Reimagining Retirement 2030: A Roadmap for Action

CRI Annual Policy Innovation Forum

October 21, 2020

Social media: #2030CRIForum

GEORGETOWN UNIVERSITY
McCourt School of Public Policy

CENTER FOR RETIREMENT INITIATIVES

What Can We Expect from State-Facilitated Retirement Savings Programs, the SECURE Act, and FinTech?

Moderator | Beth Pearce
Treasurer, State of Vermont

Panel Participants

Michael Frerichs
Treasurer, State of Illinois

Catherine Reilly
Director of Retirement Solutions, Smart USA

Aron Szapiro
Director of Research, Morningstar

Jack Vanderhei
Research Director, Employee Benefits Research Institute (EBRI)

Vermont & Massachusetts Open Multiple Employer Plans (MEPs)

Vermont Green Mountain Secure Retirement Plan

- 401(k) plan with program implementation anticipated in early 2021
- Plan would be the second state-facilitated multiple employer plan (MEP) joining the MA CORE MEP program already launched
- Self-employed individuals and employers with 50 employees or fewer covered
- Employer contributions permitted
- Automatic enrollment of employees occurs if employer joins the plan

Massachusetts Defined Contribution CORE Plan

- Program funded in 2018 as the first state-facilitated MEP
- Available to nonprofits with 20 employees or fewer
- Employer contributions permitted
- Employees are enrolled at a default contribution rate of 6%, increases automatically until 12% (max. will rise to 15% in Jan. 2021)

CORE Plan Updates *(as of August 31, 2020)*

✓ Over 80 nonprofit employers joined
✓ 80% of participating employers elected to make contributions
✓ 600 eligible employees covered
✓ $6.75 million in assets under management

Michael Frerichs

Treasurer

State of Illinois

Illinois
Secure Choice
Retirement Savings Program

2020 CRI Annual Policy Innovation Forum

October 21st, 2020

Michael Frerichs, Illinois State Treasurer

Auto IRA – Program Features

A retirement savings program that makes it easy for employees to save and is simple for employers to facilitate.

- Programs are overseen by a Board with the Treasurer serving as chair
- Treasurer's Office providing operational/organizational support
- Program Manager provides recordkeeping, custodial, and investment management services

oregonsaves®

Illinois Secure Choice
Retirement Savings Program

CalSavers
RETIREMENT SAVINGS PROGRAM

✓ **True public-private partnership**
Programs partner with private sector financial service providers to serve as the recordkeepers, investment managers, investment and program consultants etc.

✓ **Self-Sustaining**
While states may receive some money to assist with program launch and start-up, all programs will ultimately be self-sustaining (similar to 529 programs)

Auto IRA Programs - Employer & Employee Roles

Employer

Employee

Employer

- ✓ Register for the program
- ✓ Enroll all employees into the program
- ✓ Set up the payroll deduction process and remit employee contributions to the plan provider

- ✗ Be considered a plan manager or fiduciary or be subject to ERISA
- ✗ Make employer contributions or matches to the plan
- ✗ Be responsible for the same administrative requirements as with employer-sponsored plans

Employee

- ✓ **Employees save their own money into their own Roth IRA and control their account even if they move from one job to another**
- ✓ **Participation is completely voluntary:** employees may opt out and back in at any time.

- ❑ 18 or older
- ❑ Employed in the program state
- ❑ Full-time employee, part-time employee, or a business owner who is considered an employee

State Programs Design – Simple & Consistent

Michael W. Frerichs
ILLINOIS STATE TREASURER

	Illinois Secure Choice Retirement Savings Program	oregonsaves®	CalSavers Retirement Savings Program
Rollout Period	Nov. 2018 - Nov. 2019 (12 mos)	Oct. 2017 – Jan. 2021 (38 mos)	Jul. 2019 – Jun. 2022 (36 mos)
ER Size Threshold	25 ≥ employees (legislation pending to lower)	All Employers	5 ≥ employees
Account Type	Roth IRA (Traditional Option Available)		
Default contrib. rate	5%		
Automatic escalation	Available option (legislation pending to make default)	Default 1 pt annual to 10%	Default 1 pt annual to 8%
Investments: default	1st 90 days in a holding fund; then sweep to Target Date Fund	1st $1000 into Capital Preservation; subsequent to Target Date Fund	
Investments: other options	Capital Preservation Fund; Conservative Fund; Growth Fund	Growth Fund	Core Bond Fund; Global Equity Fund; ESG Fund
Individ. Self-enrollment	Available		
ER Penalties	Enacted; Implementation in development for 2021		

Program Snapshots & Secure Choice 2030 Goals

Program Snapshots

Data as of October 12, 2020	Illinois Secure Choice	OregonSaves	CalSavers
Total Assets	$37,371,452	$71,680,822	$11,959,546
Total Funded Accounts	72,384	75,008	30,372
Average Monthly Contribution	$91	$128	$115
Average Contribution Rate	5.02%	5.35%	5.03%
Total Registered Employers	5,893	14,251	4,324
Employers Remitting Contributions	2,539	6,089	922

2030 Goals – Secure Choice 2.0

A program that covers **every business in IL** that doesn't have its own employer-sponsored plan, with full compliance and complete enrollment

A savings account add-on feature that allows participants to allocate a portion of their withholdings into an account that's accessible when needed

Partnerships with other states to provide broader access to those who cannot achieve economics of scale with the same efficiencies

A national program that has built in existing state programs and provides comprehensive access across the country

Catherine Reilly

Director of Retirement Solutions

Smart USA

Automatic enrolment in the UK

Expanding retirement coverage through an employer mandate

Mandate for employers

- Every employer has to automatically enroll all eligible employees.
- Employees have the right to opt out.
- Employer fiduciary duty limited to selecting a plan and ensuring covered employees are enrolled.

Contributions from multiple sources

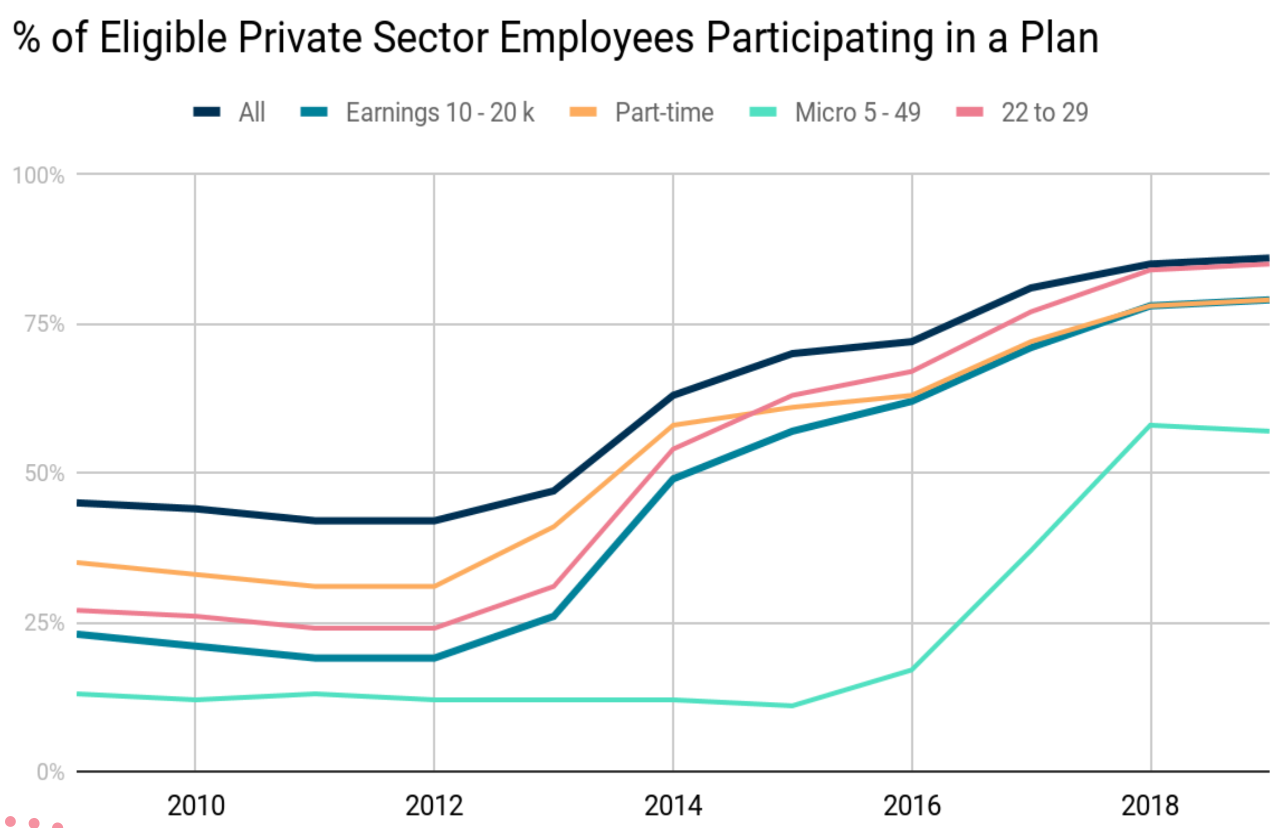
- 4% employee contribution, automatically withheld from payroll.
- 3% required employer contribution.
- 1% tax relief.
- Employees who opt out lose the employer contribution.

Phased roll-out

- Implementation started in 2013 with the largest employers.
- Rolled out gradually to the smaller employers over various "staging dates."
- All employers covered by 2018.
- Contribution rates also phased in gradually.

Significant increase in retirement plan participation in all groups

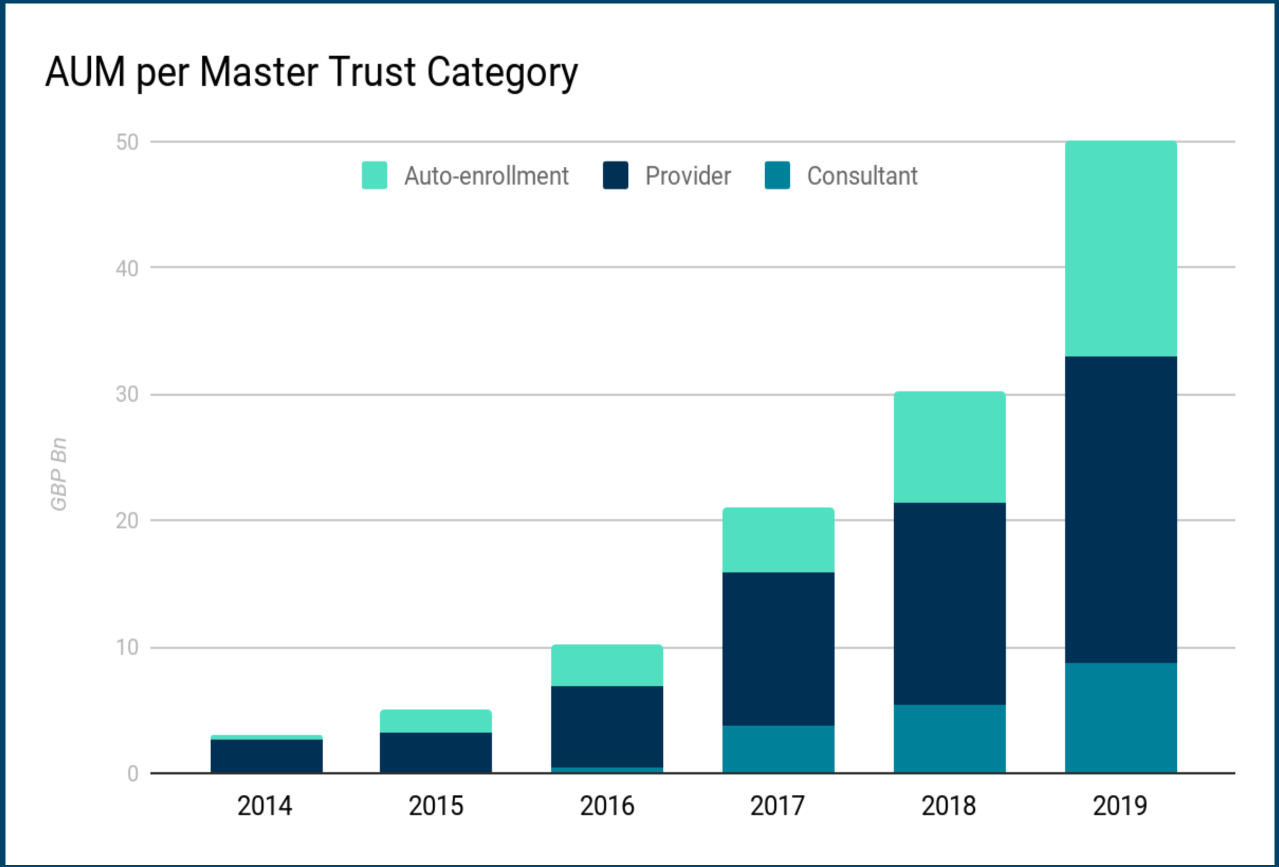
- Automatic enrollment has been very successful at increasing retirement plan participation in the private sector
- Participation rates have also increased among the groups with the lowest initial rates:
    - The young
    - Low earners
    - Part-time workers
    - Small employers



Source: Department of Work and Pensions, Workplace pension participation and savings trends, 2009 - 2019

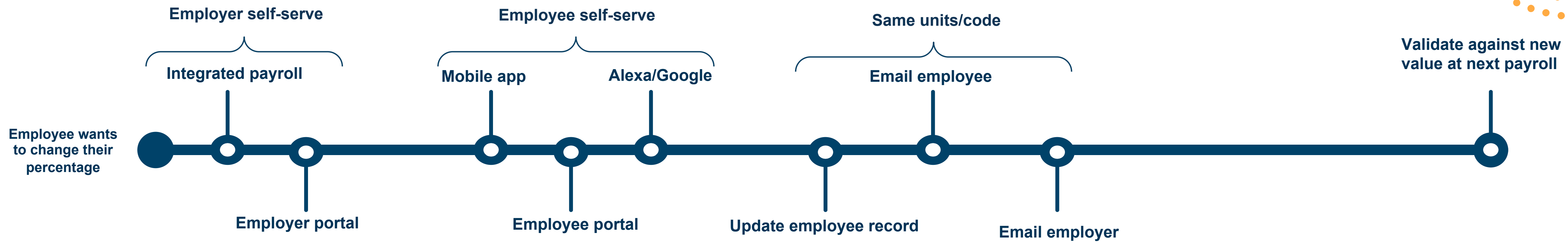
Automatic enrolment - the catalyst for rapid growth in master trusts

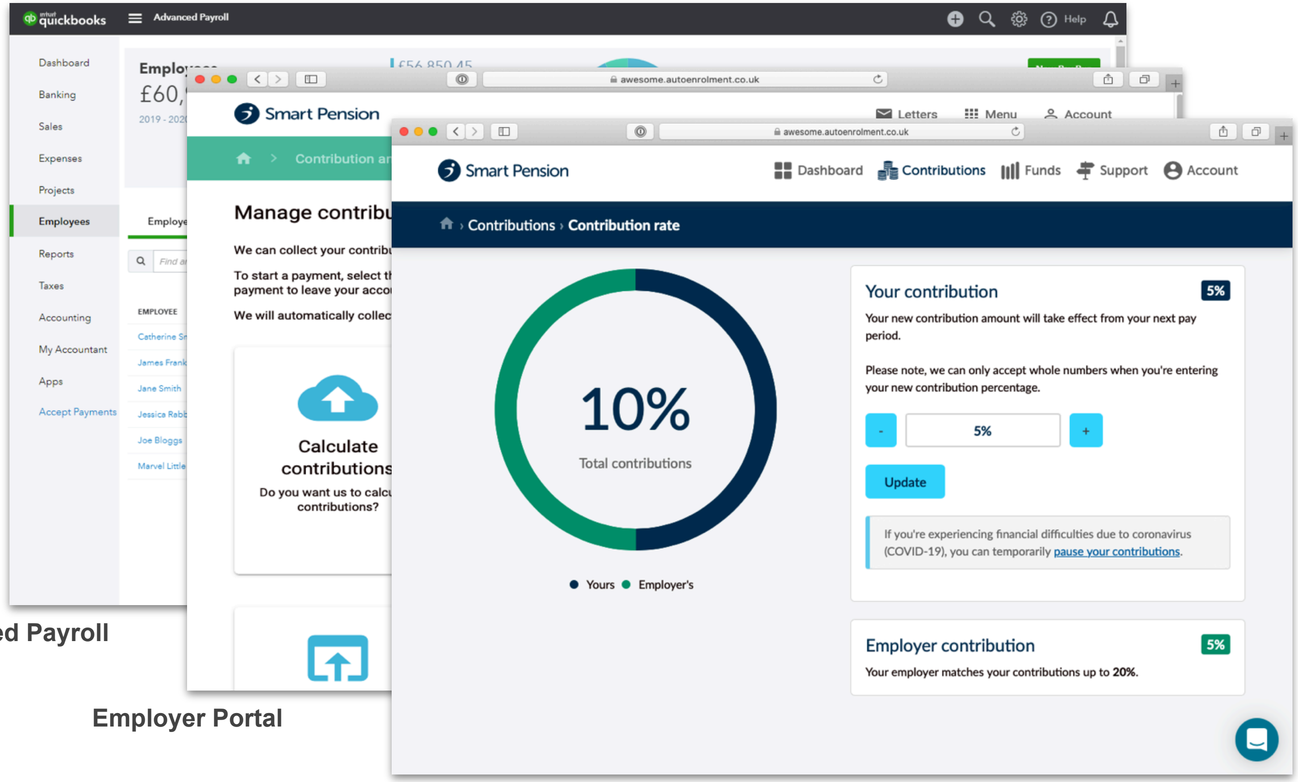
- Master trusts are the UK equivalent of Pooled Employer Plans (PEPs).
- Auto-enrollment master trusts typically cater to smaller employers, contingent workers and those on lower incomes.
- The government established its own Master Trust, NEST, to ensure that every employer would have access to a an affordable plan.
- Private sector Master Trusts, such as Smart Pension or The People's Pension, also serve the autoenrollment market at a comparable or lower cost without a government subsidy.



Source: Broadridge Workplace Provider Benchmarking Report 2020

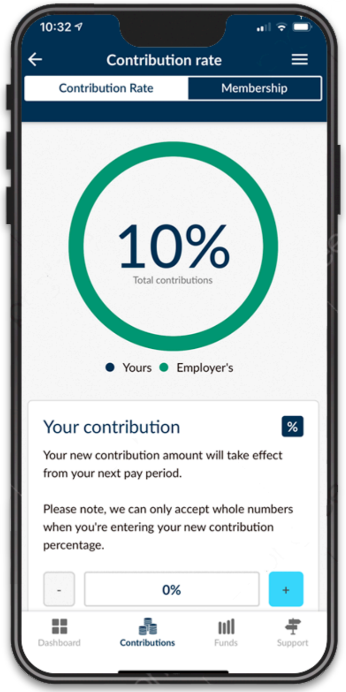
Technology is key in efficiently servicing small employers

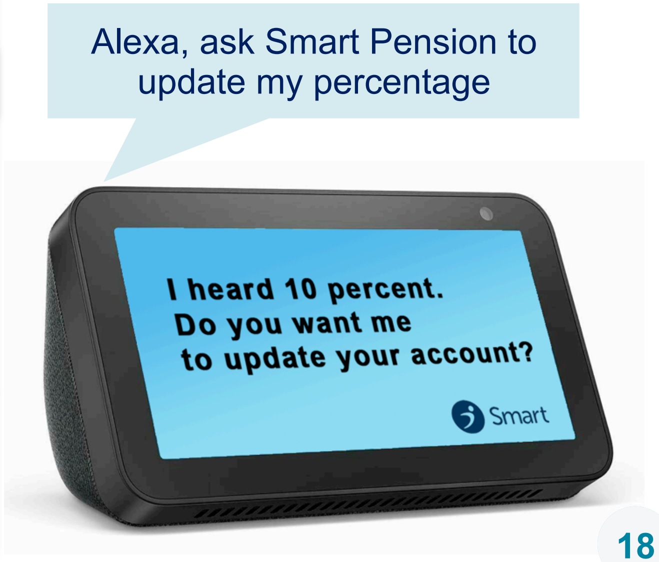




Integrated Payroll

Employer Portal





Smart Pension Master Trust

An overview

£981m
AUM

£36m
Monthly contributions

7k
Advisers

72k
Employers

677k
Members

Figures correct as at October 2020

Aron Szapiro

Director of Research

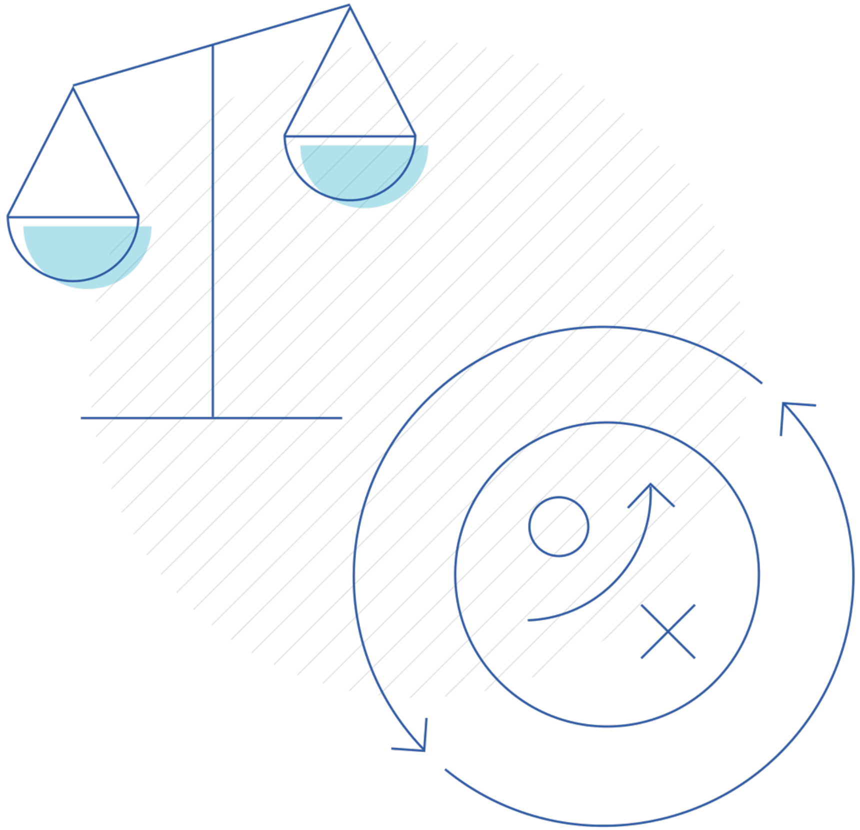
Morningstar

Pooled Employer Plans: Paperwork or Panacea

Aron Szapiro
Head of Policy Research
Morningstar, Inc.

Key Parts of the PEPs Legislation and Terminology

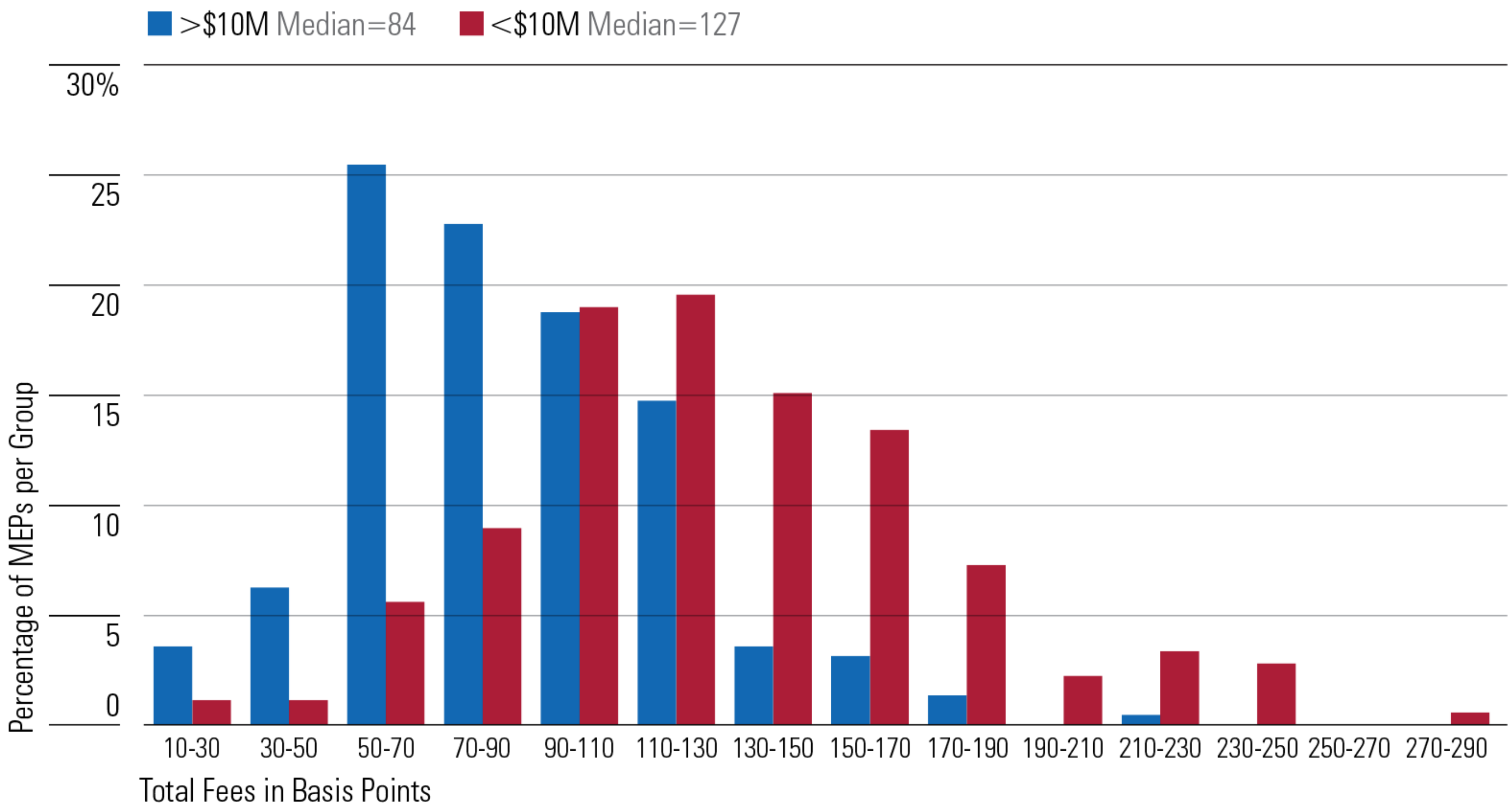
- Removes two key barriers to “open MEPs”
- Creates pooled employer plans, which must have pooled plan providers (who are fiduciaries)
- Does not require certification—just registration
- Audit and filing exemption for plans under 1,000 participants
- Hope is that PEPs improve quality of plans



Analyzing Existing MEPs Reveals That PEPs Can Reduce Fees as They Grow, but There Are Challenges

- Each percent increase in pooled plan assets reduces fees by 0.312%, holding the number of participants and number of employers constant
- When plans achieve $10 million in assets, each percent increase in pooled plan size reduces fees by 0.277%
- However, each additional participant is associated with a small rise in per participant cost
  - This analysis employs this regression: $Lfee = \beta_0 + \beta_1 LAum + \beta_2 LPart + \beta_3 LEmp + u$ where *Lfee* is the natural log of total fee, *LAum* is the natural log of the plan's assets, *LPart* is the natural log of the number of participants, and *LEmp* is the natural log of the number of employers.

Side-by-Side Histogram Illustrates Smaller Variance in Fees for Larger Plans



Source: Morningstar data and analysis.

MEPs Can Be a Better Option Than Single-Employer Plan for Small Employers

- Total cost of large MEPs minimally higher than for large single-employer plans

Average Total Cost in Basis Points

Plan Net Asset Range	Single-Employer Plan	Multiple-Employer Plan
<$10M	116	136
$10M-$250M	69	74
$250M+	44	49

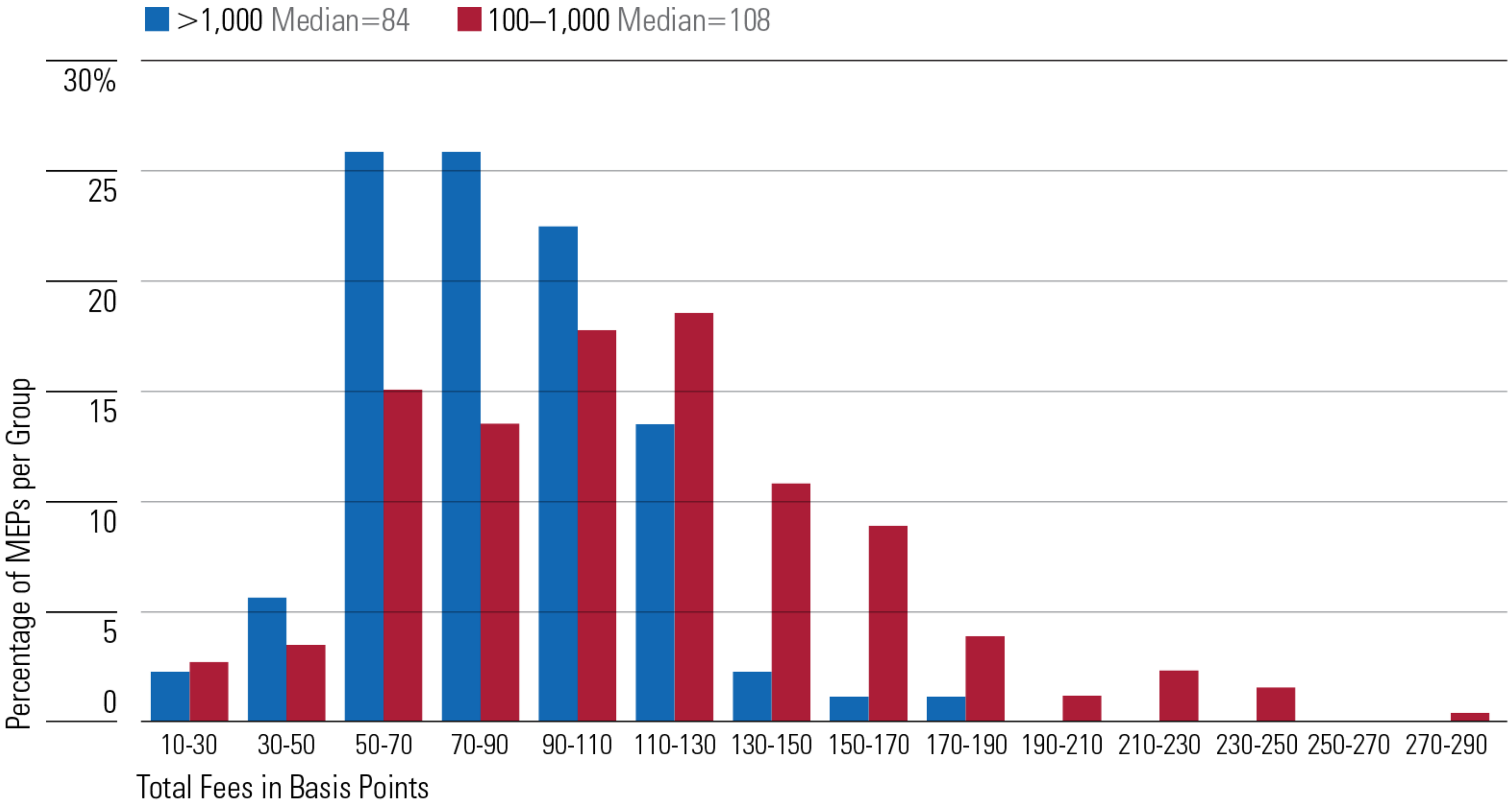
- Comparing cost of large MEP to small single-employer plan—what most participating employers could offer—shows MEP can be a significant improvement
  - MEP with $125 million, 80 participating companies—total cost 78 basis points
  - Single-employer plan with $1.5 million—average total cost 111 basis points

Source: Morningstar data and analysis.

Many Existing MEPs are Small and Have a Wide Variance in Fees

- 31% of MEPs with under $10 million in assets charge more than 150 basis points across plan and investment fees
- Extending full filing exemptions to PEPs with 100 to 1,000 participants could lead to large gaps in data
  - These plans struggle to consistently offer competitive fees with a higher variance in their fees than in larger plans
  - 87% MEPs that reached 100 participants stay below 1,000 for 5 years

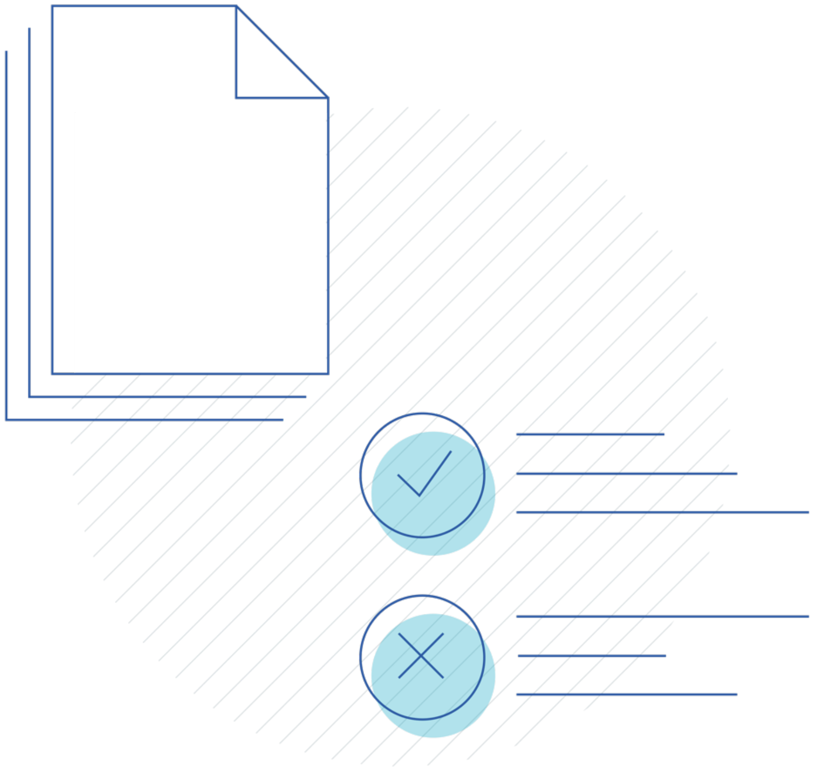
Lack of Transparency Into Fees of Plans With 100-1,000 Participants Could be Problematic in the Future



Source: Morningstar data and analysis.

Challenges for Policymakers

- PEPs are unlikely to dramatically improve participation unless paired with a mandate or automatic savings plan
- Challenges with reporting and audit relief available for small PEPs
- Ensure PPPs disclose costs so that employer sponsors can more easily monitor the PEP they join
- Ensure that PEPs aren’t too “sticky.”



Jack Vanderhei

Research Director

Employee Benefits Research Institute (EBRI)

Impact of SECURE on Retirement Income Adequacy
Reimagining Retirement 2030: A Roadmap for Action
Center for Retirement Initiatives, October 21, 2020

Jack VanDerhei, Ph.D.
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EBRI's Retirement Security Projection Model (RSPM)

- Accumulation phase
  - Simulates retirement income/wealth to retirement age for 401(k) participants ages 35-64 from defined contribution, defined benefit, IRA, Social Security, housing equity
    - 401(k) participant behavior based on individual administrative records
      - Annual linked records dating back to 1996 (27 million participants from 110,000 plans)
    - Social Security based on current statutory benefits for baseline
      - Sensitivity analysis available for scenarios in which Trust Fund is exhausted
- Retirement/decumulation phase
  - Simulates 1,000 alternative life-paths for each household, starting at 65
  - Deterministic modeling of costs for food, apparel and services, transportation, entertainment, reading and education, housing, and basic health expenditures.
  - Stochastic modeling of longevity risk, investment risk, long-term care (LTC) costs
- Output (Aggregated across all households in a cohort and expressed in 2019 dollars)
  - Retirement Savings Shortfalls: Present value of simulated retirement deficits at retirement age
    - Current aggregate of $3.83 trillion
  - Retirement Savings Surpluses: Present value of simulated retirement surpluses at retirement age
  - Retirement Savings Net Surplus: Present value of simulated retirement surpluses less retirement deficits at retirement age

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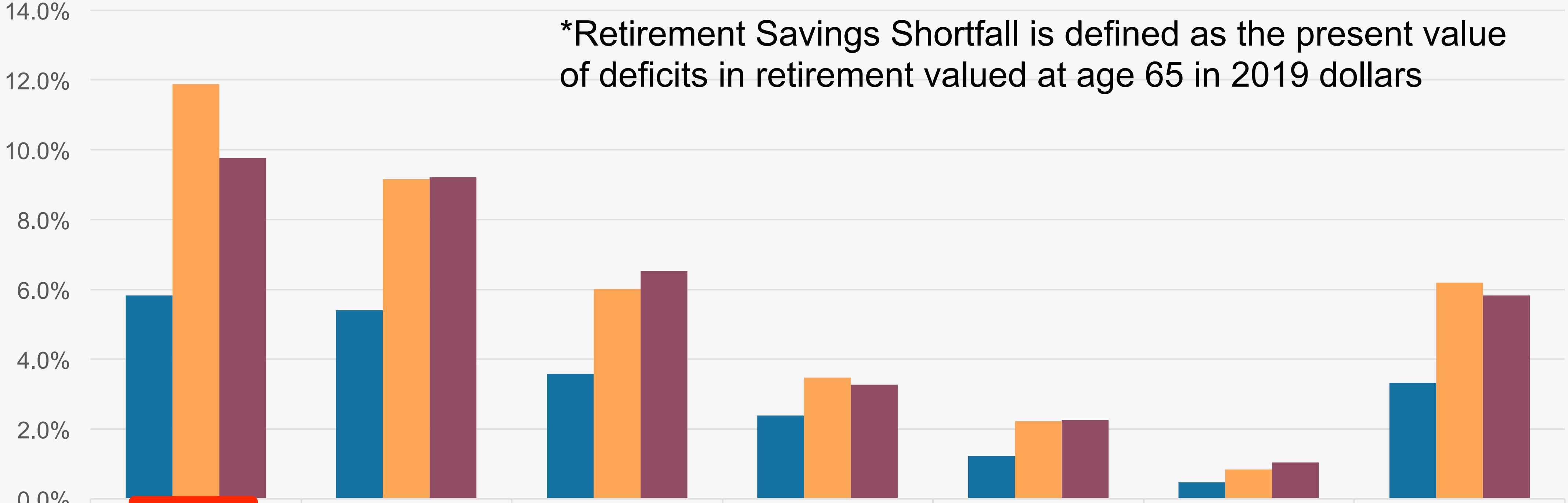
For a list of approximately 50 studies using RSPM please see: bit.ly/ebri-rspm-new

Percentage decrease in Retirement Saving Shortfalls* as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 10% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS (assumes automatic enrollment)

SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	5.8%	5.4%	3.6%	2.4%	1.2%	0.5%	3.3%
less than 100 employees	11.9%	9.2%	6.0%	3.5%	2.2%	0.8%	6.2%
100-500 employees	9.8%	9.2%	6.5%	3.3%	2.3%	1.0%	5.8%

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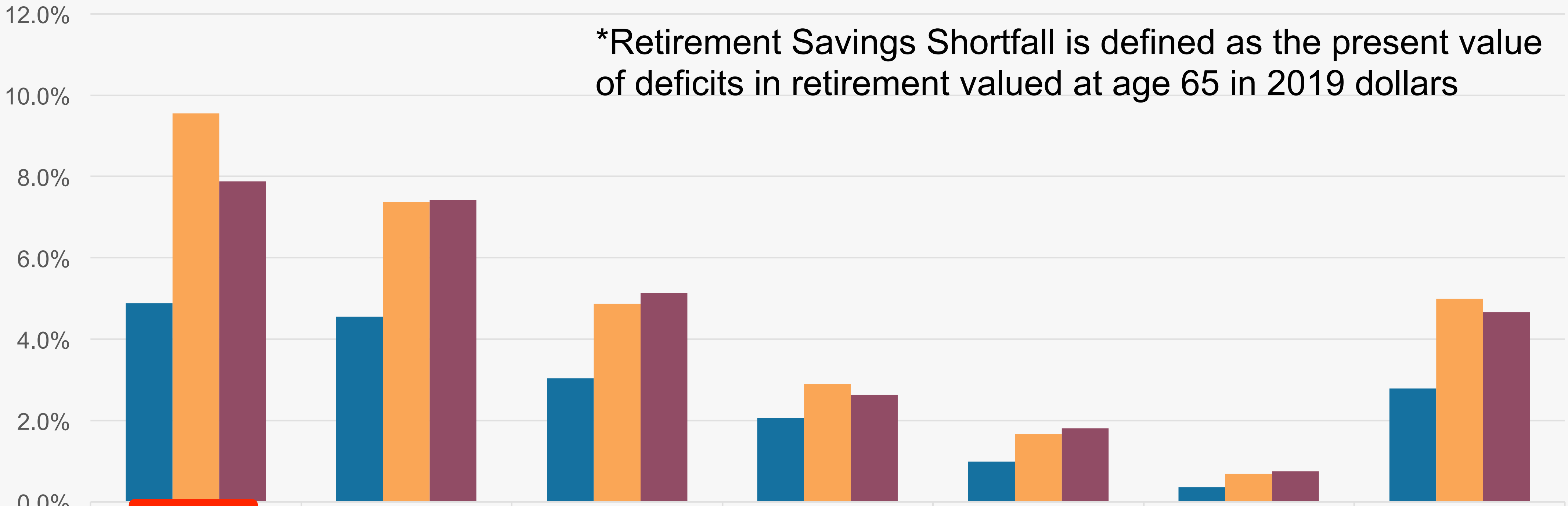
Source: Jack VanDerhei, "How Much More Secure Does the SECURE Act Make American Workers: Evidence From EBRI's Retirement Security Projection Model®," EBRI Issue Brief, no. 501 (Employee Benefit Research Institute, February 20, 2020).

Percentage decrease in Retirement Saving Shortfalls* as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 40% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS (assumes voluntary enrollment)

SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	4.9%	4.6%	3.0%	2.1%	1.0%	0.4%	2.8%
less than 100 employees	9.5%	7.4%	4.9%	2.9%	1.7%	0.7%	5.0%
100-500 employees	7.9%	7.4%	5.1%	2.6%	1.8%	0.8%	4.7%

Source: Jack VanDerhei, "How Much More Secure Does the SECURE Act Make American Workers: Evidence From EBRI's Retirement Security Projection Model®," EBRI Issue Brief, no. 501 (Employee Benefit Research Institute, February 20, 2020).

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