Addressing the Retirement Savings Crisis

What Can North Carolina Do?

Briefing

Joint Legislative Study Committee on
Small Business Retirement Options

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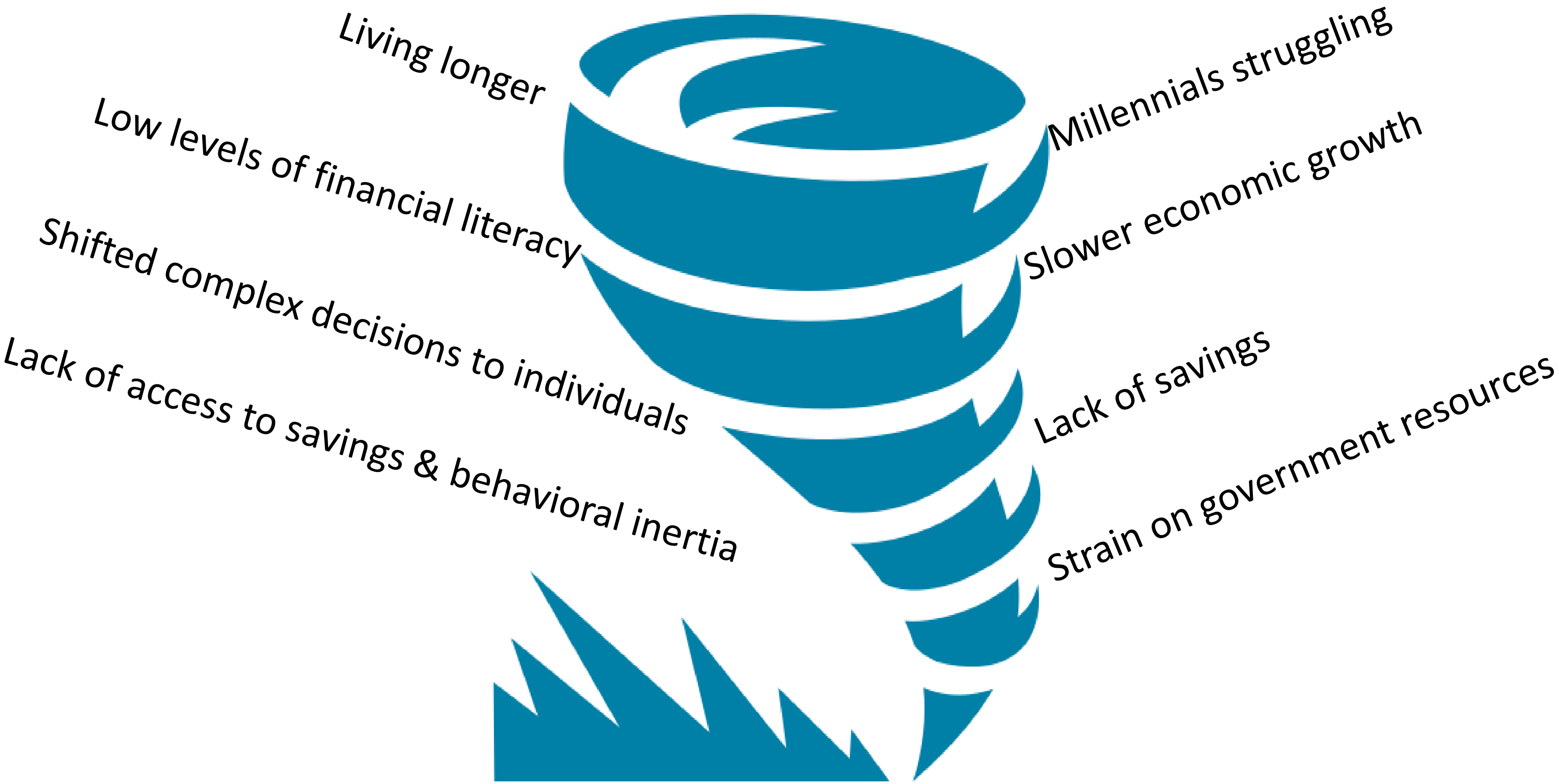
Why Are States Acting?
The Perfect Storm of Challenges to Address



Unprepared for Retirement

- **Shift from DB to DC Landscape = Not Enough Saved for Retirement**
- **Half of the Private Sector Workforce Lacks Access to an Employer Sponsored Plan**
- **Need to Move from Savings to Security = From Savings to Retirement/Lifetime Income**

Near or at retirement	Millennials	Women
• Median amount of savings for households age 55+ was $109,000 in 2015 • 55% of households ages 55-64 had less than $25,000 in retirement savings and 41% had $0 • 27% have neither DB plan or retirement savings • Older Americans are carrying more debt into retirement. Debt held by Americans over 60 is now $3.09 trillion, up from $1.98 trillion a decade ago *Sources: U.S. GAO and Federal Reserve Bank of New York*	• 66% of workers have nothing saved for retirement • 55% eligible to participate in an employer-sponsored retirement plan, compared to 77% for Gen X and 80% for Baby Boomers • Nearly 65% of the $1.4 trillion in outstanding student loan debt is held by those 39 and under • Those entering the workforce with $30,000 in student loan debt risk ending up with $325,000 less in retirement. The average student debt in 2015 was $33,000 *Sources: NIRS; ValuePenguin; LIMRA*	• Account for 47% of the workforce, but almost two-thirds of part-time workers, often with fewer benefits • Career disruptions due to family caregiving results in lost income and ability to grow retirement savings • 41% drop in household income after divorce or separation near retirement, compared to a 23% drop for men • Nearly half of elderly unmarried women receiving Social Security relied on it for 90%+ of income, compared to 22% of all seniors *Sources: DOL; U.S. GAO; SSA*

Aging Population
Budget and Economic Consequences

- Nearly a quarter of today's 65-year olds will live past age 90 (Social Security Administration)
- Today's 10-year olds are expected to live to 104
- California would save $1.4 billion on public assistance programs between 2018-2032 if lower-income retirees save enough to increase their retirement income by $1,000 per year (AARP, 2017)
- 2018 report by the Pennsylvania Treasurer
  - Net difference in state assistance costs for elderly residents from insufficient savings will grow from $700 million in 2015 to $1.1 billion in 2030, for a cumulative $14.3 billion between the 2015-2030 period
  - The loss of consumer spending due to insufficient savings is projected to be a cumulative $40 billion between the same time period, resulting in a cumulative $55.8 billion of lost economic output to the state economy

From Crisis to Opportunity: Look to the States

- For Innovation and Leadership Look to the States
- States Are Driving Change
- Goal To Design Simple, Low-Cost, Easily Accessible and Effective Savings Options
- Expand Access, Coverage and Improve Long-Term Retirement Income Outcomes

11 New Programs (10 States & 1 City) -4 Models

Trend Toward Auto-IRA Model

Auto-IRA ("Secure Choice")	Voluntary Payroll Deduction IRA
California	New York
Connecticut	**Marketplaces – IRAs & 401ks**
Illinois	Washington
Maryland	**401(k) Multiple Employer Plans (MEPs)**
New Jersey	Vermont
Oregon	Massachusetts
Seattle	

Auto-IRA ("Secure Choice") Model

CA, CT, IL, MD, NJ, OR, Seattle

Trend Toward Standardization

- ✓ Board oversight
- ✓ Auto-enroll with opt-out
- ✓ Auto-escalation
- ✓ Employer contributions not permitted
- ✓ Limited set of investment options w/1st dollar flexible investment consideration
- ✓ Fee caps (.5%-1.05% range)
- ✓ Pilot tests prior to rollout
- ✓ Program launch in waves based on employer size
- ✓ Independent/gig workers can use program

*Default Options**

- ✓ 5%
- ✓ Roth IRA
- ✓ Target Date Funds

*OR, IL, CA

Open Multiple Employer Plan (MEP)

MA & VT

- State oversight
- ERISA 401(k) plan
- Voluntary participation
- Auto-enroll with opt-out
- Opportunity for employer matching contributions and higher employee contributions
- Default contribution at 6% with annual auto-escalation of 1-2% up to cap of 12% (MA)
- Fees expected to be well under 1% (20-80 bps for MA)

MARKETPLACE

WA

Current Trend Away From Marketplace Model

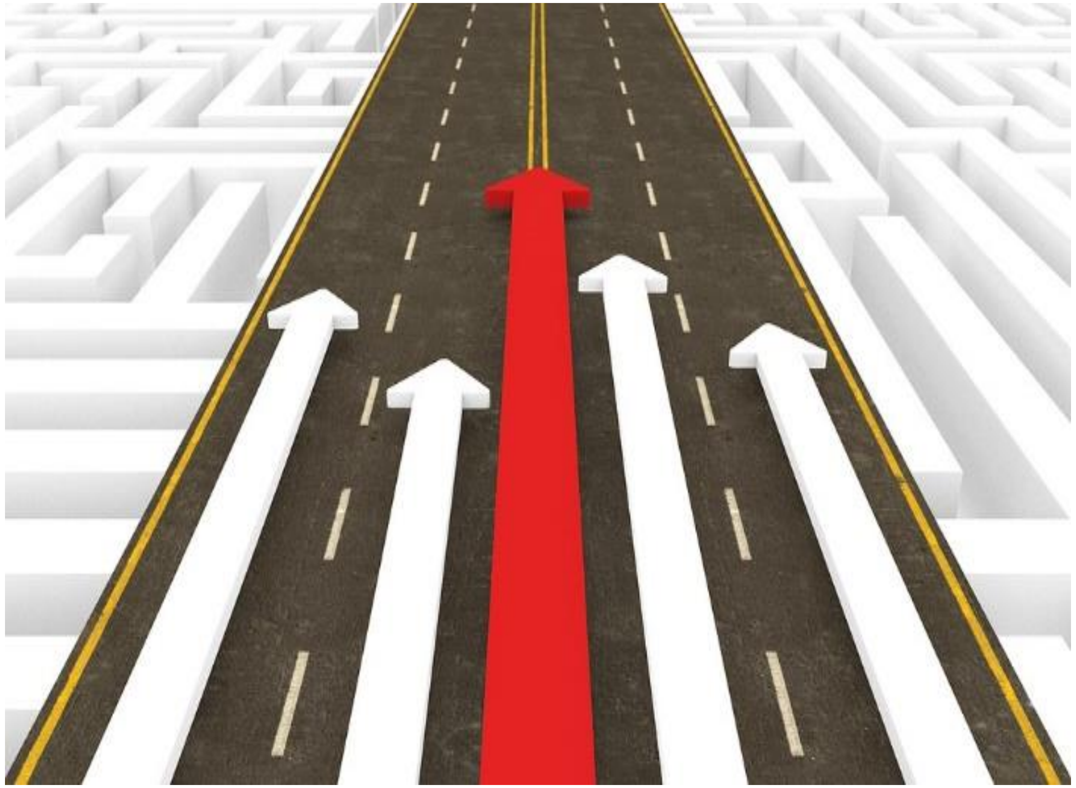
- Managed by State Agency
- Voluntary participation for employers with less than 100 employees
- Payroll deduction IRAs, SIMPLE IRAs, 401(k)s and others can be added (non-ERISA and ERISA options)
- Participating providers must offer at least two product options
- Fees generally cannot exceed 1%

Payroll Deduction IRA
NY

- Board oversight
- Voluntary for employers and employees
- Roth IRA
- Use of auto-enrollment possible if no conflict with federal law
- Many plan design features to be developed by the Board

State Programs: What Are Some Current Trends?

Secure Act will not solve this problem and
State innovation must continue



- ►More new state programs
- ►Movement away from marketplace to auto-IRA model
- ►Multi-state collaboration: agreement between states to achieve scale, keep costs low
- ►Multi-tier approach: combining elements of different models
- ►**It remains to be seen how the Secure Act will help private sector plan innovation and adoption, but, regardless, states will still be needed and play an important role filling the coverage gap**
- ►States helping to put a greater focus on issues such as contingent workforce/gig economy; financial well-being (education, emergency savings, debt burdens, etc.); and outcomes such as investment performance and lifetime income strategies that impact retirement readiness

9 Ways State Programs Transform the Retirement Landscape

1. It will help millions of workers better prepare for retirement
2. It will help small businesses be more competitive
3. It will allow employees to be more mobile
4. It has the potential to assist gig workers
5. It will benefit underserved populations, especially Hispanic workers
6. It will reduce burdens on local, state and federal budgets
7. It will be a model for other states to act
8. It will inspire future innovation
9. It will create new opportunities for the private sector

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