service	85	15	76	24	87	13
Sales and office	78	22	77	23	88	12
Sales and related	74	26	73	27	–	–
Office and administrative support	80	20	79	21	88	12
Natural resources, construction, and maintenance	80	20	79	21	87	13
Construction, extraction, farming, fishing, and forestry.	83	17	82	18	–	–
Installation, maintenance, and repair	78	22	77	23	–	–

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
Production, transportation, and material moving	80	20	79	21	87	13
Production	79	21	79	21	–	–
Transportation and material moving	80	20	80	20	–	–
Full time	81	19	79	21	88	12
Part time	74	26	73	27	82	18
Union	87	13	87	13	87	13
Nonunion	78	22	77	23	88	12
Average wage within the following categories:[2]						
Lowest 25 percent	75	25	73	27	87	13
Lowest 10 percent	71	29	70	30	88	12
Second 25 percent	79	21	77	23	88	12
Third 25 percent	81	19	79	21	88	12
Highest 25 percent	82	18	81	19	86	14
Highest 10 percent	82	18	80	20	88	12

Table 3. Medical plans: Share of premiums paid by employer and employee for single coverage, National Compensation Survey, March 2015 – Continued
(In percent)

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
Establishment characteristics						
Goods-producing industries	80	20	80	20	-	-
Service-providing industries	80	20	78	22	87	13
Education and health services	83	17	80	20	87	13
Educational services	86	14	81	19	87	13
Elementary and secondary schools	86	14	–	–	87	13
Junior colleges, colleges, and universities	86	14	80	20	89	11
Health care and social assistance	81	19	80	20	87	13
Hospitals	82	18	–	–	88	12
Public administration	88	12	–	–	88	12
1 to 99 workers	79	21	78	22	91	9
1 to 49 workers	79	21	78	22	91	9
50 to 99 workers	78	22	77	23	91	9
100 workers or more	81	19	79	21	87	13
100 to 499 workers	79	21	78	22	87	13
500 workers or more	83	17	80	20	87	13
Geographic areas						
Northeast	82	18	80	20	87	13
New England	78	22	77	23	84	16
Middle Atlantic	83	17	82	18	89	11
South	79	21	77	23	88	12

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
South Atlantic	79	21	77	23	88	12
East South Central	80	20	76	24	88	12
West South Central	80	20	78	22	87	13
Midwest	79	21	77	23	88	12
East North Central	79	21	78	22	86	14
West North Central	79	21	75	25	91	9
West	82	18	81	19	86	14
Mountain	81	19	80	20	89	11
Pacific	82	18	81	19	85	15

[1]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[2]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Table 4. Medical plans: Share of premiums paid by employer and employee for family coverage, National Compensation Survey, March 2015
(In percent)

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
All workers participating in family coverage medical plans	69	31	68	32	71	29
Worker characteristics						
Management, professional, and related	70	30	70	30	70	30
Management, business, and financial	70	30	69	31	–	–
Professional and related	70	30	70	30	69	31
Teachers	68	32	–	–	68	32
Primary, secondary, and special education school teachers	67	33	–	–	66	34
Registered nurses	72	28	–	–	–	–
Service	65	35	62	38	73	27
Protective service	75	25	64	36	78	22
Sales and office	66	34	65	35	73	27
Sales and related	62	38	62	38	–	–
Office and administrative support	68	32	67	33	73	27
Natural resources, construction, and maintenance	68	32	68	32	74	26
Construction, extraction, farming, fishing, and forestry.	71	29	71	29	–	–
Installation, maintenance, and repair	66	34	65	35	–	–

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
Production, transportation, and material moving	72	28	72	28	72	28
Production	73	27	73	27	–	–
Transportation and material moving	72	28	72	28	–	–
Full time	69	31	68	32	71	29
Part time	63	37	63	37	69	31
Union	81	19	84	16	78	22
Nonunion	65	35	65	35	64	36
Average wage within the following categories:[2]						
Lowest 25 percent	59	41	59	41	64	36
Lowest 10 percent	57	43	57	43	56	44
Second 25 percent	66	34	65	35	73	27
Third 25 percent	70	30	69	31	71	29
Highest 25 percent	73	27	72	28	74	26
Highest 10 percent	74	26	72	28	78	22

Table 4. Medical plans: Share of premiums paid by employer and employee for family coverage, National Compensation Survey, March 2015 – Continued
(In percent)

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
Establishment characteristics						
Goods-producing industries	73	27	73	17	-	-
Service-providing industries	68	32	67	33	71	29
Education and health services	67	33	67	33	67	33
Educational services	66	34	66	34	66	34
Elementary and secondary schools	64	36	–	–	64	36
Junior colleges, colleges, and universities	72	28	69	31	73	27
Health care and social assistance	68	32	67	33	71	29
Hospitals	73	27	–	–	71	29
Public administration	77	23	–	–	77	23
1 to 99 workers	63	37	62	38	72	28
1 to 49 workers	63	37	62	38	75	25
50 to 99 workers	63	37	62	38	69	31
100 workers or more	72	28	72	28	71	29
100 to 499 workers	69	31	69	31	69	31
500 workers or more	74	26	76	24	72	28
Geographic areas						
Northeast	76	24	74	26	85	15
New England	74	26	72	28	79	21
Middle Atlantic	77	23	75	25	86	14
South	63	37	63	37	60	40
South Atlantic	64	36	64	36	68	32

Characteristics	Civilian[1]		Private industry		State and local government	
	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium	Employer share of premium	Employee share of premium
East South Central	62	38	65	35	54	46
West South Central	61	39	62	38	54	46
Midwest	70	30	69	31	77	23
East North Central	72	28	71	29	81	19
West North Central	67	33	66	34	71	29
West	69	31	69	31	72	28
Mountain	67	33	68	32	65	35
Pacific	70	30	69	31	75	25

[1]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[2]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Table 5. Life insurance benefits: Access, participation, and take-up rates,[1] National Compensation Survey, March 2015
(All workers = 100 percent)

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate	Acces s	Partici pation	Take-up rate
All workers	60	59	97	57	56	97	80	78	98
Worker characteristics									
Management, professional, and related	78	77	99	77	77	99	80	78	97
Management, business, and financial	85	84	99	85	85	99	–	–	–
Professional and related	75	74	98	73	72	99	79	77	97
Teachers	72	71	98	–	–	–	78	76	97
Primary, secondary, and special education school teachers	82	81	98	–	–	–	85	84	98
Registered nurses	77	76	99	–	–	–	–	–	–
Service	35	33	95	28	26	93	77	75	98
Protective service	71	68	96	50	45	89	86	84	98
Sales and office	58	56	98	56	54	98	80	78	98
Sales and related	45	43	96	44	43	96	–	–	–
Office and administrative support	65	64	98	63	62	98	80	79	98
Natural resources, construction, and maintenance	60	58	97	56	55	97	92	91	99
Construction, extraction, farming, fishing, and forestry.	53	52	98	48	47	98	–	–	–
Installation, maintenance, and	66	64	97	64	62	97	–	–	–

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate	Acces s	Partici pation	Take-up rate
repair									
Production, transportation, and material moving	66	63	96	65	63	96	77	76	98
Production	72	70	97	71	69	97	–	–	–
Transportation and material moving	60	57	95	59	56	95	–	–	–
Full time	75	74	98	72	71	98	90	88	98
Part time	14	12	89	13	11	88	23	21	95
Union	86	84	98	86	83	97	86	85	98
Nonunion	56	55	97	54	53	98	74	72	97
Average wage within the following categories:[3]									
Lowest 25 percent	25	23	92	22	20	91	63	61	97
Lowest 10 percent	13	11	89	12	11	88	48	46	96
Second 25 percent	63	62	98	59	57	97	84	82	98
Third 25 percent	76	74	98	72	71	98	83	82	98
Highest 25 percent	85	85	99	84	84	99	89	87	97
Highest 10 percent	89	88	99	89	88	99	89	86	96

Table 5. Life insurance benefits: Access, participation, and take-up rates,[1] National Compensation Survey, March 2015 – Continued

(All workers = 100 percent)

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate	Access	Partici pation	Take -up rate
Establishment characteristics									
Goods-producing industries	71	70	98	71	70	98	-	-	-
Service-providing industries	58	57	97	54	53	97	80	78	98

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Education and health services	69	67	98	63	62	99	79	77	97
Educational services	76	74	98	64	64	100	79	77	97
Elementary and secondary schools	76	74	98	–	–	–	78	76	98
Junior colleges, colleges, and universities	84	81	97	86	85	99	83	79	95
Health care and social assistance	64	63	98	62	62	99	80	77	96
Hospitals	88	87	99	–	–	–	89	86	97
Public administration	83	81	98	–	–	–	83	81	98
1 to 99 workers	41	40	97	40	39	96	63	61	97
1 to 49 workers	36	35	97	35	34	97	62	60	97
50 to 99 workers	56	53	95	55	53	95	64	62	97
100 workers or more	78	76	98	77	75	98	82	80	98
100 to 499 workers	71	69	98	71	69	98	74	73	97
500 workers or more	85	84	98	86	85	99	85	83	98
Geographic areas									
Northeast	60	59	99	57	56	99	81	79	98
New England	59	57	98	56	56	99	72	66	93
Middle Atlantic	60	60	99	57	56	99	85	84	99
South	63	61	97	59	57	97	82	79	97
South Atlantic	62	60	98	58	57	98	83	81	98
East South Central	64	62	97	59	58	98	85	80	93
West South Central	64	61	96	61	58	95	77	76	98

Characteristics	Civilian[2]			Private industry			State and local government		
	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate	Access	Partici pation	Take-up rate
Midwest	63	61	97	60	59	97	79	77	98
East North Central	63	61	97	61	59	97	79	76	96
West North Central	62	61	98	59	57	97	79	79	100
West	54	52	98	50	49	98	75	74	99
Mountain	57	56	97	54	53	97	80	79	99
Pacific	52	51	98	48	47	98	74	73	99

[1]The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan, rounded for presentation. See Technical Note for more details.
[2]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[3]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.

Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Table 6. Selected paid leave benefits: Access, National Compensation Survey, March 2015
(All workers = 100 percent)

Characteristics	Civilian[1]			Private industry			State and local government		
	Paid sick leave	Paid vacation	Paid holidays	Paid sick leave	Paid vacation	Paid holidays	Paid sick leave	Paid vacation	Paid holidays
All workers	65	74	75	61	76	77	90	60	67
Worker characteristics									
Management, professional, and related	84	76	80	81	88	89	91	43	55
Management, business, and financial	88	95	95	88	96	97	–	–	–
Professional and related	82	68	73	78	83	84	91	36	50
Teachers	83	17	35	–	–	–	89	12	31
Primary, secondary, and special education school teachers	95	13	30	–	–	–	96	9	27
Registered nurses	79	85	86	–	–	–	–	–	–
Service	45	56	54	39	53	50	86	76	79
Protective service	71	79	81	43	65	73	90	89	87
Sales and office	67	79	80	65	79	80	89	84	85
Sales and related	53	70	70	53	70	69	–	–	–
Office and administrative support	75	85	86	73	85	86	90	85	86
Natural resources, construction, and maintenance	57	80	83	53	78	82	95	96	97
Construction, extraction, farming, fishing, and forestry.	43	67	72	36	63	69	–	–	–
Installation, maintenance, and repair	70	91	93	67	91	92	–	–	–

Characteristics	Civilian[1]			Private industry			State and local government		
	Paid sick leave	Paid vacation	Paid holidays	Paid sick leave	Paid vacation	Paid holidays	Paid sick leave	Paid vacation	Paid holidays
Production, transportation, and material moving	58	82	84	56	83	85	88	63	73
Production	58	90	91	57	90	91	–	–	–
Transportation and material moving	58	74	78	55	75	78	–	–	–
Full time	78	87	88	74	91	90	98	67	74
Part time	26	33	36	24	34	37	42	21	30
Union	85	74	80	73	89	90	97	57	69
Nonunion	62	74	74	60	75	75	83	61	66
Average wage within the following categories:[2]									
Lowest 25 percent	34	50	50	31	48	48	76	57	64
Lowest 10 percent	22	39	37	22	40	36	63	41	49
Second 25 percent	69	83	84	66	84	84	93	84	87
Third 25 percent	78	88	89	73	89	90	93	64	73
Highest 25 percent	87	79	83	84	91	92	97	37	49
Highest 10 percent	89	79	83	86	92	93	98	37	47

Table 6. Selected paid leave benefits: Access, National Compensation Survey, March 2015 – Continued

(All workers = 100 percent)

Characteristics	Civilian[1]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Establishment characteristics									
Goods-producing industries	59	88	90	58	88	90	–	–	–
Service-providing industries	66	71	73	62	74	74	90	59	67

Characteristics	Civilian[1]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
Education and health services	79	65	72	72	78	81	90	43	55
Educational services	86	39	53	73	53	63	90	36	50
Elementary and secondary schools	89	27	42	–	–	–	91	26	41
Junior colleges, colleges, and universities	86	67	79	80	73	80	89	64	78
Health care and social assistance	74	83	85	72	83	85	88	88	88
Hospitals	86	92	93	–	–	–	92	94	94
Public administration	89	89	88	–	–	–	89	89	88
1 to 99 workers	53	68	68	52	68	68	80	66	69
1 to 49 workers	50	65	66	49	65	66	72	65	67
50 to 99 workers	60	76	74	58	76	74	91	67	72
100 workers or more	77	79	82	72	86	86	91	59	67
100 to 499 workers	70	80	81	67	83	83	88	61	64
500 workers or more	84	78	82	80	90	91	92	58	68
Geographic areas									
Northeast	69	73	75	66	76	77	90	56	60
New England	66	70	73	62	74	76	89	48	54
Middle Atlantic	71	75	76	67	77	78	91	60	63
South	66	76	77	61	78	78	91	62	69
South Atlantic	67	76	78	62	78	78	92	65	77
East South Central	65	76	76	58	79	77	91	64	71

Characteristics	Civilian[1]			Private industry			State and local government		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
West South Central	64	76	75	60	79	79	88	54	56
Midwest	62	74	75	58	77	76	87	55	67
East North Central	61	74	74	57	77	76	86	53	66
West North Central	65	74	77	61	77	78	90	58	69
West	64	70	73	60	71	73	89	63	69
Mountain	60	70	69	57	72	71	83	53	58
Pacific	66	70	75	61	71	75	92	67	73

[1]Includes workers in the private nonfarm economy except those in private households, and workers in the public sector, except the federal government. See Technical Note for further explanation.
[2]Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using ECEC data for March 2015.
Note: Dash indicates no workers in this category or data did not meet publication criteria. For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/ncs/ebs/glossary20142015.htm.

Office on the Economic Status of Women

Status Report

OLDER WOMEN & THE BASIC COST OF LIVING, 2014

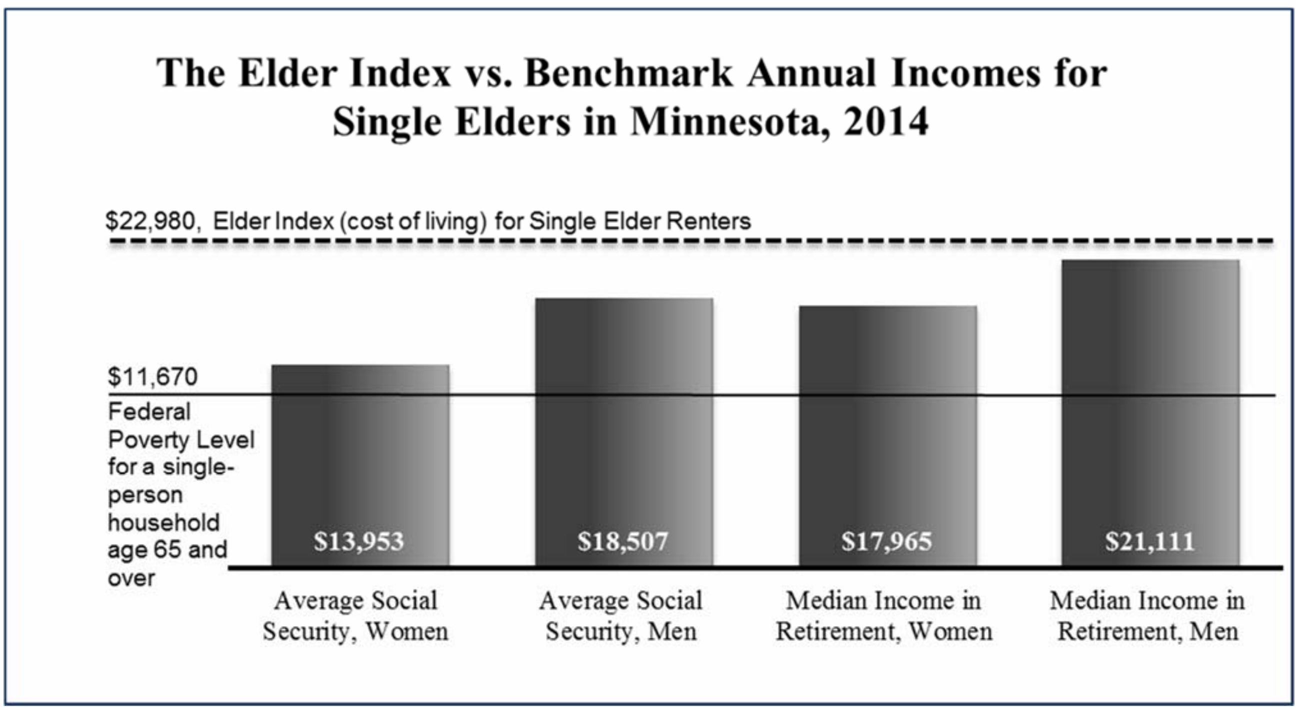
Making Ends Meet

The Elder Economic Security Standard Index™ (Elder Index) was developed by WOW (Wider Opportunities for Women) and the Gerontology Institute at the University of Massachusetts Boston. The Elder Index is a measure of the income that older adults need to meet their basic needs and age in place with dignity. The Elder Index is specific to household size, location, housing status and health status. It includes the cost of housing, health care, transportation, food and miscellaneous essentials.

Comparing the Elder Index (the basic cost of no-frills living) to the median retirement incomes of Minnesota's elders shows that many of our state's seniors are not able to make ends meet.

This situation is particularly concerning for women. As illustrated below, the average annual social security income for a woman is $13,953, just above the federal poverty guideline for a single-person household of

$11,670. (In 2012, nearly 50% of unmarried elderly women who received social security benefits relied on social security for 90% or more of their income.) Median retirement income from all sources for Minnesota's older women is $17,965. This is 85% of the median income for men of $21,111, and is 78% of the basic cost of living for an elder of $22,980.



Note: Income in retirement includes all person income, other than public supports, of those without earnings. Sources:

- *US Census Bureau, 2013 American Community Survey PUMS data. Median income values inflated using BLS CPI inflator.*
- *Social Security Administration, "OASDI Beneficiaries by State and County, 2013." Average Social Security values inflated using SSA COLAs.*

OESW thanks WOW (Wider Opportunities for Women) for its help in developing this data.

Updated March 20, 2015.

Fact Sheet: Minnesota

Workplace Retirement Plans Will Help Workers Build Economic Security

David John and Gary Koenig
AARP Public Policy Institute

Access to an employer-based retirement plan is critical for building financial security later in life. Yet, about 39 percent of Minnesota's private sector employees—roughly 873,000—work for an employer that does not offer a retirement plan. Significant numbers of workers at all levels of earnings and education do not have the ability to use payroll deductions to save for retirement.

Currently in Minnesota, workers of larger employers are more likely to have a retirement plan than workers of smaller employers. The probability of having a workplace retirement plan also differs considerably by workers' earnings level, education, and race and ethnicity. The lack of ability to participate in an employer-provided retirement plan, however, spans all levels of education and earnings, and cuts across all groups.

Minnesota's Situation by the Numbers

About 39 percent of Minnesota workers ages 18 to 64 in the private sector work for businesses that do not offer a retirement plan.

- **Small-business employees are less likely to have a plan:** Workers in Minnesota businesses with fewer than 100 employees are much less likely to have access to a plan (59 percent) than workers in larger businesses (29 percent). In raw numbers, about 460,000 small-business employees do not have access to a retirement plan compared with about 413,000 in businesses with 100 or more workers.
- **Workers at all education levels do not have a plan:** About 73 percent of workers who did not have a high school degree did not have an employer-provided retirement plan—a much higher percentage than workers with some college (40 percent) or a bachelor's degree or higher (26 percent). But in raw numbers, workers with at least some college who did not have access to an employer plan exceeded those workers without a high school degree who did not have access to an employer plan (524,000 versus 87,000).
- **Workers at all earnings levels do not have a plan:** More than 655,000 of Minnesota employees with annual earnings of $40,000 or less did not have access to a workplace plan. These workers represent about 75 percent of the 873,000 employees without an employer-provided retirement plan.
- **Access to a plan differs substantially by race and ethnicity:** About 57 percent of Hispanic workers and about 57 percent of African Americans lacked access to an employer-provided retirement plan. Minorities accounted for about 23 percent (197,000) of the roughly 873,000 employees without a workplace retirement plan.

Why Access to Payroll Deduction Retirement Savings Plans Is Important

- **Makes saving easier:** About 90 percent of households participating in a workplace retirement plan today report that payroll deductions are very important and make it easier to save.[1] Saving at work appears to be critical: Few households eligible to contribute to an Individual Retirement Account outside of their jobs regularly do so.[2]
- **Helps increase retirement income:** Social Security is essential to retirement security, but its

AARP Real Possibilities
Public Policy Institute

average retirement benefit is only $1,300 a month. Most retirees will need additional resources. Providing workers with a convenient way to save is an important step to increase the amount of assets a person will have at retirement: A 2014 Employee Benefit Research Institute study found that about 62 percent of employees with access to a retirement plan had more than $25,000 in total savings and investments, and 22 percent had $100,000 or more. However, only 6 percent of those without access to such a plan had over $25,000 saved, and only 3 percent had $100,000 or more.[3]

- **Allows individuals to build their own economic security:** Retirement savings plans help workers achieve economic security through their own efforts. Greater access could also help improve economic mobility and reduce wealth disparity.

Minnesota: Who is NOT Covered by a Workplace Retirement Plan?

(percentage and number of private wage and salary workers ages 18–64 whose employer does not offer a retirement plan)

Item	Group	%	Number
ALL	ALL	39.4%	873,076
Age	18–34 years	49.2%	446,683
	35–44 years	33.7%	152,791
	45–54 years	33.0%	159,843
	55–64 years	30.7%	113,759
Race & Ethnicity*	Hispanic	56.9%	59,932
	Asian (non-Hispanic)	50.0%	51,965
	Black (non-Hispanic)	56.8%	61,501
	White (non-Hispanic)	36.4%	675,665
Education	Less than high school	72.7%	86,981
	High school	50.3%	261,898
	Some college	40.4%	321,481
	Bachelor's or higher	26.3%	202,716
Gender	Male	39.3%	458,474
	Female	39.5%	414,602
Employer Size	Under 10	78.4%	181,698
	10–49	55.5%	194,117
	50–99	43.1%	83,814
	100–499	37.6%	131,118
	500–999	27.9%	36,749
	1,000+	25.6%	245,580
Earnings Quintile	$14,000 or less	73.1%	295,453
	$14,001 to $25,000	54.7%	206,883
	$25,001 to $40,000	36.4%	153,560
	$40,001 to $63,500	25.6%	130,473
	Over $63,500	17.3%	86,076

Source: U.S. Census Bureau's Current Population Survey, March Supplements 2012–2014.

Note: The results are based on three-year averages from 2011–2013. The sample includes workers whose longest-held job was in the private sector. Earnings quintiles are based on all wages and salary earned by U.S. workers, whether or not they were covered by a retirement plan.

** Other non-Hispanic category is not shown, so sum of race & ethnicity categories may not sum to total*

1 Jack VanDerhei, "The Impact of Modifying the Exclusion of Employee Contributions for Retirement Savings Plans from Taxable Income: Results from the 2011 Retirement Confidence Survey," Employee Benefit Research Institute (EBRI) Notes, March 2011. Available at http://www.ebri.org/pdf/notespdf/EBRI_Notes_03_Mar-11.K-Taxes_Acct-_HP.pdf.

2 For workers earning between $30,000 and $50,000, about 72 percent participated in an employer-provided retirement savings plan when one was available, compared with less than 5 percent without an employer plan who contributed to an Individual Retirement Account. Unpublished estimates from EBRI of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data).

3 2014 RCS Fact Sheet #6," EBRI. Available at http://ebri.org/pdf/surveys/rcs/2014/RCS14.FS-6.Prep-Ret.Final.pdf.

State Fact Sheet, August 2015

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DEPARTMENT OF LABOR

Employee Benefits Security Administration

29 CFR Part 2510

RIN 1210-AB71

Savings Arrangements Established by States for Non-Governmental Employees

AGENCY: Employee Benefits Security Administration, Department of Labor. ACTION: Proposed rule.

SUMMARY: This document contains a proposed regulation under the Employee Retirement Income Security Act of 1974 (ERISA) setting forth a safe harbor describing circumstances in which a payroll deduction savings program, including one with automatic enrollment, would not give rise to an employee pension benefit plan under ERISA. A program described in this proposal would be established and maintained by a state government, and state law would require certain private-sector employers to make the program available to their employees.

Several states are considering or have adopted measures to increase access to payroll deduction savings for individuals employed or residing in their jurisdictions. By making clear that state payroll deduction savings programs with automatic enrollment that conform to the safe harbor in this proposal do not establish ERISA plans, the objective of the safe harbor is to reduce the risk of such state programs being preempted if they were ever challenged. If adopted, this rule would affect individuals and employers subject to such laws.

DATES: Written comments should be received by the Department of Labor on or before January 19, 2016.

ADDRESSES: You may submit comments, identified by RIN 1210-AB71, by one of the following methods:

- *Federal eRulemaking Portal*: *http://www.regulations.gov*. Follow the instructions for submitting comments.

- *E-mail*: *e-ORI@dol.gov*. Include RIN 1210–AB71 in the subject line of the message.

- *Mail*: Office of Regulations and Interpretations, Employee Benefits Security Administration, Room N–5655, U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210, Attention: State Savings Arrangements Safe Harbor.

Instructions: All submissions must include the agency name and Regulatory Identification Number (RIN) for this rulemaking. Persons submitting comments electronically are encouraged to submit only by one electronic method and not to submit paper copies. Comments will be available to the public, without charge, online at www.regulations.gov and www.dol.gov/ebsa and at the Public Disclosure Room, Employee Benefits Security Administration, U.S. Department of Labor, Suite N-1513, 200 Constitution Avenue, N.W., Washington, DC 20210.

WARNING: Do not include any personally identifiable or confidential business information that you do not want publicly disclosed. Comments are public records and are posted on the Internet as received, and can be retrieved by most internet search engines.

FOR FURTHER INFORMATION CONTACT: Janet Song, Office of Regulations and Interpretations, Employee Benefits Security Administration, (202) 693–8500; or Jim Craig, Office of the Solicitor, Plan Benefits Security Division, (202) 693-5600. These are not toll-free numbers.

SUPPLEMENTARY INFORMATION

A. Background

Approximately 68 million US employees do not have access to a retirement savings plan through their employers.[1] For older Americans, inadequate retirement savings can mean sacrificing or skimping on food, housing, health care, transportation, and other necessities.

Inadequate retirement savings place greater stress on state and federal social welfare programs as guaranteed sources of income and economic security for older Americans. Accordingly, states have a substantial governmental interest in taking steps to address the problem and protect the economic security of their residents.[2] Concerned over the low rate of saving among American workers, some state governments have already sought to expand access to savings programs for their residents and other individuals employed in their jurisdictions by creating their own programs and requiring employer participation.[3]

1. *State Payroll Deduction Savings Initiatives*

One approach some states have taken is to establish state payroll deduction savings initiatives. Such programs encourage employees to establish tax-favored individual retirement plans (IRAs) funded by payroll deductions. Oregon, Illinois, and California, for example, have adopted laws along these lines.[4] These initiatives generally require specified employers that do not offer workplace savings arrangements to deduct amounts from their employees' paychecks in order that those amounts may be remitted to state-administered IRAs for the employees.

[1] Copeland, Craig, Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013, Employee Benefit Research Institute, Issue Brief No. 405 (October 2014) (available at www.ebri.org).

[2] See Christian E. Weller, PhD, Nari Rhee, PhD, and Carolyn Arcand, Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees, National Institute on Retirement Security (March 2014) (www.nirsonline.org/index.php?option=com_content&task=view&id=830&Itemid=48).

[3] See, for example, Report of the Governor's Task Force to Ensure Retirement Security for All Marylanders, Kathleen Kennedy Townsend, Chair, 1,000,000 of Our Neighbors at Risk: Improving Retirement Security for Marylanders (2015). The Georgetown University Center for Retirement Initiatives (CRI) of the McCourt School of Public Policy has compiled a "50 state survey" providing information on state legislation that would establish state-sponsored retirement savings plans at http://cri.georgetown.edu/states/. The stated mission of the CRI is "[to] strengthen the retirement security of American families by developing and promoting the bipartisan adoption of innovative state policies, legislation and administrative models, such as pooled and professionally managed funds, which will expand the availability and effectiveness of retirement solutions."

[4] Illinois Secure Choice Savings Program Act, 2014 Ill. Legis. Serv. P.A. 98-1150 (S.B. 2758) (West); California Secure Choice Retirement Savings Act, 2012 Cal. Legis. Serv. Ch. 734 (S.B. 1234) (West); Oregon 2015 Session Laws, Ch. 557 (H.B. 2960) (June 2015).

Typically, with automatic enrollment, the states would require that the employer deduct specified amounts on behalf of the employee, unless the employee affirmatively elects not to participate.

As a rule, employees can stop the payroll deductions at any time. The programs, as currently designed, do not require, provide for or permit employers to make matching or other contributions of their own into the employees' accounts. In addition, the state initiatives typically require that employers act as a conduit for information regarding the program, including disclosure of employees' rights and various program features, often based on state- prepared materials.

2. *ERISA's Regulation of Employee Benefit Plans*

ERISA defines the terms "employee pension benefit plan" and "pension plan" broadly to mean, in relevant part:

- any plan, fund, or program which was heretofore or is hereafter established or maintained by an employer or by an employee organization, or by both, to the extent that by its express terms or as a result of surrounding circumstances such plan, fund, or program-
    - provides retirement income to employees, or
    - results in a deferral of income by employees for periods extending to the termination of covered employment or beyond, regardless of the method of calculating the contributions made to the plan, the method of calculating the benefits under the plan or the method of distributing benefits from the plan.

29 U.S.C. 1002(2)(A). The provisions of Title I of ERISA, "shall apply to any employee benefit plan if it is established or maintained . . . by any employer engaged in commerce or in any industry or activity affecting commerce."[5] 29 U.S.C. 1003(a).

[5] ERISA includes several express exemptions in section 4(b) from coverage under Title I, for example, for pension plans established or maintained by governmental entities or churches for their employees, certain foreign plans, unfunded excess benefit plans, and plans maintained solely to comply with applicable state laws regarding workers compensation, unemployment, or disability. 29 U.S.C. 1003(b).

Despite the express intent of the drafters of those state statutes not to have such a result, some have expressed concern that payroll deduction programs, such as those enacted in Oregon, California and Illinois, may cause employers to establish ERISA-covered plans inadvertently.

The Department and the courts have interpreted the term "established or maintained" as requiring minimal involvement by the employer or employee organization to trigger the protections of ERISA coverage. For example, an employer may establish a benefit plan by purchasing insurance products for individual employees.[6] Moreover, retirement savings programs involving IRAs also fall within the broad definition of pension plan when those programs are established or maintained by an employer or employee organization.[7]

Pension plans covered by ERISA are subject to various statutory and regulatory requirements to protect the interests of the plan participants. These include reporting and disclosure rules and stringent conduct standards derived from trust law for plan fiduciaries. In addition, ERISA expressly prohibits certain transactions involving plans unless a statutory or administrative exemption applies.

Moreover, in order to assure nationwide uniformity of treatment, ERISA places the regulation of private-sector employee benefit plans (including employment-based pension plans) under federal jurisdiction. Section 514(a) of ERISA, 29 U.S.C. 1144(a), provides that the Act "shall supersede any and all State laws insofar as they . . . relate to any employee benefit plan" covered by the statute. The U.S. Supreme Court has long held that "[a] law 'relates to' an employee benefit plan, in the normal sense of the phrase, if it has a connection with or reference

[6] Donovan v. Dillingham, 688 F.2d 1367 (11th Cir. 1982); Harding v. Provident Life and Accident Ins. Co., 809 F. Supp. 2d 403, 415-419 (W.D. Pa. 2011); DOL Adv. Op. 94-22A (July 1, 1994).

[7] ERISA section 404(c)(2) (simple retirement accounts); 29 CFR 2510.3-2(d) (safe harbor for certain payroll deduction individual retirement accounts); 29 CFR 2509-99-1 (interpretive bulletin on payroll deduction IRAs); Cline v. The Industrial Maintenance Engineering & Contracting Co., 200 F.3d 1223, 1230-31 (9th Cir. 2000).

to such a plan." Shaw v. Delta Air Lines, Inc., 463 U.S. 85, 96-97 (1983) (footnote omitted). In various decisions, the Court has concluded that ERISA preempts state laws that: (1) mandate employee benefit structures or their administration; (2) provide alternative enforcement mechanisms; or (3) bind employers or plan fiduciaries to particular choices or preclude uniform administrative practice, thereby functioning as a regulation of an ERISA plan itself.[8]

IRAs generally are not established or maintained by employers or employee organizations, and ERISA coverage is contingent on an employer (or employee organization) establishing or maintaining the arrangement. 29 USC 1002(1) - (2). The Internal Revenue Code is the principal federal law that governs such IRAs. The Code includes prohibited transaction provisions (very similar to those in ERISA), which are primarily enforced through imposition of excise taxes against IRA fiduciaries by the Internal Revenue Service. 26 U.S.C. 4975.

In other contexts, the Department has provided guidance to help employers determine whether their involvement in voluntary payroll deduction arrangements for sending employee retirement savings contributions to IRAs would amount to establishing or maintaining ERISA-covered plans. For example, in 1975, the Department promulgated a safe harbor regulation to clarify the circumstances under which IRAs funded by payroll deductions would not be treated as ERISA plans. 29 CFR 2510.3-2(d); 40 FR 34,526 (Aug. 15, 1975). This safe harbor is part of a more general regulation that "clarifies the limits of the defined terms 'employee pension benefit plan' and 'pension plan' for purposes of title I of the Act . . . by identifying specific plans, funds and programs which do not constitute employee pension benefit plans for those purposes."

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[8] New York State Conference of Blue Cross & Blue Shield Plans v. Travelers Ins. Co., 514 U.S. 645, 658 (1995); Ingersoll-Rand Co. v. McClendon, 498 U.S. 133, 142 (1990); Egelhoff v. Egelhoff, 532 U.S. 141, 148 (2001); Fort Halifax Packing Co. v. Coyne, 482 U.S. 1, 14 (1987).

29 CFR 2510.3-2(a). Other similar safe harbors were published in the same Federal Register notice.[9]

The 1975 regulation provides that ERISA does not cover a payroll deduction IRA arrangement so long as four conditions are met: the employer makes no contributions, employee participation is "completely voluntary," the employer does not endorse the program and acts as a mere facilitator of a relationship between the IRA vendor and employees, and the employer receives no consideration except for its own expenses.[10] In essence, if the employer merely allows a vendor to provide employees with information about an IRA product and then facilitates payroll deduction for employees who voluntarily initiate action to sign up for the vendor's IRA, the arrangement is not an ERISA pension plan.

In 1999, the Department published additional guidance on this safe harbor in the form of Interpretive Bulletin 99-1. 29 CFR 2509.99-1. This guidance explains that employers may, consistent with the third condition in the regulation, furnish materials from IRA vendors to the employees, answer employee inquiries about the program, and encourage retirement savings through IRAs generally, as long as the employer makes clear to employees its neutrality concerning the program and that its involvement is limited to collecting the deducted amounts and remitting them promptly to the IRA sponsor, just as it remits other payroll deductions to taxing authorities and other third parties. 29 CFR 2510.99-1(c).[11]

The Department’s publication of the 1975 payroll deduction IRA safe harbor was prompted by comments on an earlier proposal indicating “considerable uncertainty concerning

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[9] 29 CFR 2510.3-1(j), Certain group or group-type insurance arrangements; 29 CFR 2510.3-2(f), Tax sheltered annuities. 40 FR 34530 (Aug. 15, 1975).
[10] 29 CFR 2510.3-2(d), Individual Retirement Accounts.
[11] The Department has also issued advisory opinions discussing the application of the safe harbor regulation to particular facts. See, e.g., Advisory Opinion 82-67A (Dec. 21, 1982), 1982 WL 21250; DOL Adv. Op. 84-25A (June 18, 1984), 1984 WL 23439.

Title I coverage of individual retirement programs . . . ." 40 FR 34528. When it promulgated the safe harbor regulation, the Department did not consider payroll deduction savings arrangements for private-sector employees with terms required by state laws. Instead, the payroll deduction IRA safe harbor and the group insurance safe harbor published that day focused on employers acting in coordination with IRA and other vendors, without state involvement. Under those circumstances, it was important for both safe harbors to contain conditions to limit employer involvement, both to avoid establishing or maintaining an employee benefit plan and to prevent undue employer influence in arrangements that would not be subject to ERISA's protective provisions. When a program meets the conditions of the safe harbor, employer involvement in the arrangement is minimal and employees' control of their participation in the program is nearly complete. In such circumstances, it is fair to say that each employee, rather than the employer, individually establishes and maintains the program.

One of the 1975 payroll deduction IRA safe harbor's conditions is that an employee's participation must be "completely voluntary." The Department intended this term to mean considerably more than that employees are free to opt out of participation in the program. Instead, the employee's enrollment must be self-initiated. In various contexts, courts have held that opt-out arrangements are not consistent with a requirement for a "completely voluntary" arrangement.[12] This condition is important because where the employer is acting on his or her own volition to provide the benefit program, the employer's actions –e.g., requiring an automatic enrollment arrangement – would constitute its "establishment" of a plan

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[12] See Doe v. Wood Co. Bd. Of Educ., 888 F.Supp.2d 771, 775-77 (S.D. W. Va. 2012) (Education Department regulations requiring "completely voluntary" choice of single-gender education not satisfied by opt-out provision); Schear v. Food Scope America, Inc., 297 F.R.D. 114, 125 (S.D.N.Y. 2014) ("For a voluntary 'tip pooling' arrangement to exist, it must be 'undertaken by employees on a completely voluntary basis and may not be mandated or initiated by employers' and an employer can take 'no part in the organization or the conduct of [the] tip-pool.'") (quoting N.Y. Dept. of Labor Opinion Letter RO–08–0049). See also Carter v. Guardian Life Ins. Co., Civil No. 11–3–ART, 2011 WL 1884625, *1 (W.D. Ky. May 18, 2011) ("Courts have held that employees' participation is not 'completely voluntary' if their enrollment in the plan is 'automatic.'"); Thompson v. Unum Life Ins. Co., No. Civ.A.3:03-CV-0277-B, 2005 WL 722717, *6 (N.D. Tex. Mar. 29, 2005) (analyzing group welfare plan safe harbor, "Thompson's participation in the plan was automatic rather than voluntary"); cf. The Meadows v.

within the meaning of ERISA's text, and trigger ERISA's protections for the employees whose money is deposited into an IRA. As a result, state payroll deduction savings initiatives with automatic enrollment do not meet the 1975 safe harbor's "completely voluntary" requirement.

However, when a state government sets the terms for and administers a payroll deduction savings arrangement, the situation is far different than when the employer sets the terms and administers the program – the 1975 safe harbor was not written with such state laws in mind.

Therefore, the Department is promulgating this new safe harbor that does permit automatic enrollment in such state payroll deduction savings arrangements. Where states require employers to offer savings arrangements, undue employer influence or pressure to enroll is far less of a concern. Moreover, the state's active involvement and the limitations on the employers' role removes the employer from the equation such that the payroll deduction arrangements are not established or maintained by an employer or employee organization within the meaning of

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Employers Health Ins., 826 F. Supp. 1225, 1229 (D. Ariz. 1993) (enrollment not "completely voluntary" where health insurance contract required 75 percent of employees to participate); Davis v. Liberty Mut. Ins. Co., Civ. A. No. 87–2851, 1987 WL 16837, *2 (D.D.C. Aug. 31, 1987) (health insurance enrollment not completely voluntary because employee would receive no alternative compensation for refusing coverage, therefore making refusal comparable to a cut in pay). See generally Advisory Council On Employee Welfare And Pension Benefit Plans, Current Challenges And Best Practices For ERISA Compliance For 403(b) Plan Sponsors (2011) (available at www.dol.gov/ebsa/publications/2011ACreport1.html) ("The Council also considered, but is not recommending, that DOL permit the inclusion of an automatic enrollment feature within the context of an ERISA safe harbor 403(b) plan. The majority of Council members concluded that automatic enrollment would require actions typically performed by a plan sponsor/fiduciary (e.g., designation of a default investment alternative), and consequently, an automatic enrollment option in the plan may not be viewed as voluntary even in light of the participant's right to opt out of the automatic contributions."). DOL Field Assistance Bulletin (FAB) 2004-1 stated that an employer could open a health savings account (HSA) and deposit employer funds into it without the employee's affirmative consent so long as, among other things, the arrangement was "completely voluntary on the part of the employees" and also that employees exercised control over the account with the power to withdraw or transfer the employer money.

FAB 2004-1 was focused on the effect of employer contributions, so there was no specific discussion of what was meant by "completely voluntary" in the context of an HSA. Field Assistance Bulletin 2006-2 clarified that the completely voluntary requirement in FAB 2004-1 related to employee contributions to an HSA and confirms that completely voluntary employee contributions to the HSA must be self-initiated. The only "opt out" considered in FAB 2004-1 was the employees' power to move employer contributions out of the HSA. Neither FAB suggested that employee contributions to an HSA could be completely voluntary under an opt out arrangement.

ERISA section 3(2). Accordingly, the safe harbor proposed today permits automatic enrollment with an opt-out provision in the context of state required and administered programs that meet the terms of the proposal. The safe harbor should remove uncertainty about Title I coverage of such state payroll deduction savings arrangements by promulgating a “voluntary” standard that permits automatic enrollment arrangements with employee opt-out features. By removing this uncertainty, the objective of the proposed safe harbor is to diminish the chances that, if the issue were ultimately litigated, the courts would conclude that state payroll deduction savings arrangements are preempted by ERISA.

3. *Purpose and Scope of Proposed Regulation*

Section 505 of ERISA gives the Secretary of Labor broad authority to prescribe such regulations as he finds necessary and appropriate to carry out the provisions of Title I of the Act. The Department believes that regulatory guidance in this area is necessary to ensure that governmental bodies, employers, and others in the regulated community have guidelines concerning whether state efforts to encourage savings implicate Title I of ERISA by requiring the establishment or maintenance of ERISA-covered employee pension benefit plans.

The 1975 payroll deduction IRA safe harbor sets forth standards for judging whether employer conduct crosses the line between permitted ministerial activities with respect to non-plan IRAs and activities that involve the establishment or maintenance of an ERISA-covered plan. State payroll deduction savings initiatives are similar to arrangements covered under the 1975 safe harbor if the employer's involvement is limited to withholding and forwarding payroll deductions and performing other related ministerial duties and the state has sole authority to determine the terms and administration of the state savings arrangement. The 1975 safe harbor, however, does not envision state involvement in the IRA programs nor does it envision use of automatic enrollment and related provisions.

The proposed regulation thus would provide a new and additional "safe harbor" for state savings arrangements that conform to the proposed regulation's provisions. The proposed regulation departs from the 1975 safe harbor for payroll deduction IRA programs by adopting a standard that enrollment be "voluntary" rather than "completely voluntary." The new safe harbor's voluntary standard will allow employees' participation in state required programs to be initiated by automatic enrollment with an opt-out provision. The Department is also proposing to add other provisions to assure that employer involvement remains minimal.

The proposed regulation, however, as a "safe harbor," does not purport to define every possible program that could fall outside of Title I of ERISA because it was not "established or maintained" by an employer. The Department also is not expressing any view regarding the application of provisions of the Internal Revenue Code (Code).

B. Description of the Proposed Regulation

The proposed regulation § 2510.3-2(h) provides that for purposes of Title I of ERISA, the terms "employee pension benefit plan" and "pension plan" do not include an individual retirement plan (as defined in 26 U.S.C. section 7701(a)(37)) established and maintained pursuant to a state payroll deduction savings program if the program satisfies all of the conditions set forth in paragraphs (h)(1)(i) through (xii) of the proposed regulation. In the Department's view, compliance with these conditions will assure that the employer's involvement in the state program is limited to the ministerial acts necessary to implement the payroll deduction program as required by state law. In addition, the proposed conditions would give employees sufficient freedom not to enroll or to discontinue their enrollment, as well as meaningful control over their IRAs.

The term “individual retirement plan” means an individual retirement account described in section 408(a) and an individual retirement annuity described in section 408(b) of the Code.[13] Thus, by limiting the safe harbor to programs that use such individual retirement plans (which would include both traditional and Roth IRAs), the proposal incorporates the applicable protections under the Code, including the prohibited transaction provisions.

The safe harbor conditions under the proposed regulations require that the program be established by a state government pursuant to state law. As discussed above, if an employer's activities are limited to those ministerial functions required by the state law, the arrangement is not established or maintained by the employer. The term “State” in the proposed regulation has the same meaning as in Title I of ERISA generally. As in section 3(10) of ERISA, a “State” includes any “State of the United States, the District of Columbia,” and certain territories.[14] 29 U.S.C. 1002(10). The state must also administer the program either directly or through a governmental agency or other instrumentality. The safe harbor also contemplates that a state or the governmental agency or instrumentality could contract with commercial service providers, such as investment managers and recordkeepers, to operate and administer its program.

The proposal does not address whether the employees that participate in the program must be employed within the state that establishes the program, or alternatively whether the covered employees must be residents of the state or employed by employers doing business

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[13] Whether a state program meets the statutory requirements under the Code is a question within the jurisdiction of the Internal Revenue Service.

[14] The term “State” in the proposed regulation has the same meaning as in section 3(10) of ERISA. This would not include Indian tribes, tribal subdivisions, or agencies or instrumentalities of either in coverage under the regulation.

To date, the Department is unaware of any tribal initiatives similar to the state initiatives described elsewhere in this preamble. Comments are welcome on whether, on what basis, and under what circumstances, payroll deduction programs required by Indian tribes might be covered under the safe harbor.

within the state. The extent to which a state can regulate employers is already established under existing legal principles. The proposal simply requires that the program be established by a state pursuant to state law. The Department solicits comments on whether the safe harbor should be limited to require some connection between the employers and employees covered by the program and the state that establishes the program, and if so, what kind of connection.

The proposed regulation requires that participation in the program be voluntary for employees. As discussed above, this requirement is different from the current payroll deduction IRA safe harbor in 29 CFR 2510.3-2(d), which requires that participation be "completely voluntary." The proposed regulation expressly permits opt-out programs and, accordingly, does not require that participation be "completely voluntary." By using only the term "voluntary," the Department intends to make clear that the proposed regulation, unlike the existing safe harbor, would allow the state to require employers to automatically enroll employees, unless they affirmatively elect not to participate in the program.[15]

The proposed regulation also includes conditions to assure that control of the payroll deduction program and the savings accounts lies with the state and the employees, and not the employer. These include requirements that (1) the program does not require that an employee or beneficiary retain any portion of contributions or earnings in his or her IRA and does not otherwise impose any restrictions on withdrawals or impose any cost or penalty on transfers or rollovers permitted under the Internal Revenue Code; (2) all rights of the employee, former employee, or beneficiary under the program are enforceable only by the employee, former

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[15] If a program requires automatic enrollment, adequate notice of their right to opt out must be furnished to employees in order for the program to meet the safe harbor's voluntariness condition. The proposal does not define the manner and content of "adequate notice" for this purpose. The Department expects that states and their vendors would look to analogous notice requirements contained in federal laws pertaining to automatic enrollment provisions. <u>See</u>, <u>e.g</u>., 26 U.S.C. 401(k)(13)(E) and 414(w); 29 U.S.C 1144(e)(3); and 29 CFR 2550.404c-5(d). The Department solicits comments on this issue.

employee, or beneficiary, an authorized representative of such person, or by the state (or the designated agency or instrumentality); and (3) the state adopts measures to ensure that employees are notified of their rights under the program and creates a mechanism for enforcement of those rights. In addition, the proposal requires the state to assume responsibility for the security of payroll deductions and employee savings. These conditions assure that the employees will have meaningful control over their retirement savings, that the state will enforce the employer's payroll deduction obligations and oversee the security of retirement savings, and that the employer will have no role in enforcing employee rights under the program.

Limited employer involvement in the program is the key to a determination that a state savings program is not an employee pension benefit program. Thus, the employer's facilitation must be required by state law – if it is voluntary, the safe harbor does not apply. Further, the proposal does not permit the employer to contribute to the program.[16] All contributions under the program must be made voluntarily by the employees. When employers make contributions to fund benefits of the type enumerated in Section 3(2) of ERISA, they effectively sponsor an ERISA-covered plan. Similarly, the employer may not have discretionary authority, control, or responsibility under the program and may not receive any direct or indirect compensation in the form of cash or otherwise in connection with the program, other than the reimbursement of the actual costs of the program to the employer. Finally, the proposal specifies that employer involvement must be limited to all or some of the following: (1) collecting employee contributions through payroll deductions and remitting them to the program; (2) providing notice to the employees and maintaining records regarding the employer's collection and remittance of payments under the program; (3) providing information to the state necessary to facilitate the

[16] This provision, of course, would not prohibit an employer from allowing employees to review program materials on company time or to use an employer's computer to make elections under the program.

operation of the program; and (4) distributing program information to employees from the state and permitting the state to publicize the program to employees.

A program could fit within the safe harbor and include terms that require employers to certify facts within the employer's knowledge as employer, such as employee census information (*e.g.*, status of a full time employee, employee addresses, attendance records, compensation levels, etc.). The employer could also conduct reviews to ensure it was complying with program eligibility requirements and limitations established by the state. The Department requests comments on whether the final regulation should provide more clarity and specificity on the types of functions that could be permitted consistent with the requirements of the safe harbor.[17]

A state program that meets all of the foregoing conditions will not fail to qualify for the safe harbor merely because the program is directed toward employees who are not already eligible for some other workplace savings arrangement. Nor will it fail merely because it requires automatic enrollment subject to employees having a right to opt out. Similarly, if the state program offers employees a choice of multiple IRA sponsors to which employees may make payroll deduction contributions, the state program can create a default option, i.e., designate the IRA provider to which the employer must remit the payroll withholding contributions in the absence of an affirmative election by the employee.

ERISA's expansive plan definition is critical to its protective purposes. When employers establish or maintain ERISA-covered plans, the plan's participants are protected by trust-law obligations of fiduciary conduct, reporting requirements, and a regulatory regime designed to

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[17] In previous guidance issued by the Department under other safe harbors involving private parties, the Department concluded that employers could take certain corrective actions to stay within the safe harbor and that such actions, in and of themselves, did not lead to the establishment of an employee benefit plan. See DOL Information Letter to Siegel Benefit Consultants (Feb. 27, 1996) and Field Assistance Bulletin 2007-02 on the safe harbor for tax sheltered annuity programs under 29 CFR 2510.3-2(f).

ensure the security of promised benefits. In the circumstances specified by the proposed regulation, however, the employer does not "establish or maintain" the plan. Instead, the program is created and administered by the state for the benefit of those employees who voluntarily participate with minimal employer involvement. State administration of the voluntary program does not give rise to ERISA coverage, and presumably ensures that the program will be administered in accordance with the interests of the state's citizens.[18]

As noted above, ERISA generally preempts state laws that relate to employee benefit plans. The U.S. Supreme Court has long held that "[a] law 'relates to' an employee benefit plan, in the normal sense of the phrase, if it has a connection with or reference to such a plan." Shaw v. Delta Air Lines, Inc., 463 U.S. 85, 96-97 (1983) (footnote omitted); see, e.g., New York State Conference of Blue Cross & Blue Shield Plans v. Travelers Ins. Co., 514 U.S. 645, 656 (1995). This proposed regulation would provide that certain state savings programs would not create employee benefit plans. However, the fact that state programs do not create ERISA covered plans does not necessarily mean that, if the issue were litigated, the state laws would not be preempted by ERISA. The courts' determinations would depend on the precise details of the statute at issue, including whether that state's program successfully met the requirements of the safe harbor.

Moreover, states should be advised that a program may be preempted by other Federal laws apart from ERISA. A state law that alters, amends, modifies, invalidates, impairs or supersedes a Federal law would risk being preempted by the Federal law so affected. Such

[18] To the extent that the state program allows employees not subject to the automatic enrollment requirement to voluntarily choose to participate, the employee's voluntarily participation would not result in the employer establishing an ERISA-covered plan or the state program including an ERISA-covered plan if the employer and the state program satisfy the conditions in the Department's existing safe harbor for payroll deduction IRAs at 29 CFR 2510.3-2(d). Of course, as described above, automatic enrollment of employees is not permitted under the existing payroll deduction IRA safe harbor.

preemption issues are beyond the scope of this proposed rule, however, which addresses only the question of whether particular programs involve the establishment of one or more ERISA covered employee benefit plans.

Finally, some states are considering approaches that differ from state payroll deduction savings initiatives. In 2012, Massachusetts, for example, enacted a law providing for a state-sponsored plan for non-profit employers with 20 or fewer employees.[19] Washington enacted a law to establish a small business retirement market place to assist small employers by making available a number of approved savings plans, some of which may be covered by ERISA, even though the marketplace arrangement itself is not.[20] This proposal does not address such state initiatives.

C. Effective Date

The Department proposes to make this regulation effective 60 days after the date of publication of the final rule in the FEDERAL REGISTER.

D. Regulatory Impact Analysis

1. *Executive Order 12866 Statement*

Under Executive Order 12866, the Office of Management and Budget (OMB) must determine whether a regulatory action is “significant” and therefore subject to the requirements of the Executive Order and subject to review by the OMB. Section 3(f) of the Executive Order defines a “significant regulatory action” as an action that is likely to result in a rule (1) having an annual effect on the economy of $100 million or more, or adversely and materially affecting a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or state, local or tribal governments or communities (also referred to as an “economically

[19] Mass. Gen. Laws ch.29, sec. 64E (2014)
[20] 2015 Wash. Sess. Laws chap. 296 (SB 5826)

significant" action); (2) creating serious inconsistency or otherwise interfering with an action taken or planned by another agency; (3) materially altering the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) raising novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in the Executive Order.

OMB has tentatively determined that this regulatory action is not economically significant within the meaning of section 3(f)(1) of the Executive Order. However, it has been determined that the action is significant within the meaning of section 3(f)(4) of the Executive Order and the Department accordingly provides the following assessment of its potential benefits and costs.

a. Direct Benefits

As stated earlier in this preamble, some state governments have passed laws designed to expand workers' access to workplace savings programs. Some states are looking at ways to encourage employers to provide coverage under state-administered 401(k)-type plans, while others have adopted or are considering approaches that combine several retirement alternatives including IRAs, ERISA-covered plans and the Department of the Treasury's new starter savings program, *my*RA.

One of the challenges states face in expanding retirement savings opportunities for private sector employees is uncertainty about ERISA preemption of such efforts. ERISA generally would preempt a state law that required employers to establish and maintain ERISA-covered employee benefit pension plans. The Department therefore believes that states and other stakeholders would benefit from clear guidelines to determine whether state saving initiatives would effectively require employers to create ERISA-covered plans. The proposed rule would provide a new “safe harbor” from coverage under Title I of ERISA for state savings arrangements that conform to certain requirements. State initiatives within the safe harbor would not result in the establishment of employee benefit plans under ERISA. The Department expects that the proposed rule would reduce legal costs, including litigation costs, by (1) removing uncertainty about whether such state savings arrangements are covered by title I of ERISA, and (2) creating efficiencies by eliminating the need for multiple states to incur the same costs to determine their non-plan status.

The Department notes that the proposal would not prevent states from identifying and pursuing alternative policies, outside the safe harbor, that also would not require employers to establish or maintain ERISA-covered plans. Thus, while the proposal would reduce uncertainty about state activity within the safe harbor, it would not impair state activity outside it.

b. Direct Costs

The proposed rule does not require any new action by employers or the states. It merely clarifies that certain state initiatives that encourage workplace savings would not result in the creation of employee benefit plans covered by Title I of ERISA.

States may incur legal costs to analyze the rule and determine whether their laws fall within the proposed rule’s safe harbor. However, the Department expects that these costs will be less than the savings that will be generated. Moreover, states will avoid incurring the greater costs that might be incurred to determine their programs’ non-plan status without benefit of this proposed rule.

States that design their payroll deduction programs to conform to the safe harbor may incur costs to develop notices to be provided to participants and beneficiaries covered by the program and enter into contracts with investment managers and other service providers to operationalize and administer the programs. The Department's review of existing state payroll deduction legislation indicates that these requirements are customarily part of most state programs, and the initiatives generally could not operate without such requirements. Therefore, to the extent that state programs would exist even in the absence of this rule, only the relatively minor costs of revisions for conformity to the safe harbor are attributable to the rule, because other cost-generating activities are necessary and essential to operate and administer the programs. On the other hand, if state programs are adopted more widely in the rule's presence than in its absence, there would be more general state operational and administrative costs that are attributable to the rule. The Department does not have sufficient data to estimate the number of systems that would need to be updated; therefore, the Department invites comments and any relevant data that would allow it to make a more thorough assessment.

c. Uncertainty

The Department is confident that the proposed regulation, by clarifying that certain state programs do not require employers to establish ERISA-covered plans, will benefit states and many other stakeholders otherwise beset by greater uncertainty. However, the Department is unsure as to the magnitude of these benefits. The magnitude of the proposed regulation's benefits, costs and transfer impacts will depend on the states' independent decisions on whether and how best to take advantage of the safe harbor, and on the cost that otherwise would have attached to uncertainty about the legal status of the states' actions. The Department cannot predict what actions states will take, stakeholders' propensity to challenge such actions' legal status, either absent or pursuant to the proposed regulation, or courts' resultant decisions, and therefore the Department invites data submission or other comment that would allow for more thorough assessment of these issues.

d. Impact of State Initiatives

There are a number of cases in which this rulemaking could increase the prevalence of state workplace savings initiatives, thus bringing the effects of these initiatives within the scope of this regulatory impact analysis. For instance, if this issue were ultimately resolved in the courts, the courts could make a different preemption decision in the rule's presence than in its absence. Furthermore, even if a potential court decision would be the same with or without the rulemaking, the potential reduction in states' uncertainty-related costs could induce more states to pursue these workplace savings initiatives. An additional possibility is that the rule would not change the prevalence of state retirement savings programs, but would accelerate the implementation of programs that would exist anyway. With any of these possibilities, there would be benefits, costs and transfer impacts that are indirectly attributable to this rule, via the increased or accelerated creation of state-level workplace savings programs.

Employers may incur costs to update their payroll systems to transmit payroll deductions to the state or its agent and develop recordkeeping systems to document their collection and remittance of payments under the program. As with states' operational and administrative costs (discussed in section D.1.b, above), some portion of these employer costs would be attributable to the rule if more state workplace savings programs are implemented in the rule's presence than in its absence. Because employers' role in the programs must be minimal in order to satisfy the safe harbor, they will incur little cost beyond the costs associated with updating payroll systems. However, the costs that are incurred could fall most heavily on small and start-up companies, which tend to be least likely to offer pensions. Most state payroll deduction programs do exempt the smallest companies, which could significantly mitigate such costs. The Department does not have sufficient data to estimate the number of payroll systems that would have to be updated.

Therefore, the Department invites the public to provide comments and relevant data that would allow it to make a more thorough assessment.

The Department believes that well-designed state-level initiatives have the potential to effectively reduce gaps in retirement security. Relevant variables such as pension coverage,[21] labor market conditions,[22] population demographics,[23] and elderly poverty,[24] vary widely across the states, suggesting a potential opportunity for progress at the state level. For example, payroll deduction savings statutes in California and Illinois could extend savings opportunities for 7.8 million workers in California and 1.7 million workers in Illinois who currently do not have access to employment-based savings arrangements.[25] The Department offers the following policy discussion for consideration, and invites public input on the issues raised, on the potential for state initiatives to foster retirement security, and on the potential for this proposal or other Departmental action to facilitate effective state activity.

Effective state initiatives will advance retirement security. Some workers currently may save less than would be optimal because of behavioral biases (such as myopia or inertia) or labor market frictions that prevent them from accessing plans at work. Effective state initiatives would help such workers save more. Such workers will have traded some consumption today for more in retirement, potentially reaping some net gain in overall lifetime well-being. Their additional saving may also reduce fiscal pressure on publicly financed retirement programs and other public assistance programs, such as the Supplemental Nutritional Assistance Program,

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[21] See for example Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute, Issue Brief No. 405 (October 2014) (available at www.ebri.org).
[22] See for example US Bureau of Labor Statistics, "Regional and State Employment and Unemployment—JUNE 2015," USDL-15-1430, July 21, 2015.
[23] See for example Lindsay M. Howden and Julie A. Meyer, "Age and Sex Composition: 2010," US Bureau of the Census, 2010 Census Briefs C2010BR-03, May 2011.
[24] Constantijn W. A. Panis & Michael Brien, August 28, 2015, "Target Populations of State-Level Automatic IRA Initiatives."
[25] Id.

that support low- income Americans, including older Americans.

The Department believes that well-designed state initiatives can achieve their intended, positive effects of fostering retirement security. However, the initiatives might have some unintended consequences as well. Those workers least equipped to make good retirement savings decisions arguably stand to benefit most from state initiatives, but also arguably are most at risk of suffering adverse unintended effects. Workers who would not benefit from increased retirement savings could opt out, but some might fail to do so. Such workers might increase their savings too much, unduly sacrificing current economic needs. Consequently they might be more likely to cash out early and suffer tax losses, and/or to take on more expensive debt.

Similarly, state initiatives directed at workers who do not currently participate in workplace savings arrangements may be imperfectly targeted to address gaps in retirement security. For example, a college student might be better advised to take less in student loans rather than open an IRA, and a young family might do well to save more first for their children’s education and later for their own retirement.

Employers that wish to provide retirement benefits are likely to find that ERISA-covered programs, such as 401(k) plans, have advantages for them and their employees over participation in state programs. Potential advantages include: greater tax preferences, greater flexibility in plan selection and design, opportunity for employers to contribute, ERISA protections, and larger positive recruitment and retention effects. Therefore it seems unlikely that state initiatives will “crowd-out” many ERISA-covered plans. However, if they do, some workers might lose ERISA-protected benefits that would have been more generous and more secure than state-based (or IRA) benefits, unless states adopt consumer protections similar to those Congress provided under ERISA. Some workers who would otherwise have saved more might reduce their savings to the low, default levels associated with some state programs.

States can address this last concern by incorporating into their programs “auto-escalation” features that increase default contribution rates over time and/or as pay increases.

2. *Paperwork Reduction Act*

As part of its continuing effort to reduce paperwork and respondent burden, the Department of Labor conducts a preclearance consultation program to provide the general public and Federal agencies with an opportunity to comment on proposed and continuing collections of information in accordance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3506(c)(2)(A)). This helps to ensure that the public understands the Department’s collection instructions, respondents can provide the requested data in the desired format, reporting burden (time and financial resources) is minimized, collection instruments are clearly understood, and the Department can properly assess the impact of collection requirements on respondents.

The Department has determined this proposed rule is not subject to the requirements of the PRA, because it does not contain a collection of information as defined in 44 U.S.C. 3502(3). The rule does not require any action by or impose any requirements on employers or the states. It merely clarifies that certain state payroll deduction programs that encourage retirement savings would not result in the creation of employee benefit plans covered by Title I of ERISA.

Moreover, the PRA definition of burden excludes time, effort, and financial resources necessary to comply with a collection of information that would be incurred by respondents in the normal course of their activities. See 5 CFR 1320.3(b)(2). The definition of burden also excludes burdens imposed by a state, local, or tribal government independent of a Federal requirement. See 5 CFR 1320.3(b)(3). The Department’s review of existing state payroll deduction programs indicates that they customarily have notification and recordkeeping requirements and that the initiatives could not operate without such requirements, especially programs that include automatic enrollment. Therefore, the proposed rule imposes no burden, because states customarily include notice and recordkeeping requirements that are an essential and routine part of administering state payroll deduction programs. In addition, employers are responding to state, not Federal, requirements when providing notices to individuals covered under state payroll deduction programs and maintaining records regarding the employers' collection and remittance of payments under the program.

Although the Department has determined that the proposed rule does not contain a collection of information, when rules contain information collections the Department invites comments that:

- Evaluate whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility;
- Evaluate the burden of the collection of information, including the validity of the methodology and assumptions used;
- Enhance the quality, utility, and clarity of the information to be collected; and
- Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses.

In addition to having an opportunity to file comments with the Department, comments may also be sent to the Office of Information and Regulatory Affairs, Office of Management and

Budget, Room 10235, New Executive Office Building, Washington, DC 20503; Attention: Desk Officer for the Employee Benefits Security Administration. OMB requests that comments be received within 30 days of publication of the proposed rule to ensure their consideration.

3. *Regulatory Flexibility Act*

The Regulatory Flexibility Act (5 U.S.C. 601 et seq.) (RFA) imposes certain requirements with respect to Federal rules that are subject to the notice and comment requirements of section 553(b) of the Administrative Procedure Act (5 U.S.C. 551 et seq.) and which are likely to have a significant economic impact on a substantial number of small entities. Unless an agency certifies that a rule will not have a significant economic impact on a substantial number of small entities, section 603 of the RFA requires the agency to present an initial regulatory flexibility analysis at the time of the publication of the notice of proposed rulemaking describing the impact of the rule on small entities. Small entities include small businesses, organizations and governmental jurisdictions.

Because the proposed rule imposes no requirements or costs on employers, the Department believes that it would not have a significant economic impact on a substantial number of small entities. Accordingly, pursuant to section 605(b) of the RFA, the Assistant Secretary of the Employee Benefits Security Administration hereby certifies that the proposed rule, if promulgated, will not have a significant economic impact on a substantial number of small entities.

4. *Unfunded Mandates Reform Act*

For purposes of the Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1501 et seq.), as well as Executive Order 12875, this rule does not include any federal mandate that may result in expenditures by state, local, or tribal governments, or the private sector, which may impose an annual burden of $100 million.

5. *Congressional Review Act*

The proposed rule is subject to the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801 et seq.) and, if finalized, would be transmitted to Congress and the Comptroller General for review.

6. *Federalism Statement*

Executive Order 13132 outlines fundamental principles of federalism. It also requires adherence to specific criteria by federal agencies in formulating and implementing policies that have `substantial direct effects'' on the states, the relationship between the national government and states, or on the distribution of power and responsibilities among the various levels of government. Federal agencies promulgating regulations that have these federalism implications must consult with state and local officials, and describe the extent of their consultation and the nature of the concerns of state and local officials in the preamble to the final regulation.

In the Department's view, the proposed regulations, by clarifying that certain workplace savings arrangements under consideration or adopted by certain states will not result in the establishment or maintenance by employers or employee organizations of employee benefit plans under ERISA, would provide more latitude and certainty to state governments and employers regarding the treatment of such arrangements under ERISA. The Department will affirmatively engage in outreach with officials of states, and with employers and other stakeholders, regarding the proposed rule and seek their input on the proposed rule and any federalism implications that they believe may be presented by it.

List of Subjects in 29 CFR Part 2510

Accounting, Employee benefit plans, Employee Retirement Income Security Act, Pensions, Reporting, Coverage

For the reasons stated in the preamble, the Department of Labor proposes to amend 29 CFR 2510 as set forth below:

PART 2510--DEFINITIONS OF TERMS USED IN SUBCHAPTERS C, D, E, F, AND G OF THIS CHAPTER

1. The authority citation for part 2510 is revised to read as follows:

Authority: 29 U.S.C. 1002(2), 1002(21), 1002(37), 1002(38), 1002(40), 1031, and 1135; Secretary of Labor's Order No. 1-2011, 77 FR 1088 (Jan. 9, 2012); Sec. 2510.3-101 also issued under sec. 102 of Reorganization Plan No. 4 of 1978, 43 FR 47713 (Oct. 17, 1978), E.O. 12108, 44 FR 1065 (Jan. 3, 1979) and 29 U.S.C. 1135 note. Sec. 2510.3-38 is also issued under sec. 1, Pub. L. 105-72, 111 Stat. 1457 (1997).

2. Section 2510.3-2 is amended by adding paragraph (h) to read as follows:

§ 2510.3-2 Employee pension benefit plans.

* * * * *

(h) <u>Certain State Savings Programs</u>. (1) For the purpose of Title I of the Act and this chapter, the terms “employee pension benefit plan” and “pension plan” shall not include an individual retirement plan (as defined in 26 U.S.C. section 7701(a)(37)) established and maintained pursuant to a State payroll deduction savings program, provided that:

(i) The program is established by a State pursuant to State law;

(ii) The program is administered by the State establishing the program, or by a governmental agency or instrumentality of the State, which is responsible for investing the employee savings or for selecting investment alternatives for employees to choose;

(iii) The State assumes responsibility for the security of payroll deductions and employee savings;

(iv) The State adopts measures to ensure that employees are notified of their rights under the program, and creates a mechanism for enforcement of those rights;

(v) Participation in the program is voluntary for employees;

(vi) The program does not require that an employee or beneficiary retain any portion of contributions or earnings in his or her IRA and does not otherwise impose any restrictions on withdrawals or impose any cost or penalty on transfers or rollovers permitted under the Internal Revenue Code;

(vii) All rights of the employee, former employee, or beneficiary under the program are enforceable only by the employee, former employee, or beneficiary, an authorized representative of such a person, or by the State (or the designated governmental agency or instrumentality described in paragraph (h)(1)(ii) of this section);

(viii) The involvement of the employer is limited to the following:

(A) Collecting employee contributions through payroll deductions and remitting them to the program;

(B) Providing notice to the employees and maintaining records regarding the employer's collection and remittance of payments under the program;

(C) Providing information to the State (or the designated governmental agency or instrumentality described in paragraph (h)(1)(ii) of this section) necessary to facilitate the operation of the program; and

(D) Distributing program information to employees from the State (or the designated governmental agency or instrumentality described in paragraph (h)(1)(ii) of this section) and permitting the State or such entity to publicize the program to employees;

(ix) The employer contributes no funds to the program and provides no bonus or other monetary incentive to employees to participate in the program;

(x) The employer's participation in the program is required by State law;

(xi) The employer has no discretionary authority, control, or responsibility under the program; and

(xii) The employer receives no direct or indirect consideration in the form of cash or otherwise, other than the reimbursement of the actual costs of the program to the employer of the activities referred to in paragraph (h)(1)(viii) of this section.

(2) A State savings program will not fail to satisfy the provisions of paragraph (h)(1) of this section merely because the program—

(i) Is directed toward those employees who are not already eligible for some other workplace savings arrangement;

(ii) Utilizes one or more service or investment providers to operate and administer the program, provided that the State (or the designated governmental agency or instrumentality described in paragraph (h)(1)(ii) of this section) retains full responsibility for the operation and administration of the program; or

(iii) Treats employees as having automatically elected payroll deductions in an amount or percentage of compensation, including any automatic increases in such amount or percentage, specified under State law until the employee specifically elects not to have such deductions made (or specifically elects to have the deductions made in a different amount or percentage of compensation allowed by the program), provided that the employee is given adequate notice of the right to make such elections; provided, further, that a program may also satisfy this paragraph (h) without requiring or otherwise providing for the automatic elections described in this paragraph (h)(2)(iii).

(3) For purposes of this section, the term State shall have the same meaning as defined in section 3(10) of ERISA.

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U.S. Department of Labor

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