Meeting of the Arkansas Joint Public Retirement and Social Security Programs Committee

THE STATE OF RETIREMENT IN ARKANSAS AND THE STATUS OF STATE-FACILITATED RETIREMENT SAVINGS PROGRAMS

Written Statement

Submitted by

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Chairman Warren, Chairman Hammer, and members of the Joint Public Retirement and Social Security Programs Committee, thank you for the opportunity to submit this written statement for the record on an economic issue of great importance to millions of American workers and families. The views I express in this written statement are my own and should not be construed as representing any official position of Georgetown University.

I am Angela M. Antonelli, a Research Professor and the Executive Director of the Center for Retirement Initiatives (the CRI) at Georgetown University's McCourt School of Public Policy. Before joining Georgetown, I held positions in government, including in the White House Office of Management and Budget during the administration of President George H.W. Bush and then as a Senate-confirmed Chief Financial Officer during the administration of President George W. Bush. Between these two periods of government service, I was the Director of the Thomas A. Roe Institute for Economic Policy at the Heritage Foundation.

One of the greatest fiscal and economic challenges we face today is the weakening of the pillars supporting retirement security (Social Security, employer-provided retirement plans, and personal savings). While employer-sponsored retirement plans have become the primary way private sector workers build retirement savings, employers in the United States are not required to offer retirement savings plans.

Today, an estimated 57.3 million private sector workers (46%) in the United States do not have access to a plan through the workplace.[1] These access gaps are inequitably distributed, affecting more small businesses, and with larger gaps among lower-income workers, "gig" and part-time workers, younger workers, minorities, and women.

A readily available workplace retirement savings plan dramatically increases the likelihood that workers will begin to save for retirement. Although workers can establish their own retirement savings accounts if they lack such access, they rarely do so, with workers 15 times more likely to save for retirement if they have access to a payroll deduction savings plan at work.

Even Americans who have access to retirement savings accounts often do not save enough to maintain their quality of life in retirement. According to a 2015 report by the U.S. Government Accountability Office (GAO), the median amount of those savings for households age 55–64 is about $104,000, which is equal to an inflation-protected annuity of $310 per month.[2] For lower-income households who are less likely to have access to retirement savings plans through their

[1] Antonelli (2020). "What are the Potential Benefits of Universal Access to Retirement Savings? Georgetown University Center for Retirement Initiatives in conjunction with Econsult Solutions, Inc.

[2] United States Government Accountability Office (March 2015). "Retirement Security, Most Households Approaching Retirement Have Low Savings." GAO-15-4019.

employers, the retirement readiness gap is even more stark. Among workers nearing retirement with the lowest 20% of income, 79% have no retirement account assets whatsoever.[3] The average monthly Social Security benefit as of January 2021 is $1,546 per month or an annual equivalent of $18,552 per year. Today, almost one-quarter of elderly households in the United States already rely on Social Security for more than 90% of their income.[4]

Younger generations are also struggling to save because of rising educational costs, student loan debt, housing costs, job insecurity, and other challenges. Unfortunately, two-thirds of working millennials lack any retirement savings, raising concerns about their long-term retirement readiness.[5]

The State of Retirement in Arkansas

The Georgetown University Center for Retirement Initiatives (CRI) recently completed a state-by-state analysis of the benefits of retirement savings for private sector workers who currently lack access.[6] The profile for Arkansas (see **Appendix A**) presents an overview of the current demographic and economic challenges facing the state between now and 2040, and the potential boost to retirement income if workers can begin to start saving early and consistently throughout their working lives.[7] The report also ranks states using some key metrics. A review of the report and the Arkansas profile shows that:

- **Arkansas ranks as the second-worst state in the nation in the percentage of its elderly population that currently relies on Social Security for more than 90% of income (Mississippi ranks the worst).**
- The size of the Arkansas population over the age of 65 will grow more than 20% between now and 2040, by an estimated additional 110,000 residents.
- During this same time, the ratio of working households to support elderly households in Arkansas will drop from 2.6 to 2.2 working households for every one elderly household.
- Arkansas ranks in the bottom third of states in the projected growth in spending by households age 65 and older, reflecting a slower projected growth in income for this population over the next 20 years. A higher rate of growth would mean that more

[3]Munnell and Chen (2020). "401(k)/IRA Holdings in 2019: An Update from the SCF." Center for Retirement Research at Boston College.

[4]Antonelli (2021). "State Benefits of Expanding Access to Retirement Savings." Georgetown University Center for Retirement Initiatives in conjunction with Econsult Solutions, Inc.

[5]Brown (2018). "Millennials and Retirement: Already Falling Short." National Institute on Retirement Security; Munnell and Hou (2018). "Will Millennials Be Ready for Retirement?" Center for Retirement Research at Boston College.

[6]See Antonelli (2021). "State Benefits of Expanding Access to Retirement Savings."

[7]It is important to note that the analysis focuses on workers who are participating in state auto-IRA program in which employers who do not already have a plan are required to facilitate employee participation in the state-facilitated program. States are preempted by federal law (ERISA) from requiring employers to offer a 401(k)/MEP because those are considered employee benefit plans, so employer participation would be voluntary.

seniors have disposable income available to spend (rather than relying more on social safety net programs), which helps to strengthen the state economy.

- Arkansas already ranks in the top third of states with the highest level of per-participant expenditures ($24,400 in combined federal and state funds) for elderly Medicaid participants. Increases in retiree incomes through enhanced savings would limit the growing demand for these programs as the population ages.

As senior households grow both in number and as a share of the population, there will be fewer working households to support the needs of the elderly, non-working population. This demographic shift makes the ability of elderly households to maintain their living standards in retirement an important economic and quality of life issue for all U.S. households.

The Urgency to Close the Retirement Savings Access Gap

A rapidly aging population and differences among generations increase the urgency to address retirement savings shortfalls. **Of the estimated 1.1 million private sector workers in Arkansas, about one-half (497,000) currently lack access to an employer-sponsored retirement savings plan through their workplace.**

Over the next decade, the final wave of baby boomers will reach retirement age, Generation X will approach retirement, and millennials and increasingly Generation Z will be in their prime working years. This shift in population composition also underscores the importance of enabling younger generations like millennials and Gen Z (who, by 2040, will cover the prime working ages of 30–60) to have opportunities to build resources during their crucial savings years to support their financial futures.

Why Are States Acting?

States are now acting out of necessity. For more than 40 years, little has been done to significantly close the access gap for private sector workers. In the absence of any action by the private sector or others to address this issue, states recognized they face significant budgetary and economic consequences if more Americans enter retirement with limited financial resources. Particularly given a rapidly aging population, states will be increasingly pressed to deal with dramatic increases in the cost of social service programs for seniors living at or below the poverty line — programs related to healthcare, housing, food, and energy assistance.

There is also the broader benefit to the economy to consider. Lower incomes in retirement mean that consumers spend less, which reduces the available tax base, but if retirees have more savings and income to spend, they can contribute to the strength of local, state, and national economies.

States Are Designing and Adopting New Retirement Savings Options

Since 2012, at least 45 states have introduced legislation to either establish state-facilitated retirement programs for private sector workers or study the feasibility of establishing such programs. Several states have already taken steps to expand access to simple, low-cost ways to save for those private sector workers who lack access to employer-sponsored retirement savings plans. Support for these innovative state programs among employees and employers is strong and bipartisan.

As of March 2021, there are 14 new state-facilitated retirement savings programs; 13 states (California, Colorado, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New Mexico, New York, Oregon, Vermont, Washington), and one city (Seattle) have enacted legislation to expand the accessibility and effectiveness of retirement savings for private sector workers (and in February 2021, the Virginia legislature sent a new auto-IRA program bill to the governor for signature).[8]

States are implementing several types of programs (see Table 1):

1) Payroll deduction IRAs, usually using automatic enrollment (auto-IRAs), that certain employers are required to offer if they have no other retirement plan;
2) Payroll deduction IRAs that employers can choose to join;
3) Open Multiple Employer Plans (MEPs); and
4) Marketplaces.

All of these program options are voluntary for employees because employees can choose whether and how much to contribute. Eight states (California, Colorado, Connecticut, Illinois, Maryland, New Jersey, Oregon, and Virginia) and the city of Seattle have enacted auto-IRA programs requiring employers that meet certain criteria and have chosen not to establish their own retirement plans to offer the state-facilitated program to their employees. One state (Washington) has a retirement marketplace, two states (Massachusetts and Vermont) have enacted MEPs, one state (New York) has created a payroll deduction IRA program that companies can voluntarily choose to offer, and one state (New Mexico) has a hybrid program- a voluntary payroll deduction IRA and a marketplace.

Each program is at a different stage of implementation. As of March 2021, five programs — Oregon, Illinois, California, Massachusetts, and Washington— are already open to workers.

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[8]For more-detailed information about state programs and legislative proposals, see the Georgetown Center for Retirement Initiatives website at http://cri.georgetown.edu/states/. For convenience, I refer to "states" and "state-facilitated retirement savings programs," even though cities can also adopt these programs.

Others are in various stages of planning and/or implementation, with several states, including Connecticut, Maryland, and Vermont, expected to open to workers in 2021.

Table 1

Existing State-Facilitated Retirement Savings Programs

Individual Retirement Account (Auto-IRA)*	Voluntary Payroll Deduction IRA	Voluntary Open Multiple Employer Plan (MEP)	Voluntary Marketplace
California**	New York	Massachusetts**	Washington**
Colorado	New Mexico****	Vermont	New Mexico****
Connecticut			
Illinois**			
Maryland			
New Jersey			
Oregon**			
Seattle			
Virginia***			

In these states, employers are required to offer the state program if they do not already offer a plan of their own.
***Program open and enrolling workers.*
****Bill passed by Virginia legislature in February 2021 and expected to be signed by the Governor.*
*****New Mexico's program is a combination of both a voluntary payroll deduction IRA and a marketplace.*
Source: Georgetown University, Center for Retirement Initiatives

As of January 31, 2021, more than **$180 million in assets** were in the five open programs, with **$172.5 million of that total in the three auto-IRA state programs:** CalSavers, Illinois Secure Choice, and OregonSaves. In the three states with auto-IRA programs (CA, IL, and OR), there are 278,083 funded accounts and 30,829 registered employers; workers generally are saving at the default contribution of 5%; and average monthly contributions are approximately $100 per month. (See **Appendix B** for more information about all five programs currently open to workers, including the Massachusetts MEP and Washington Marketplace).

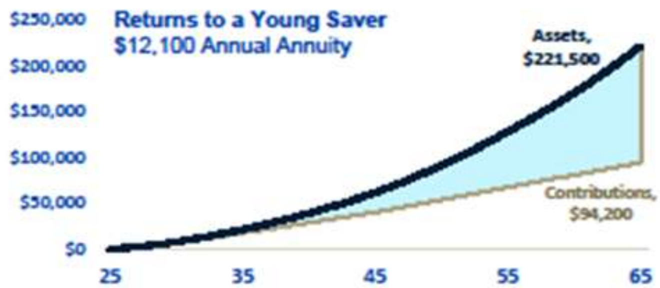
Starting Sooner and Saving Longer Significantly Improves Retirement Income Outcomes

Beginning to save as soon as possible and saving consistently for as long as possible makes an enormous difference in a worker's ability to build savings and convert those savings into retirement income when it is needed.

As part of the state-by-state analysis completed by the Georgetown CRI, we also modeled the potential retirement income generated by young, mid-career, and older savers in each state. The objective was to underscore the importance of starting to save as soon as possible, but even if a worker starts later in life, the possibility of saving enough to help supplement Social Security can still be significant.[9]

Figure 1

Returns for a Young Arkansas Saver Can Be Significant (See Appendix A)



Source: Georgetown University Center for Retirement Initiatives, Antonelli (2021). "State Benefits of Expanding Access to Retirement Savings."

A young Arkansas worker of modest income who begins to save at age 25 and saves a modest amount over 40 years could have contributions into the savings account grow with the potential to have enough assets to generate an additional $12,100 in annual income beginning at age 65. This can be a significant supplement to the average annual Social Security benefit previously noted. **Appendix A** also illustrates the returns for a mid-career and older saver in Arkansas.

Conclusion

As the population of the nation and Arkansas ages, too many over the age 65 are already financially fragile and heavily dependent on Social Security, and almost 50% of private sector workers in Arkansas currently lack access to an employer-sponsored retirement savings plan. While there is still much to be done to significantly improve retirement security, states are taking the lead and adopting new state-facilitated retirement savings programs that are providing important and much-needed opportunities to empower workers to be financially independent and live more-dignified lives in retirement.

Thank you to the Committee and its members for examining this issue and the options for helping more of your citizens prepare for retirement.

[9] For a detailed explanation of the methodology, see Antonelli (2021). "State Benefits of Expanding Access to Retirement Savings."

APPENDIX A[10]

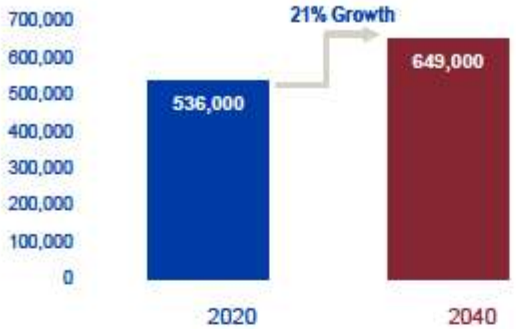
[10] The information in this appendix can be found at: https://cri.georgetown.edu/wp-content/uploads/2021/02/ar.pdf and https://cri.georgetown.edu/wp-content/uploads/2021/02/CRI-Econsult-State_Benefits_of_Expanding_Access_FINAL.pdf

Arkansas

State Benefits of Expanding Access to Retirement Savings

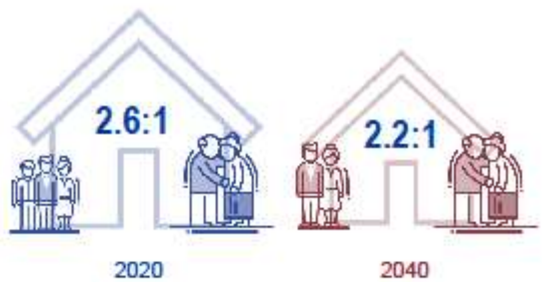
Demographic Change

An Aging Population...



State Elderly Population Growth, 2020–2040
Source: University of Virginia Population Projections

...with Fewer Working-Age Households to Support it



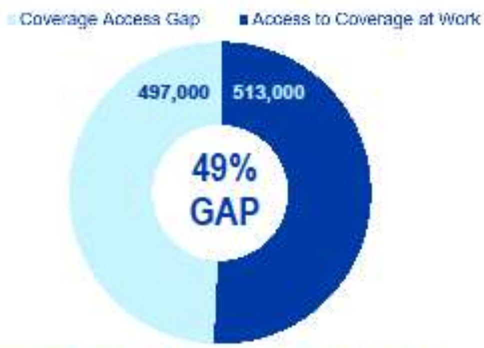
State Ratio of Working Age to Elderly Households, 2020–2040
Source: ESI Analysis of UVA Population Projections

Retirement Savings Access

Employer-sponsored retirement plans are the primary way for private sector workers to build savings, but employers are not required to offer them. Universal workplace access policies, where every firm is required to offer a plan, could significantly reduce gaps in access and expand retirement savings. Because the smallest employers are the least likely to offer coverage, thresholds exempting small employers from coverage requirements reduce the ability to close the access gap.*

Many Employees in the State Lack Access to a Retirement Savings Plan at Work...

1.10 Million Private Sector Employees Statewide



Workplace Access to Retirement Savings Among Private Sector Workers (2020)
Source: ESI Analysis of Census Bureau and BLS Data

...Especially Those Working for the Smallest Employers

Employer Size	Workers Without Access ("Gap")	% of State Access Gap Unaddressed
<5 Employees	57,000	12%
<10 Employees	122,000	24%
<25 Employees	210,000	42%

How Employer Size Thresholds for Providing Coverage Reduce the Ability to Close the Access Gap (2020)
Source: ESI Analysis of Census Bureau and BLS Data

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With grant support from Berggruen

* For further information and national analysis, see: *What are the Potential Benefits to Universal Access to Retirement Savings?*

Savings

Expanding Access Would Grow Savings...

	Auto-IRA (no threshold)	Auto-IRA (employers <10 exempt)
Additional Savers	329,000	243,000
Average Contribution	$2,190	$2,300
Total Contributions	$720 Million	$560 Million

Projected Increases in Savings Within the State in the Year 2040 from Expanded Access

Source: ESI Projections

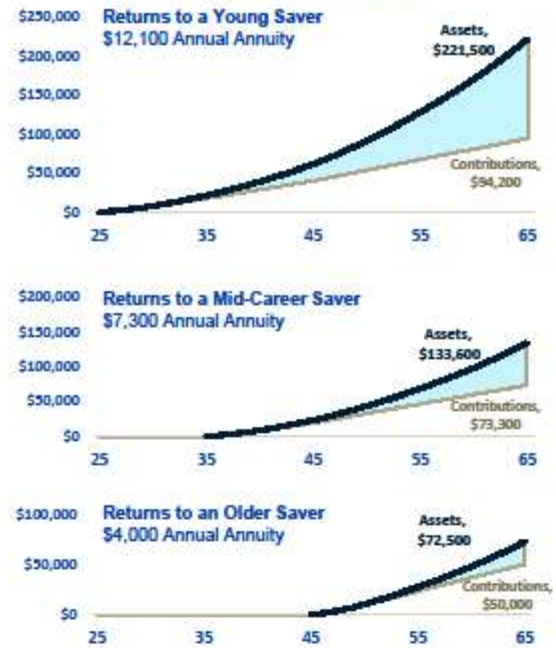
Projected savings levels are highest when the most workers are covered. Savings could be further enhanced through incentives such as a refundable federal Saver's Tax Credit.*

Many Seniors Rely Heavily on Social Security

Share of Elderly Households in the State Relying on Social Security for at Least 90% of Their Income (2018–2019)

Source: ESI Analysis of Current Population Survey Data

...Allowing Savers Across the State to Supplement Their Income in Retirement



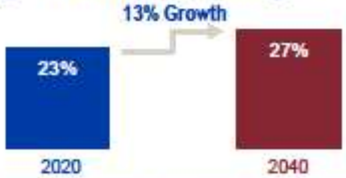
Source: ESI Projections for a Worker at a Small Business Following Auto-IRA Savings Defaults

Economic and Fiscal Impacts

An increase in savings would grow the disposable income available to retirees, boosting the economy because seniors represent an increasing share of household spending power.

Current government expenditures to support low-income seniors through benefit programs like Medicaid are significant. Increases in retiree incomes through enhanced savings would limit the growing demand for these programs as the population ages.

Growing Household Spending...



Share of Statewide Household Spending by Seniors, 2020–2040

Source: ESI Analysis BLS Data

...While Reducing Government Spending

$24,400

Annual Per-Beneficiary Spending (Federal & State) for Elderly Medicaid Recipients, 2017–2018

Source: Centers for Medicaid and Medicare Services

This analysis presents state data and analyses pertaining to an IRA model only, which does not allow for employer contributions. States are preempted by federal law (ERISA) from requiring employers to offer a 401(k)/MEP because those are considered employee benefit plans.*

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* For further information and national analysis, see: What are the Potential Benefits to Universal Access to Retirement Savings?

APPENDIX B[11]

State Infographics

[11] The infographic in this appendix can be found at: https://cri.georgetown.edu/fast-facts/infographics/

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21-06

		OregonSaves[1]	Illinois Secure Choice[2]	CalSavers[3]	
	Estimated *eligible* population of private sector workers in each state who lack access to an employer-sponsored retirement savings plan	1 million	1.2 million	7.4 million	
Program Design	Account Type	Roth IRA (traditional option available)	Roth IRA (traditional option available)	Roth IRA (traditional option available)	
	Employer Threshold	Employers that do not currently offer qualified plans	Employers with 25 or more employees in business for at least two years that have not offered a qualified plan in the last two years	Employers with at least 5 employees that currently do not provide qualified plans	
	Default Contribution	5%, automatically increasing 1% annually until reaching 10%	5%	5%, automatically increasing 1% annually until reaching 8%	
	Default Investment	First $1,000 in contributions held in a capital preservation option. Subsequent funds defaulted into a target date fund.	Funds for the first 90 days after initial contribution held in a money market fund, then defaulted into a target date fund.	Funds for the first 30 days after initial contribution held in a capital preservation fund, then defaulted into a target date fund.[5]	
Participant Data[4]	Total Assets (millions $)	$87.9	$48.8	$35.8	*Across all programs*
	Average Contribution Rate	5.6%	5.02%	5.12%	**$172.5 million** Total Assets
	Average Monthly Contribution	$130	$93.96	$114.22	**278,083** Funded Accounts
	Effective Opt-Out Rate	34.5%	35.57%	29.71%	**30,829** Employers Registered

- All three programs launched an initial pilot program before official statewide launch.
- Employers always have the option to select a qualified plan in the private market.
- Employees may opt out, choose to save to a traditional IRA, or change their contribution level or investment fund option at any time.
- Individuals who are self-employed or gig workers are able to voluntarily join the program.

1 For more information about OregonSaves, go to the program website.
2 For more information about IL Secure Choice, go to the program website.
3 For more information about CalSavers, go to the program website.
4 Participant data as of January 31, 2021 for IL Secure Choice, CalSavers, and OregonSaves.
5 Per proposed regulations. Former default option directed first $1,000 of contributions into a capital preservation fund then into TDF.

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20-10

Massachusetts CORE

Implementation Update[1]

as of December 1, 2020

- The Massachusetts Defined Contribution "CORE Plan" was established to help workers in the non-profit sector who lack access to an employer-sponsored retirement savings plan.
- The program offers participants a simple, portable, low-cost 401(k) multiple employer plan arrangement ("MEP").
- Nonprofit employers with 20 or fewer employees may voluntarily choose to participate (average of 7 employees per employer).
- Employers are permitted, but not required, to make contributions to employee accounts.
- The program launched in October 2017 as the nation's first state-sponsored multiple employer plan for private sector employees.

Current Status

- **Over 90 nonprofit employers have agreed to join the CORE Plan**
- **80% of participating employers have elected to offer matching or nonelective employer contributions**
- **Over 600 eligible employees are covered under the CORE Plar**
- **$6.9 million in assets under management**

- Employees are automatically enrolled at a default rate of 6% unless they opt-out.
- Contribution rates automatically increase by 1% or 2% each year until they reach a maximum of 12% of gross pay.[2]
- Participants can choose from a simplified menu of investmen options, including default target date funds, a managed accounts service, or four objective-based funds including an income fund, a growth fund, an inflation fund, and a capital preservation fund.
- Employee participation is voluntary. Employees may opt-out or choose to change their contribution level or investment options at any time.

Sources:
1: From Massachusetts CORE Plan. For more information, view the Massachusetts CORE homepage.
2: The maximum contribution rate of 12% will increase to 15% on January 1, 2021.

21-02

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Washington Small Business Retirement Marketplace

Implementation Update[1]

as of June 2020

- The Washington Small Business Retirement Marketplace ("Retirement Marketplace") was established to help the more than 1 million workers in the state who do not have access to an employer-sponsored retirement savings plan.
- The Retirement Marketplace provides individuals and small businesses a way to compare and find low-cost, easy to manage retirement plans through a website. The program currently offers nine plans through three financial service firms.
- Employers with fewer than 100 employees may voluntarily choose to participate.
- The program launched in March 2018 as the nation's first state-faciliated marketplace program for private sector employees.

Current Status[2]

- **16 businesses have enrolled in the Retirement Marketplace**
- **23 individual accounts created**
- **$1.3 million in assets under management**

- The Retirement Marketplace offers a range of 401(k) plans, as well as Roth and Traditional IRA options.
- Employers may automatically enroll employees as IRS rules allow but there is no state requirement.

Sources
1: From the Washington Small Business Retirement Marketplace. For more information, view the Retirement Marketplace homepage.
2: Washington Small Business Retirement Marketplace Biennial Report to the Legislature on December 2020.