The Impact of Covid-19 on Retirement Security

Wisconsin Retirement Security Task Force

April 29, 2020

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The COVID-19 Storm:
The Damage to Retirement Savings

1. Retirement savings often the only savings
2. Retirement savings used as emergency funds
3. Weakening of existing employer retirement plans
4. Insufficient retirement income and/or working longer to make up for lost savings
5. Significant budget and economic consequences (paying now AND paying later)

From (COVID-19) Crisis to Opportunity:
The Case for State Action Now More than Ever

1. It will help close the coverage gap by offering simple, low-cost, easily accessible options
2. It will help businesses and workers recover more quickly and begin to save again
3. It will allow employees to be more mobile and assist independent & gig workers
4. It will benefit underserved populations
5. It will create new opportunities for the private sector
6. It will drive innovation and more holistic approaches to saving, including building short-term emergency savings
7. It will be an important way to build financial resiliency and strengthen financial well-being
8. It will reduce burdens on local, state and federal budgets

12 State-Facilitated Retirement Savings Programs (11 States & 1 City)

Trend Toward Auto-IRA Model

Auto-IRA ("Secure Choice")	Voluntary Payroll Deduction IRA
California	New York
Connecticut	**Voluntary Marketplace – IRAs & 401ks**
Illinois	Washington (recent bill to shift to Secure Choice)
Maryland	**Hybrid – Voluntary Marketplace & Payroll Deduction IRA**
New Jersey (shifted away from a marketplace)	New Mexico
Oregon	**Voluntary 401(k) Multiple Employer Plans (MEPs)**
Seattle	Vermont
	Massachusetts

Auto-IRA ("Secure Choice") Model

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

Trend Toward Standardization

- ✓ Board oversight with agency-based administration
- ✓ Auto-enroll with opt-out, auto-escalation
- ✓ Employer contributions not permitted
- ✓ Public – private partnerships (multi-year contracts with program administrator, investment manager)
- ✓ Start-up costs; goal self-sustaining
- ✓ Limited set of investment options w/1st dollar flexible investment consideration
- ✓ Fees currently in range of .5%-1.05%
- ✓ Pilot tests; program launch in waves based on employer size
- ✓ Independent/gig workers can use program
- ✓ Authority to partner with other states (OR, IL)

*Default Options**

- ✓ 5%
- ✓ Roth IRA
- ✓ Target Date Funds (TDFs)

*OR, IL, CA

Secure Choice Programs – Characteristics & Participation

	OregonSaves	Illinois Secure Choice	CalSavers
Rollout period	October 2017-January 2021	November 2018-November 2019	July 2019 – June 2022
Account Type	Roth IRA (traditional option)	Roth IRA (traditional option)	Roth IRA (traditional option)
Employer Threshold	All	25 or more employees	5 or more employees
Default contribution rate	5%	5%	5%
Automatic increases	Default 1% to up 10%	Available option	Default 1% up to 8%
Default investment	1st $1,000 into capital preservation fund; then future $ into TDF	1st 90 days into money market; then into TDF	1st $1,000 into capital preservation fund; then future $ into TDF
Participation Data (3/31/20)			
Total Assets to date =$65.5 million	$45.6 million	$17.2 million	$2.5 million
Avg. contribution rate	5.4%	5.0%	5.1%
Avg. monthly contribution	$120	$86	$115
Effective opt-out	29.9%	39.3%	33.1%

Open Multiple Employer Plan (MEP)

MA & VT

- Board oversight
- ERISA 401(k) plan
- Voluntary participation
- Employers can join & plan costs shared
- Auto-enroll with opt-out, auto-escalation
- Opportunity for employer matching contributions and higher employee contributions
- Fees under 1%

MARKETPLACE
WA

- Managed by State Agency
- Voluntary participation and targeted to smaller employers (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

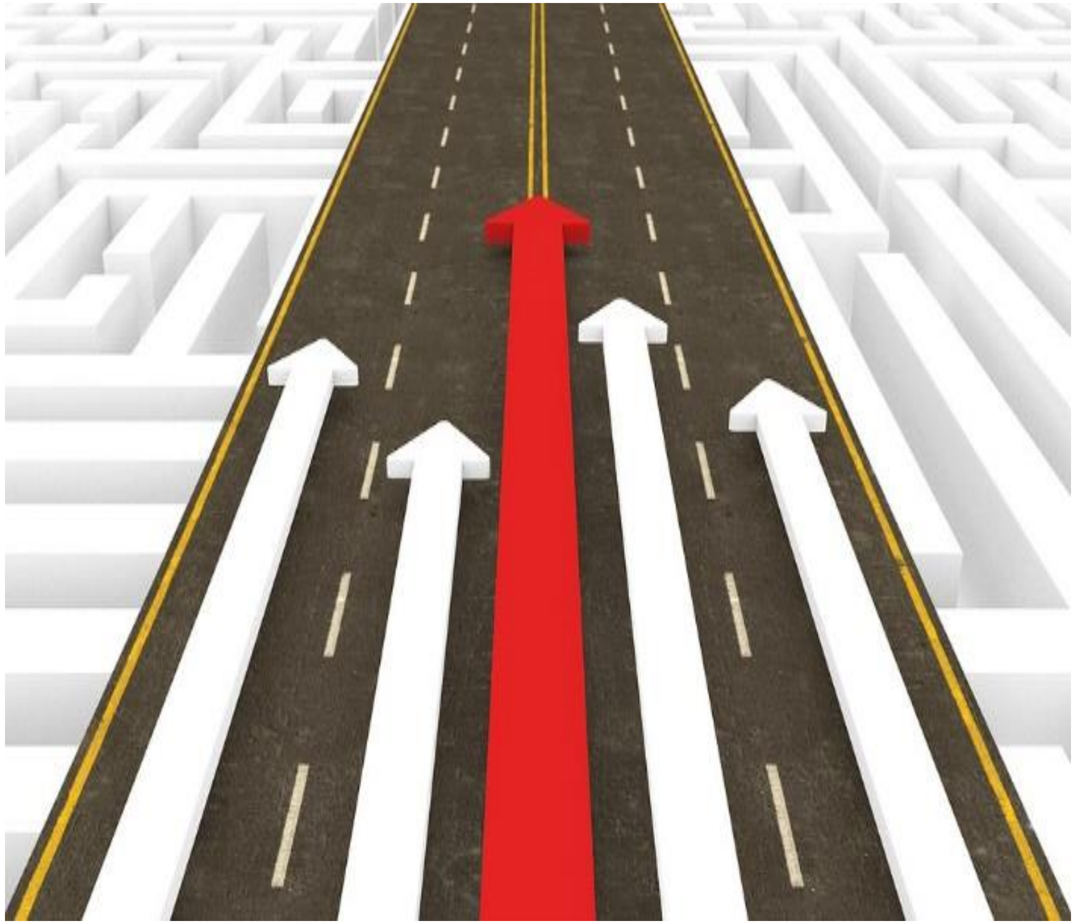
- Board oversight
- Voluntary for employers and employees
- Roth IRA
- Use of auto-enrollment possible if no conflict with federal law
- Many plan design features to be developed by the Board

Hybrid – Payroll Deduction IRA & Marketplace
NM

- Board oversight
- Voluntary for employers and employees
- Marketplace to be implemented by July 2021
- IRA (Roth) program by January 2022

State Savings Programs: Crisis Drives Innovation

Retirement Savings Programs Can Help Strengthen Financial Resiliency



- ►Financial well-being: financial education, emergency savings, student loan debt
- ►Participation: expand who can use the program (youngest workers, children, etc.)
- ►Multi-state collaboration: agreement between states to achieve scale, keep costs low
- ►Administration: efficiencies across all of a state's savings programs (529, ABLE, etc.)
- ►Investments: ESG and other considerations
- ►Lifetime income: integration of solutions and strategies to generate and protect lifetime income

Post-COVID-19:
The Value of State-Facilitated Retirement Savings Programs

1. We do not know yet the full impact of the economic crisis on private sector retirement plans (e.g., the extent of plan terminations, the demand for different options, etc.)
2. We will need to examine the role state savings programs have played in helping thousands of new savers weather the economic storm (e.g., reduced financial stress, provided emergency savings).
3. Existing Secure Choice state programs appear well positioned to help employers and workers more quickly begin to save again as the economy recovers.
4. The implementation of the Secure Act also will help private sector plan innovation by encouraging multiple-employer arrangements, but states will still play an important role filling the coverage gap.

How Can We Build Financial Security?

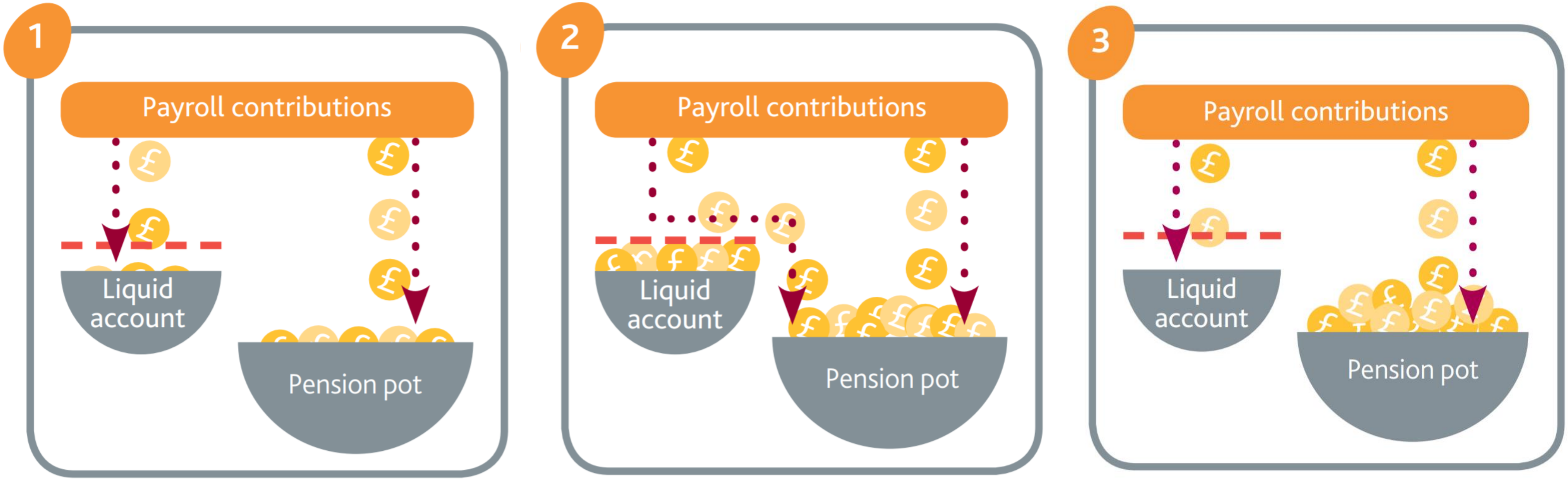
- If you want individuals to save, make it easy
- If you want individuals to save more, make it easy
- If you want employers to help their workers save, make it easy
- And if you want individuals to spend less, make it hard.

-Professor Brigitte Madrian

Key Program Design Considerations

- **State**
  - Responsibilities of the state
  - Program governance & administration
  - Program funding
  - Marketing, outreach and education
- **Employers**
  - Voluntary or mandatory participation
  - Responsibilities of employers
  - Types of employers covered (e.g., size threshold)
  - Use of tax or other incentives
- **Employees**
  - Use of auto-enrollment with opt-out
  - Types of products offered
  - Default contribution levels (& use of auto-escalation)
- **Investment and management of assets**
  - Investment fees
  - Default investment option (e.g., TDF)
  - Other investment considerations (e.g., ESG fund)
  - Lifetime income options
  - Liquidity (e.g., emergency savings)
- **Implementation timeline**
- **Option to partner with other states**

The NEST Insight (UK) Emergency Savings Trial



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