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McCourt School of Public Policy

CENTER FOR RETIREMENT INITIATIVES

Webinar | December 15, 2020

What are the Potential Benefits of

Universal Access to Retirement Savings?

An Analysis of National Options to Expand Coverage

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Webinar | What are the Potential Benefits of Universal Access to Retirement Savings?

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Discussants:

Courtney Eccles, Director, Illinois Secure Choice

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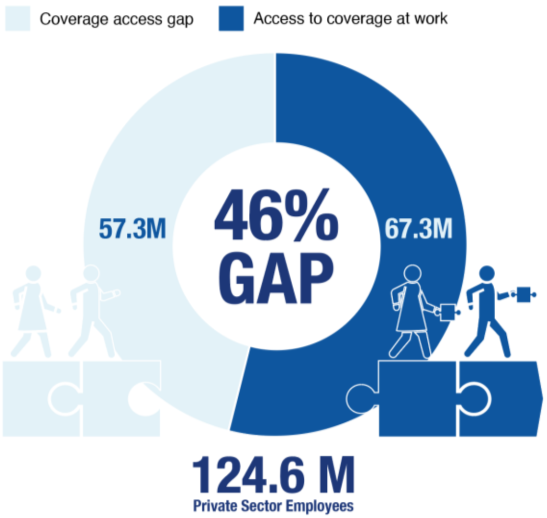
Melissa Kahn, Managing Director, State Street Global Advisors

David Morse, Partner, K&L Gates LLC

Significant Gap in Access to Retirement Savings Among Private Sector Workers

- US employers are not required to offer a retirement savings plan
- Estimate 46% of the private sector workforce lacks access to workplace retirement savings plans (57.3 million workers in 2020)

More than 57 Million Employees Lack Access to a Retirement Savings Plan in their Workplace (2020)

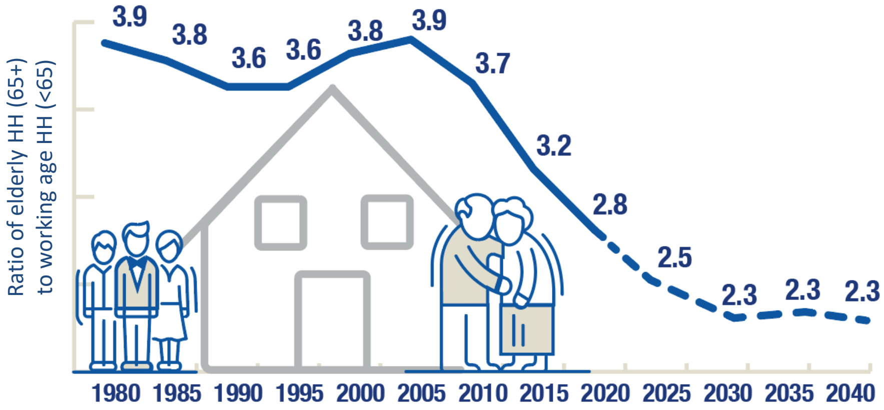


ESI analysis of Census Bureau Current Population Survey and BLS National Compensation Survey Data.

An Aging Population Increases the Urgency

- Senior households are growing in number and share of the population (falling from ratio of 4:1 to 2:1 by 2040)
- Increasing fiscal pressure from a decreasing share of working age households
- Generational shifts by 2040: Millennials and Gen Z will be in prime working years (30-60) and need to save for retirement

Falling Ratios of Working Age to Elderly Households Creates Fiscal Pressure



ESI analysis of US Census Bureau data and University of Virginia Population Projections.

Current U.S. Efforts to Close the National Access Gap Likely to Fall Short

- Several other countries seek universal access through a mix of public and private models, often requiring employer participation
- National universal access proposals in the U.S. have been introduced for more than a decade and failed to advance
- Recent U.S. efforts, including state-facilitated retirement savings programs and the SECURE Act are positive steps, but more will need to be done to significantly close the national access gap

Employer-Based International Savings Programs

Australia Superannuation Guarantee – 16.7 million participants

Requires employers to contribute 9.5% of an eligible employee's earnings to a retirement savings account.

KiwiSaver – 3 million participants

Workers auto enrolled (can opt out) to contribute ≥ 3% of earnings + 3% employer match and a tax credit contribution.

UK NEST – 9 million participants

Uncovered workers auto enrolled (can opt out) at default contribution levels of 5% employee + 3% employer.

SECURE Act Creates New Pooled Employer Plans

Recently Launched State Auto-IRA Programs

OregonSaves – Launched 2017

Auto-IRA program required for all employers without an existing qualified plan, 5% default employee contribution with auto- escalation, and no employer match permitted.

Illinois Secure Choice – Launched 2018

Auto-IRA program required for employers with ≥ 25 employees without an existing qualified plan, 5% default employee contribution, and no employer match.

CalSavers – Launched 2019

Auto-IRA program required for employers with ≥ 5 employees without an existing qualified plan, 5% default employee contribution with auto-escalation, and no employer match.

National Proposals for Universal Access Have a History

- Congressional Legislation
  - Automatic IRA Act of 2019 (S. 2370; Senator Whitehouse)
    - Earlier version of bill introduced by Rep. Neal in 2017
    - Based on a national auto-IRA proposal first introduced by David John (Heritage Foundation) & Mark Iwry (Brookings Institution) in 2006 and received with bipartisan support
  - Automatic Retirement Plan Act of 2017 (H.R. 4523; Rep. Neal) – national 401(k) access
  - Whether an IRA or 401(k) bill, they have had these similar design features:
    - Employer contributions not required
    - Some employers exempt (e.g., those with <10 employees)
    - Completely voluntary for employees

- Other national reform proposals developed by policy experts reflect greater variations from the existing 401(k) and IRA system and often require employer contributions

States Are Driving Change by Designing and Increasingly Adopting Universal Access Retirement Savings Programs

- Recognizing the significant fiscal and economic costs of doing nothing, states across the country have initiated a variety of efforts
- Trend is increasingly toward state-level universal access auto-IRAs (7 of the 12 state programs) requiring employers who do not have a retirement savings plan to either get one or to facilitate the ability of their workers to save through the state program

State Facilitated Retirement Savings Program Models Adopted to Date

Auto-IRA (Secure Choice)	Voluntary IRA	Voluntary Marketplace	Voluntary Open Multiple Employer Plan (MEP)
California (active)	New York	Washington (active)	Massachusetts (active)
Illinois (active)			Vermont
Oregon (active)	New Mexico (hybrid)		
Colorado			
Connecticut			
Maryland			
New Jersey			

Georgetown CRI Research Examines How National Universal Retirement Savings Models Affect Coverage and Savings

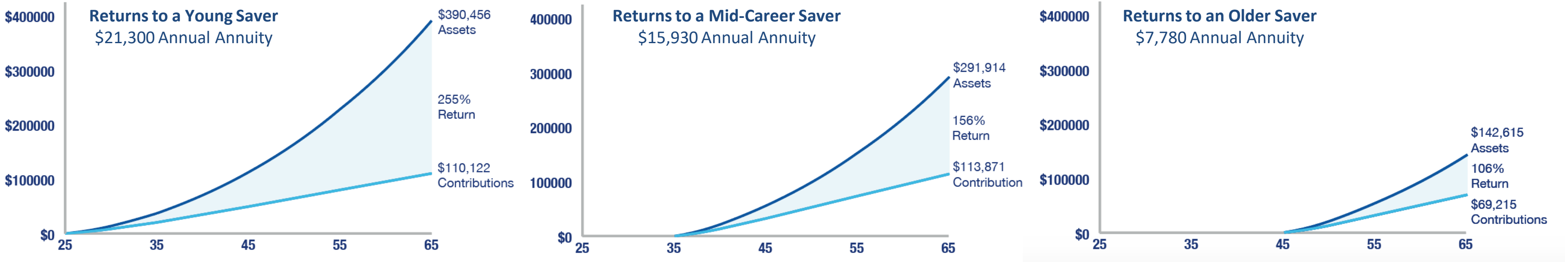
Scenarios considered based on state programs and national legislative proposals

Auto-IRA Baseline *all employers*	**Auto-IRA** *with employer threshold*	**401(k) Voluntary Employer Contribution** *with employer threshold*	**401(k) Mandatory Employer Contribution** *with employer threshold*
Participation required for all employers	Participation requirement exempted for business below threshold of 10 employees and two years in existance		
Auto-enrollment (with employee opt-out)			
Roth IRA savings vehicle		Roth 401(k) savings vehicle	
5% default employee contribution auto-escalation 1%/year to 10%			Employee contribution 4% initial, auto-escalation .5% to 7%
No employer contribution		Voluntary employer contribution	Mandatory employer contribution 1% initial, auto-escalation .25%/year to 3%
Coverage implemented in phases by employer size			
Existing state Auto-IRA plans "grandfathered in"			Employer contribution required for those covered by state plans and in existing private sector plans
Enhanced Saver's Tax Credit			

Can Saving a Modest Amount Make a Difference? YES!
Starting Sooner and Saving Longer Improves Retirement Outcomes

By starting to save early through simple, automatic and consistent contributions, workers with average earnings levels will have the opportunity to build substantial private savings levels to increase their retirement incomes

Supplemental Lifetime Income at Age 65 for an Auto-IRA Saver

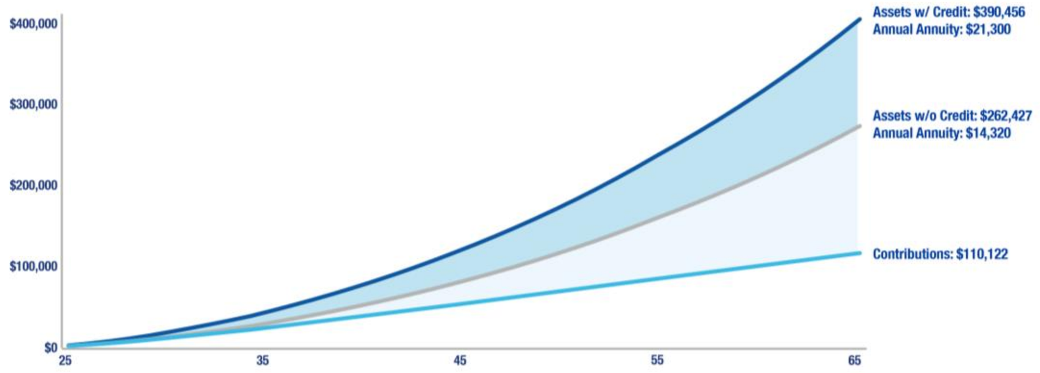


An Enhanced Refundable Saver's Credit Can Significantly Boost Lifetime Income

- Research model isolates the potential impact of an enhanced refundable Saver's Credit on retirement outcomes

- A younger Auto-IRA saver can see their annual income in retirement grow from **$14,320 to $21,300** if eligible to take advantage of a refundable Saver's Credit

An Enhanced Saver's Credit Increases Lifetime Returns



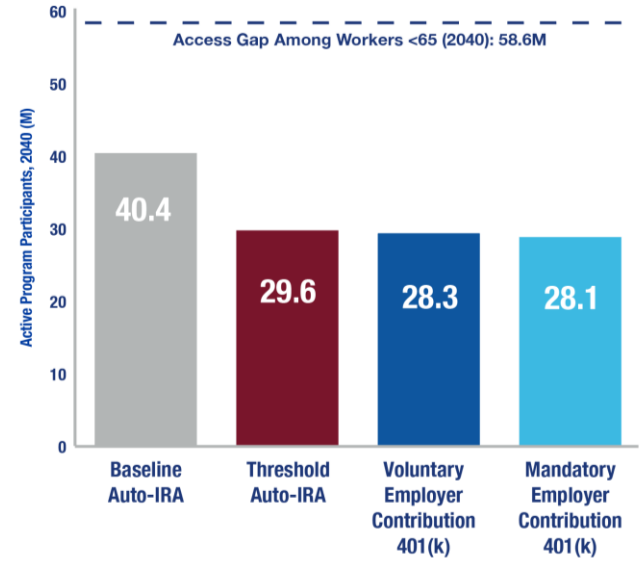
National Universal Access Payroll Deduction IRA and 401(k) Scenarios Lead to a Significant Expansion in Participation

- Universal access will increase the number of workers saving for retirement in 2040 by 28 to 40 million workers (depending on design features)
  - Participation from about 50–70% of private sector workers who currently lack access
  - With voluntary worker participation, reaching 100% will not be possible (some workers will always choose to opt out)

- Baseline Auto-IRA scenario has no employee threshold (e.g., a national version of OregonSaves) to show what true universal access can do to increase participation and savings

- Participation levels fall significantly if employers below a certain firm size / age threshold are exempt (all other scenarios exempt employers with <10 employees / <2 yrs)

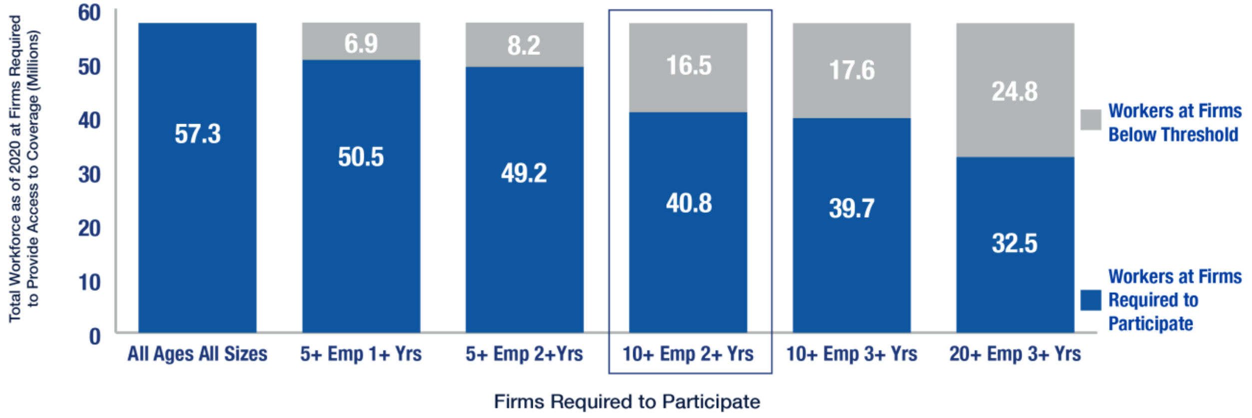
Required Universal Access Can Increase Participation by 50-70% Among Workers Currently Lacking Access



How Designing the Employer Threshold for Required Participation Can Impact Access

The number of workers at firms required to provide access will vary depending on how the employer threshold is set (with firm size minimums having a greater impact than firm age minimums)

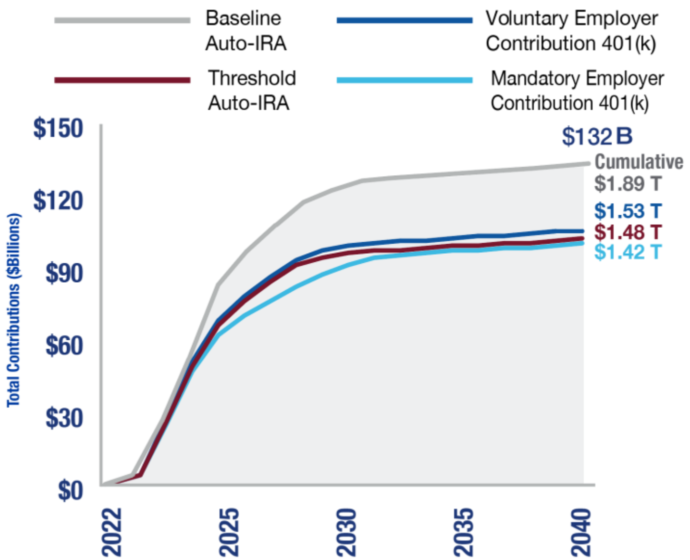
Employer Thresholds Have Significant Impacts on the Number of Workers at Firms Required to Provide Access to Savings



All Scenarios Lead to Significant Expansion of Savings and Asset Accumulation

- The baseline Auto-IRA that covers all employers (truest universal access) has the highest overall level of savings
- When comparing a threshold auto-IRA to a threshold 401(k) allowing for voluntary contributions, the 401(k) may have higher average contributions and savings
  - The trade-off will be a modest reduction in the number of workers covered (1.3-1.5 million fewer participants)
- If employer contributions are required in a 401(k) (not envisioned to date in legislative proposals), the requirement on employers would reduce the overall level of savings and asset accumulation over time
  - The amount and pace of the employer contribution requirement will affect the negative drag on savings and asset accumulation

Cumulative Savings Contributions are Highest Within the Baseline Auto-IRA Model, Totaling $1.9 Trillion through 2040

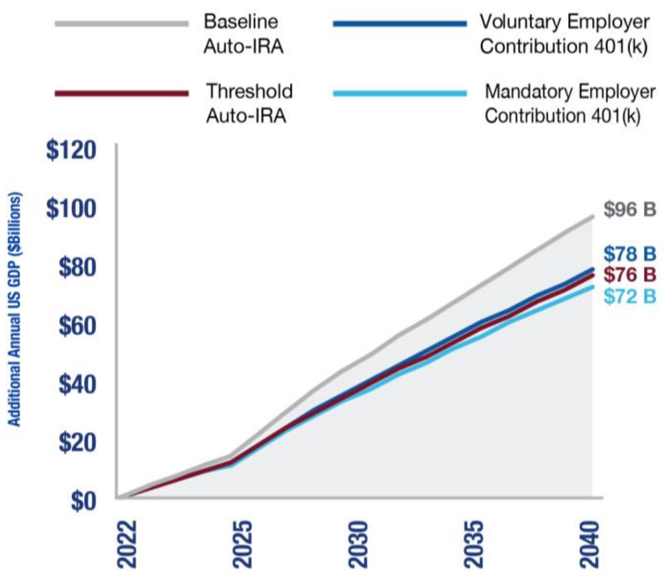


Greater Savings and Asset Accumulation Accelerates Economic Growth and Tax Revenues

- Through increased savings and investment, the scenarios analyzed would result in faster growth in GDP and the tax base over time

- This accelerated growth equates to:
  - $72-$96 billion in additional GDP in the year 2040
  - $11-$14 billion in additional federal tax revenue in the year 2040

Increased Savings and Investment Boost GDP Growth by $72-$96 Billion in the Year 2040



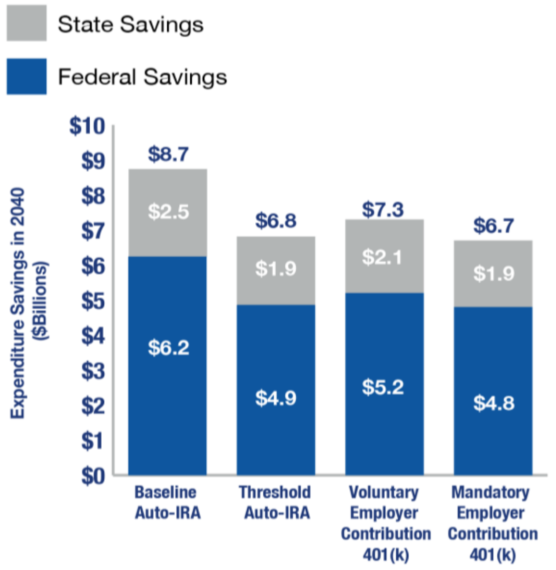
Increasing Retiree Incomes Can Reduce Federal & State Benefit Program Expenditures

- Benefit program spending (e.g., Medicaid, SNAP, LIHEAP) is expected to rise rapidly as the population ages

- Increased savings grows retiree incomes and materially reduces program needs over time

- State and federal governments share in these benefits each year
  - $7-$9 billion in federal and state program savings in the year 2040

Increased Retiree Resources Lead to Government Program Savings of $7-$9 Billion in the Year 2040



The Potential Benefits of Universal Access to Retirement Savings: Key Takeaways

- Experience from other countries and the early evidence from individual states here in the U.S. demonstrate that expanded access can be achieved in simple, cost-effective ways that supports and includes a private market of providers ready and willing to compete to provide options for employers and their workers
- Regardless of the scenario selected, what is clear is that the benefits to savers, retirees, and to the nation would be significant. A national approach to universal access to retirement savings could:
  - Increase the number of workers saving for retirement in the year 2040 by 28–40 million, with participation from about 50–70% of private sector workers who currently lack access;
  - Help a young worker with a modest income who starts saving early and follows program defaults for 40 years to save enough to generate as much as $14,320 in additional annual income for retirement, increasing to $21,300 in annual income if eligible to take advantage of a refundable Saver's Credit;
  - Increase cumulative total retirement savings by $1.4–$1.9 trillion by the year 2040; and
  - Accelerate economic growth, increasing national GDP by $72–$96 billion in the year 2040

Discussion

Courtney Eccles, Director, Illinois Secure Choice

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QUESTIONS?

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