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State-Facilitated Retirement Savings Programs: The Importance of the Employer Threshold in Expanding Access

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Approximately 57 million private sector workers lack access to an employer-sponsored retirement plan, according to estimates by the Georgetown University Center for Retirement Initiatives (CRI).[1] Small businesses are the least likely to offer a workplace retirement plan because of the administrative burden and cost. This lack of access makes it less likely that those workers will save for retirement, build wealth, and improve their overall financial well-being. It also puts women and people of color at a disproportionate disadvantage and will have significant long-term fiscal and economic consequences.[2,3,4]

To address these challenges, several states have adopted innovative savings programs that require employers that do not offer their workers a retirement savings plan to automatically enroll their workers into an IRA (auto-IRA) unless the worker chooses to opt out.[5] However, the ability of a state program to significantly close the access gap depends on the number of covered employers. Because the U.S. is a small-business nation, excluding the smallest employers will still leave many workers without access, and a state would fall short of expanding coverage and savings to workers who need it.

The U.S. Is a (Very) Small-Business Nation

Small businesses are a key driver of employment in the U.S. They make up a substantial proportion of all businesses and employment in the U.S. As of 2019, there were an estimated 33.2 million small businesses in the United States,[6] and 32.5 million or 98% of them have fewer than 20 employees. Of all small businesses, 27.1 million are businesses with a single owner and no employees.

Small businesses are more common in some industries than others: 66% of employees working in agriculture, forestry, fishing, and hunting work for an employer with fewer than 100 employees. By comparison, only 10% of employees in utilities work for employers with fewer than 100 employees.[7,8]

State Auto-IRA Programs

With an understanding that workers are 15 times more likely to save if they have access through their employers,[9] several states have adopted auto-IRA programs to provide a retirement savings option to workers who do not have access to an employer-sponsored plan. The goal of these auto-IRA programs is to close this gap in retirement savings by requiring employers above a certain size that do not offer retirement plans to automatically enroll their employees in an IRA. The state works in partnership with private providers to administer the program.

The state law authorizing a program typically determines the "eligible" employers that would be covered by the program, often by defining the number and type of workers employed (the "employer threshold"). Employer thresholds range from one employee to 25 employees, with many

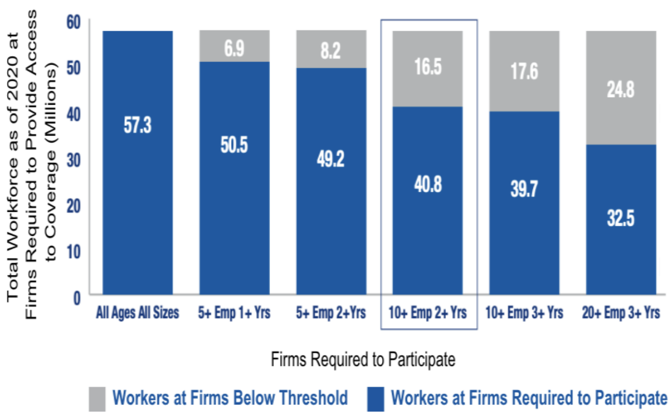
[1] Antonelli, Angela M. (2020). "What are the Potential Benefits of Universal Access to Retirement Savings?"
[2] AARP (2022). "Payroll Deduction Retirement Programs Build Economic Security."
[3] Antonelli. (2020).
[4] Antonelli, Angela M. (2021). "State Benefits of Expanding Access to Retirement Savings."
[5] Georgetown Center for Retirement Initiatives (2023). "State-Facilitated Retirement Savings Programs: A Snapshot of Program Design Features."
[6] U.S. Small Business Administration (2022). "2022 Small Business Profile," Office of Advocacy. A small business is defined as a business with fewer than 500 full and part-time employees, including businesses with a single owner and no employees.
[7] U.S. Small Business Administration (2022).
[8] U.S. Census Bureau (2022). "2019 SUSB Annual Datasets by Establishment Industry."
[9] Harvey, Catherine (2017). "Access to Workplace Retirement Plans by Race and Ethnicity," AARP.

states requiring participation by those with five or more employees.[10]

Impact of the Employer Threshold on Closing the Access Gap

Given the prevalence of small businesses, a state program's employer threshold has a dramatic effect on the proportion of workers who have access to a retirement plan through their employers. Research from the CRI found that at the national level, requiring businesses that are at least three years old and have at least 20 employees still leaves about 24.8 million workers without access to a workplace plan (see Chart 1). Lowering the threshold to cover businesses that are at least one year old and have at least five employees reduces this gap by about three-quarters, but still leaves about 6.9 million employees without plan access.[11]

Chart 1
Impact of Employer Thresholds on the Number of Workers Who Gain Access



Source: Georgetown University Center for Retirement Initiatives (2020). Note: Econsult Solutions analysis of U.S. Census Bureau Business Dynamic Statistics and Quarterly Workforce Indicators Data.

This impact of an employer threshold on the ability of a program to reach uncovered workers can be significant. Both the New Jersey[12] and Virginia[13] programs have employer thresholds of 25 or more employees, and, in the case of Virginia, it also excludes many part-time workers.[14]
State-level analysis by the CRI found that as of 2020, setting the employer threshold in New Jersey and Virginia at 25 or more employees (or leaving out those employers with fewer than 25 employees) would still exclude almost one-half or 46% of those workers who lack access to an employer-sponsored retirement savings plan (see Chart 2).[15,16] Both of these states would reach and help many more workers save for retirement if more employers were covered by their programs.

Chart 2
The Higher the Employer Size, the Larger the Number of Workers Who Still Lack Access: [New Jersey Example](#)

Source: Georgetown Center for Retirement Initiatives (2021) with Econsult.Solutions

Newer State Programs Trend Toward Setting Lower Employer Thresholds

Employer thresholds vary by state program. OregonSaves[17] — the first auto-IRA program to launch — requires businesses with at least one employee to participate if they do not already offer a retirement plan. Maryland also enacted a program that covers employers of all sizes.[18] Other more recently enacted programs, such as those in Colorado,[19] Delaware,[20] and Maine,[21] set their employer thresholds at five or more employees, making them like the Connecticut program, one of the first programs enacted.[22]

As more states come to understand the importance of substantially closing the access gap, existing auto-IRA programs have been moving toward lowering their employer thresholds. Illinois Secure Choice originally covered employers with at least 25 employees, but the state successfully passed legislation in 2021 to lower its program threshold to

[10] Georgetown Center for Retirement Initiatives (2023).
[11] Antonelli (2020).
[12] NJ: Pamphlet Law 2019, Chapter 56 (2019)
[13] Virginia State-Facilitated IRA Savings Programs, Chapter 556, (2021)
[14] Georgetown Center for Retirement Initiatives (2023).
[15] Antonelli, Angela M. (2021). "New Jersey State Benefits of Expanding Access to Retirement Saving."
[16] Antonelli (2021). "Virginia State Benefits of Expanding Access to Retirement Saving."
[17] Oregon Retirement Savings Board, Oregon Revised Statutes, Vol. 5, Title 18, Chapter 178, Section 178.200.
[18] Maryland Small Business Retirement Savings Program and Trust, HB1378, Chapter 324 (2016), as amended by Chapter 596 (2018).
[19] ColoradoSecure Savings Program, Chapter 295 (2020).
[20] Delaware EARNS Program, Volume 83, Chapter 405 (2022).
[21] Maine "An Act To Promote Individual Retirement Savings through a Public-Private Partnership," Chapter 356 (2021).
[22] Connecticut Retirement Security Authority, Chapter 574.

cover employers with five or more employees.[23] In August 2022, California also passed legislation lowering the employer threshold for businesses covered by CalSavers, California's auto-IRA program, from five employees to one employee.[24]

A Lower Employer Threshold Reduces Administrative Complexities

Lowering the employer threshold reduces the complexity and costs of administering a program for a state by reducing the number of employers the state needs to track to determine eligibility at any given time.

States also can reduce administrative complexities by avoiding narrowly defining eligible employees, for example, by number of hours worked per week. Most states do not collect data on hours worked, limiting the enforceability of these narrow definitions. Expanding eligibility to cover all traditional W-2 employees reduces complexity of the program for businesses and eases program administration for the state, while helping close the gap in plan access.

A Savings Program is Low Cost, Low Burden for All Employers

Survey evidence shows that an auto-IRA program places a low burden on small businesses. Very few OregonSaves small businesses (i.e., with one to nine employees) reported incurring out-of-pocket expenses in administering a retirement savings program.[25] They are also less likely to feel dissatisfied with the program than larger businesses.[26]

Employer support for a program also appears to grow after employers gain familiarity with it. Oregon employers that have begun processing payroll contributions to OregonSaves are more satisfied with OregonSaves than employers that have not yet started to do so (57.8% vs. 22.3%).[27] As they become more familiar with a state program, employers are more likely to view it as very low-cost and simple to use, while allowing them to offer their workers a way to save for their retirement.[28]

A Lower Threshold Attracts Partner States

As more states set lower employer thresholds, it will help to standardize a key plan design feature across programs and make it even easier for states to form partnerships. Setting a low employer threshold not only helps to cover as many workers as possible, but also helps to make a state more attractive as a partner to one or more other states.[29]

Conclusion

State-facilitated retirement savings programs are making important contributions to helping to close the access gap and offer a low-cost, simple way for more workers to save for retirement. Research, including analysis by the CRI, demonstrates that small businesses can benefit from adopting state-facilitated retirement savings programs. These benefits accrue to both employers and employees and support the long-term economic and fiscal condition of states.

How many employers and employees are covered by a program is a key determinant in how much progress is likely to be made. As the CRI's research has shown, setting the employer threshold as low as possible will do the most to close the access gap.

In addition, program implementation experience to date is showing that the burden on all employers is minimal, and in fact, when they gain experience with the program, they feel positively about their experience and how they are helping their employees. As a result, program states are taking steps to cover many more of their smallest employers.

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[23] Illinois Secure Choice Savings Program Act, 820 Illinois Compiled Statute 80.
[24] The Calsavers Retirement Savings Trust Act, Title 21, Sections 100000-100050.
[25] Pew Charitable Trusts (2021). "Is the OregonSaves Retirement Program Expensive for Employers?"
[26] Pew Charitable Trusts (2021). "OregonSaves Auto-IRA Program Works for Employers."
[27] Pew (2021). "OregonSaves … Works for Employers ..."
[28] Pew Charitable Trusts (2017). "Small Business Views on Retirement Savings Plans."
[29] Antonelli, Angela M., Iwry, J. Mark, and John, David C. (2019). "Achieving Economies of Scale in State-Facilitated Retirement Savings Programs."

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