Bipartisan Policy Center

November 2024

The Retirement Plan Access Gap: Why It Exists, What States Are Doing About It, and Principles for Decisive Federal Action

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ACKNOWLEDGMENTS

The Bipartisan Policy Center appreciates the many individuals who provided expertise throughout our work on this report: Corey Astill, Andrew Biggs, Andrew Blevins, Rhett Buttle, Craig Copeland, Lynn Dudley, Courtney Eccles, Jessica Fulton, Matt Golden, Will Hansen, Diann Howland, David John, Jamie Kalamarides, Tim Keehan, Gary Koenig, Lew Minsky, Shaun O'Brien, Kim Olson, Andrew Remo, Jeff Rosenberger, Tim Rouse, Awesta Sarkash, John Scott, Katie Selenski, Tim Shaw, Chantel Sheaks, Santiago Sueiro, Aron Szapiro, Jack VanDerhei, and Holly Wade. We also spoke with several individuals in the federal government and in many state governments who provided invaluable insight.

BPC also thanks BlackRock, AARP, Guideline, the Pew Charitable Trusts, and Vestwell for their generous support of this work.

The findings expressed in this report do not necessarily represent the view of any individual or organization mentioned above.

Finally, the author thanks BPC colleagues Shai Akabas, Sanya Bahal, Wynton Henderson, Erin Meade, Caroline Osborn, and Rachel Snyderman for their contributions to this report.

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Executive Summary

Americans face challenges saving for retirement. At heightened risk of not saving enough are those moderate earners for whom Social Security benefits alone will be inadequate but who disproportionately lack access to the most effective retirement savings tool available: a payroll-deducted retirement plan provided or facilitated by their employer. In fact, nearly half of U.S. workers lack access to a workplace retirement plan, leaving them unable to benefit from automatic enrollment, regular automatic contribution increases, and default investments—key features in employer-sponsored plans that have become increasingly widespread in recent years.

Small businesses are the least likely to offer a retirement plan benefit to their employees. They predominately cite financial considerations as the major reason, pointing to both the (perceived) cost of establishing a plan and revenues too uncertain to support ongoing costs. Some also cite difficulties fulfilling administrative responsibilities associated with launching and offering a plan, as well as a perceived lack of employee interest in retirement benefits.

The United States has established a system in which an employer-based retirement plan is almost essential to an American's retirement security, but it has not required employers to provide access for their employees. Further, some employers underestimate employees' significant interest in such benefits (greatly diminishing the probability they will offer a plan) and may be unaware of the federal tax incentives available to businesses to offset the cost of starting up and maintaining a plan.

In response to the importance of retirement savings and to the real and perceived obstacles facing employers, 17 state governments have enacted automatic individual retirement account (IRA) programs. These programs give employers a choice between providing a qualifying retirement plan and submitting their employees' payroll information to a provider chosen by the state, which then automatically enrolls eligible workers in IRAs. Recent research shows that implementing an auto-IRA program:

- induces 8%-23% of firms not offering a plan (depending on the state) to begin offering one through the private market;
- increases the probability an employer in the state will offer a 401(k)-type employer-sponsored retirement plan by 7%; and
- increases the number of participants in such plans by 6%.

These successes support the theory that many firms do not offer plans because they overestimate the cost of doing so. When employers evaluate their options under their state program, they may learn that the cost of sponsoring a plan is lower than expected.

Ten state programs are active as of the publication of this report. The programs are similar, although key parameters vary somewhat across states. Importantly, they have all faced challenges, including high opt-out rates among participants and low contribution levels; employer noncompliance; obstructive anti-money laundering rules; and difficulty reaching nontraditional workers. As federal policymakers consider ways to address the access gap on a national level, they should fully understand the opportunities and challenges that state programs have faced.

The Bipartisan Policy Center supports federal action to address this issue. The appetite to do so by both Democrats and Republicans in recent years is heartening. Making a significant dent in the access gap will require ambitious legislation that should observe the following principles:

- Prioritize workers with moderate incomes.
- Leverage and expand key plan features, including payroll deductions, automatic enrollment, default investments, and automatic escalation of contributions.
- Make it as easy as possible for employers to provide access to a high quality retirement plan.
- Maintain a robust and competitive market for private retirement saving solutions.
- Invest in education and customer support for employers and the self-employed.

A federal approach can ensure that all Americans will benefit, from individual workers to business owners big and small. To develop commonsense policy, lawmakers and stakeholders—including employers, industry, researchers, and advocates—must come together at every stage by not just reaching across the aisle but also by bridging the differing interests and priorities among the various parties.

This report is the result of conversations with more than 30 researchers, advocates, industry representatives, policymakers, and other stakeholders. We outline the importance of personal retirement savings and, specifically, access to the type of retirement plan that research shows to be most effective. Then, we describe the current access gap and why it exists, before exploring recent action in the states to close the gap with "automatic IRA" programs. Finally, we use lessons gleaned from our conversations and research to put forward principles for the federal policy needed to address this problem nationwide.

Find definitions of **bolded key terms** in the glossary.

Real Challenges to Retirement Security

For many Americans, the thought of retirement conjures more anxiety than excitement. The traditional "three-legged stool" of pensions, Social Security, and personal savings has mostly lost its pension leg, and the future of Social Security is deeply uncertain.[1,a] Personal savings have taken on more importance than ever before, and workers, researchers, and elected officials increasingly worry that Americans are not saving enough for retirement during their careers.[2]

The reality is complicated, and the situation is not as dire as many people think. Although the country does not face a widespread retirement crisis (as many have dubbed the current situation),[3] it does face real retirement challenges.[4] This report focuses on one of those challenges: Many workers lack access to the most effective retirement savings plans.

In recent years, members of Congress have taken meaningful steps to enhance retirement security. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and the SECURE 2.0 Act of 2022 substantially improved the nation's retirement savings infrastructure, from enhanced incentives for employers to offer plans and for workers to save, to increased flexibility for plan sponsors and administrators.[5] These laws are positive steps, but closing the access gap requires more-ambitious legislation,[6] and states are providing a model for what such legislation could look like.

The Importance of Retirement Savings

Most Americans require personal savings to support a retirement with a reasonable standard of living. Social Security's Old-Age and Survivors Insurance program provides the foundation of income for nearly all retirees, but those benefits replace less than half of preretirement income for the

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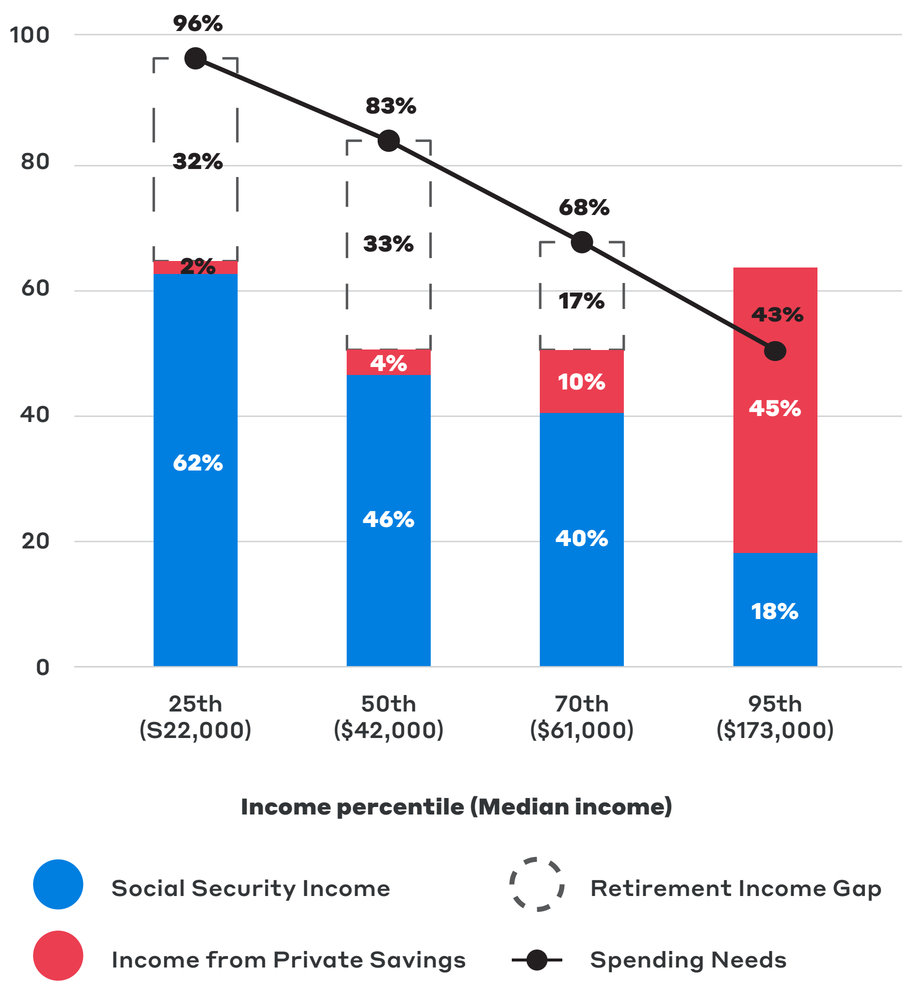
a Even during the period typically seen as "peak pension," not even 40% of U.S. workers had access to a defined benefit pension, and most who did have access never qualified for any benefits. See Andrew Biggs, "The US 'Retirement Crisis' Is a Media Myth," AEI, December 13, 2021. Available at: https://www.aei.org/op-eds/the-us-retirement-crisis-is-a-media-myth/.

average household (one with annual income of around $42,000)[7]—far less than the minimum 70% that most financial professionals advise.[8,b] But the average replacement rate and the average income needed in retirement obscure major differences between retirees. Analysis from Vanguard shows that Social Security benefits replace 62% of preretirement earnings for families at the 25th percentile of earnings, compared with only 18% of preretirement earnings for families at the 95th percentile of earnings.[9] The highest earners, however, have much lower income needs (relative to their working years) after they retire, while lower earners' income needs remain essentially unchanged.[10]

Figure 1: Income Replacement Rates in Retirement for Baby Boom Generation, by Family Income (Percent of Preretirement Income)



Source: Vanguard
Vanguard uses the sum of Social Security income and income from private savings to determine a household's sustainable replacement rate, defined as the highest level of consumption (as a share of preretirement income) that can be sustained in 90% of market return and mortality scenarios.

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[b] Social Security also faces significant fiscal challenges, which will likely require benefit reductions for at least some Americans. Closing the access gap and boosting retirement savings could help promote overall retirement security even in the face of such adjustments.

As Figure 1 shows, households across the income distribution have a significant gap to fill. That gap is largest for median-income families. In fact, Vanguard's analysis shows that among Americans now in their early to mid-60s, median earners' private savings generate only an additional 4% of preretirement income, leaving their retirement income short of spending needs by 33% of preretirement income.[11] The private savings of households with income at the 25th percentile replace only 2% of preretirement income, leaving a 32-percentage-point gap, while households with earnings at the 95th percentile save enough to replace 45% of their preretirement income—more than their spending needs even without Social Security.[12]

For many of the lowest-income retirees, other income supports—such as Supplemental Security Income, the Supplemental Nutrition Assistance Program, and federal housing choice vouchers—will make up some of the shortfall. In addition, Vanguard's analysis uses conservative assumptions about longevity and investment returns that might not reflect the experience of many retirees.[13] But moderate earners are unlikely to qualify for means-tested safety net programs or to have large investment holdings, and even alternative research showing a more optimistic picture of retirement security contains warning signs.[14] One such study calculated substantially higher replacement rates than Vanguard across most of the income distribution. It also found that the lowest-income quintile of retirees will typically have zero income from retirement savings plans at age 72, while for a second-quintile retiree, income from retirement savings plans will make up less than one-quarter of total income at the same age.[15]

Surveys consistently show that Americans have grave concerns about their preparedness for retirement and that they want to save more.[16] Even experts who take issue with the term "retirement crisis" say that saving rates and the retirement-saving infrastructure can both improve.[17]

In part, this anxiety reflects the significant obstacles to saving, whether from insufficient income or lack of access to an employer-sponsored retirement plan, that many American workers face.[18] Growing evidence suggests that the workers who are best equipped to prepare for retirement are those with access to a plan that has four key features:

- Contributions are deducted automatically from the worker's paycheck (as in all employer-sponsored plans).[19]
- Contributions are invested by default into a balanced investment fund (such as a target date fund).[20]
- Eligible participants are enrolled automatically at an adequate contribution level.[21]
- And contributions as a percentage of earnings are automatically increased annually, up to a maximum level.[22]

Adoption of those features by plan sponsors has seen impressive growth in recent years,[23] but many workers still lack access to that necessary benefit.

The Access Gap

As of 2020, nearly half of private-sector employees in the United States lacked access to an employer-sponsored retirement plan.[24,c] This topline access number obscures significant disparities. As shown in Table 1, the most significant predictor of access is earnings, with nearly 80% of workers who earn less than $18,000 per year lacking access, compared with under 20% of those earning at least $78,000. Education level and employer size also have a substantial effect, with much lower rates of access among less educated employees and the employees of smaller businesses, compared with higher-educated employees and those at bigger companies, respectively. Race and ethnicity matter as well: Significantly more than half of white and Asian workers have access, compared with only 47% of Black workers and 36% of Hispanic workers.

Table 1 makes clear that the retirement plan access gap is most acute at small businesses, but even the largest employers do not provide universal retirement plan benefits. Small businesses primarily point to the cost of providing a plan, the associated administrative responsibilities, and a lack of interest by some employees as reasons not to offer retirement benefits.[25] Addressing both the reality and the perception of these three obstacles could help dramatically increase access.

[c] Other research shows a gap as small as one-quarter of private-sector employees, which still represents tens of millions of U.S. workers without access to an employer-sponsored plan. For more detail, see Appendix I.

Table 1: The Access Gap

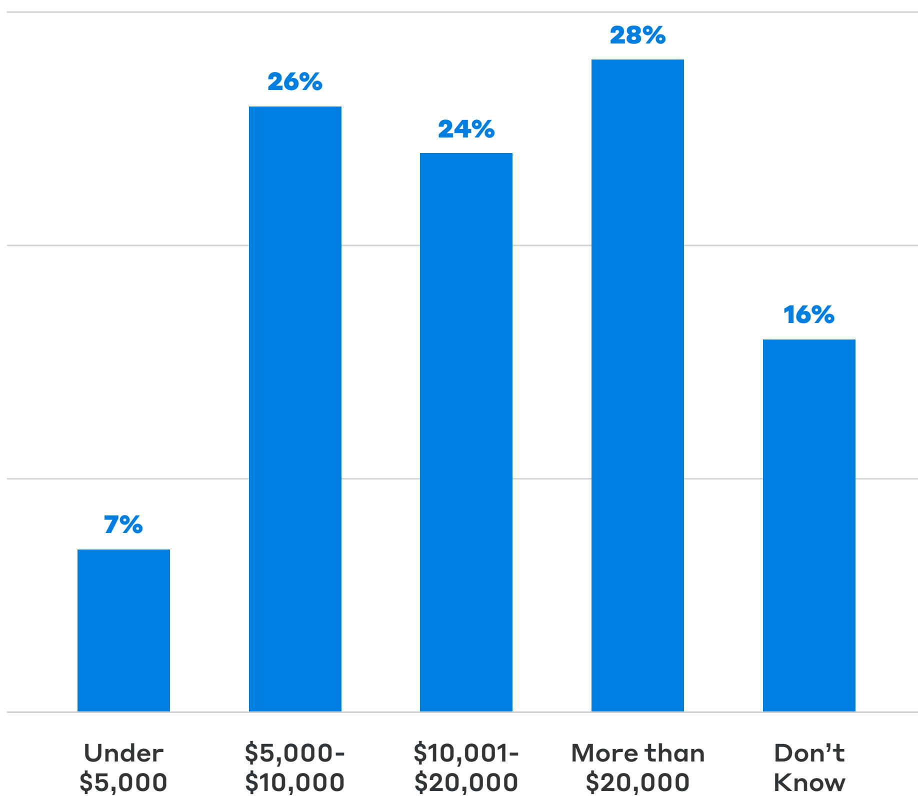
Group		Percentage Without Access to a Workplace Retirement Plan	Disparity Between Subgroups with Greatest and Least Coverage (percentage points)
	All	48%	
Age	18 - 34 years	57%	17
	35 - 44 years	43%	
	45 - 54 years	41%	
	55 - 64 years	40%	
Race and Ethnicity	Hispanic	64%	22
	Black (non-Hispanic)	53%	
	Asian (non-Hispanic)	45%	
	White (non-Hispanic)	42%	
Education	Less than high school	76%	44
	High school	57%	
	Some college	50%	
	Bachelor's or higher	32%	
Gender	Female	49%	3
	Male	46%	
Employer Size	Under 10	78%	44
	10 - 24	65%	
	25 - 99	52%	
	100 - 499	42%	
	500 - 999	37%	
	1,000 +	34%	
Earnings Quintile	$18,000 or less	79%	59
	$18,001 to $31,000	64%	
	$31,001 to $50,000	44%	
	$50,001 to $78,000	29%	
	Over $78,000	20%	

Source: John Sabelhaus, 2022, "The Current State of U.S. Workplace Retirement Plan Coverage."

COST

Small businesses citing financial considerations point to both the cost of establishing a retirement plan and to risks that later revenue might be inadequate to support ongoing costs. Employers' perceptions of startup costs, however, might be outdated: A recent survey of more than 700 small companies found that over half believed the annual cost of offering a retirement plan to exceed $10,000, and only 7% thought the cost was under $5,000.[26] In reality, the smallest employers typically face much lower costs than that. Recordkeeping services provider Guideline, for example, offers employers a 401(k) for $89 per month, plus $8 per participant per month—just over $2,000 per year for a 10-employee business.[27] Moreover, because of federal legislation passed in 2019 and 2022, that same 10-employee business owner is eligible for annual tax credits of up to $3,000 annually for three years to offset these costs.[28]

Figure 2: Small Employers' Perceptions of Annual Costs of Offering a Retirement Plan, 2023



Note: Percentages do not sum to 100 due to rounding.
Source: Center for Retirement Research at Boston College

Unfortunately, less than one-quarter of small-business owners know that such robust tax credits exist, and most are only aware of 401(k)s over a wide variety of less expensive plan options, **including Simplified Employee Pensions (SEPs)** and **Savings Incentive Match Plans for Employees (SIMPLEs)**; **Multiple Employer Plans (MEPs)** and **Pooled Employer Plans (PEPs)**; **Starter 401(k)s**; and **payroll deduction IRAs** (which serve as the foundation of the automatic-IRA programs cropping up in many states, a topic this paper discusses in detail below).[29]

PEPs

The SECURE Act created pooled employer plans (PEPs), which allow multiple employers to jointly offer a retirement plan, thereby reducing the administrative responsibility, fiduciary liability (see footnote e), and cost that an individual employer faces. This legislation generated significant optimism about the potential of these plans to expand access, but adoption has been disappointing. The number of multiple employer plans (MEPs), of which PEPs are a subclass, saw essentially no growth in 2021, the first year PEPs were allowed, and a downtick the following year.[30] Filings to create such plans peaked at 142 in 2021 and have been declining since.[31] Further, only 1 in 5 small businesses has any familiarity with PEPs or MEPs, limiting their adoption.[32]

It remains possible that momentum will build. But PEPs are just the latest in a series of new plan types that, dating back to the birth of SEPs in 1978, Congress has created to encourage more small businesses to offer retirement benefits. Despite these creative models, the access gap remains large.[33]

Nonprofit employers can face even greater cost concerns because they are ineligible for the tax credits that Congress has implemented for for-profit small employers.[d] Unsurprisingly, a recent survey showed that only 16% of the smallest nonprofits (those with a budget of under $500,000) offer their employees retirement plans.[34] Among nonprofits surveyed that do not offer plans, 87% were familiar with 401(k)s and 57% were familiar with the equivalent for nonprofits, **403(b)s**, but only around 20% knew about SEPs and SIMPLEs.[35]

[d] A bipartisan bill introduced in the Senate in August 2024, the Small Nonprofit Retirement Security Act (S. 4965), would change this.

ADMINISTRATIVE RESPONSIBILITIES

Employers of all sizes cite administrative responsibilities as a major obstacle to providing retirement plans, but this can be particularly difficult for small businesses to surmount. Small-business owners wear many hats, and navigating the retirement plan landscape can be daunting. Launching a plan is only the first step, after which a plan sponsor, subject to the Employee Retirement Income Security Act (ERISA), must regularly provide information and government-mandated notices to employees, field questions and concerns from plan participants, provide information to government agencies, and assume fiduciary responsibility for the plan's investment options.[e] Still, although most small firms believe administering a retirement plan requires several days of additional work each month, it actually takes much less time.[36]

Stakeholders have suggested in conversations with BPC that small-business owners typically are not concerned about fiduciary liability, but that is likely because they are not aware of it. If small employers became better informed about the costs and benefits of offering a retirement plan, they would likely rate fiduciary liability—and the cost of protecting against it—a higher barrier.

Large employers generally consider administrative responsibilities less of an obstacle due to their ability to dedicate more resources to managing benefits. Not only do larger employers typically have bigger human resources teams, but those businesses are also much more likely to outsource payroll functions to a provider that is integrated with their retirement plan provider. Smaller companies, on the other hand, are more likely to do payroll in-house. Some small employers outsource payroll functions, which makes certain aspects of sponsoring a plan easier, but small businesses are the least likely to have the resources needed for a comprehensive outsourcing contract encompassing payroll and plan administration.

Some large companies also grapple with administrative challenges related to their retirement plan, especially when their workforce is largely short term, seasonal, or transient. Large retailers, for example—which employ approximately 32 million Americans[37]—often hire workers in their late teens or early 20s who stay in the job for under three months. Enrolling all these employees in a retirement plan could be a nearly insurmountable administrative challenge and would produce many small-dollar, orphaned accounts. In addition, these positions (which also tend to pay lower wages) are often part-time and second jobs, and the workers might prioritize cash compensation over benefits.

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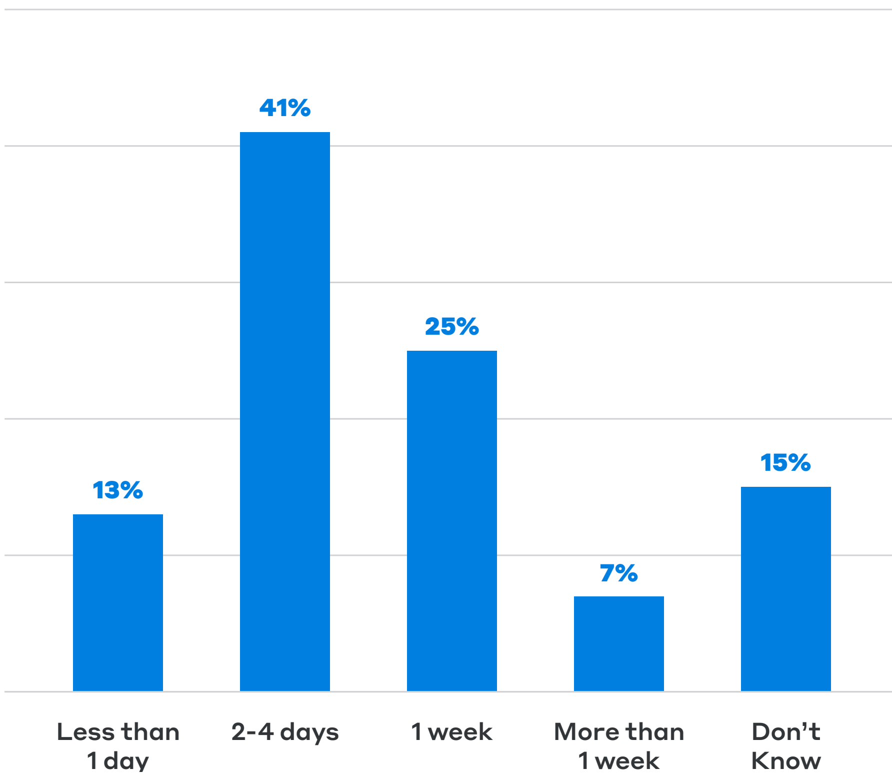
e ERISA requires plan fiduciaries, including plan sponsors, to "run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses," according to the U.S. Department of Labor. Although this requirement is seemingly straightforward, what it means in practice can be complex. For more, see Department of Labor, "Fiduciary Responsibilities," accessed September 14, 2024. Available at: https://www.dol.gov/general/topic/retirement/fiduciaryresp.

Figure 3: Small Employers' Perception of Monthly Time Required to Administer a Retirement Plan, 2023



Note: Percentages do not sum to 100 due to rounding.
Source: Center for Retirement Research at Boston College

EMPLOYEE DEMAND

The strongest predictor of whether a small business will provide a retirement plan is its assessment of how important the benefit would be for hiring and retention.[38] BPC heard from multiple industry representatives that they perceive a lack of interest in retirement benefits from employees, especially those in jobs that are temporary or typically short term and with relatively low pay. Among small businesses not planning to offer a retirement plan, one-third cited employees' preference for wages over benefits as a major reason for not offering a retirement plan.[39] (This is a significant decline from 1998, when half of such small businesses cited employees' preference for wages.[40]) In a different study, 17% of small employers without a plan said that employees' lack of interest was the main reason they did not offer one.[41] Small businesses also expressed concerns about being overly paternalistic to employees, preferring to provide 100% of compensation through wages.

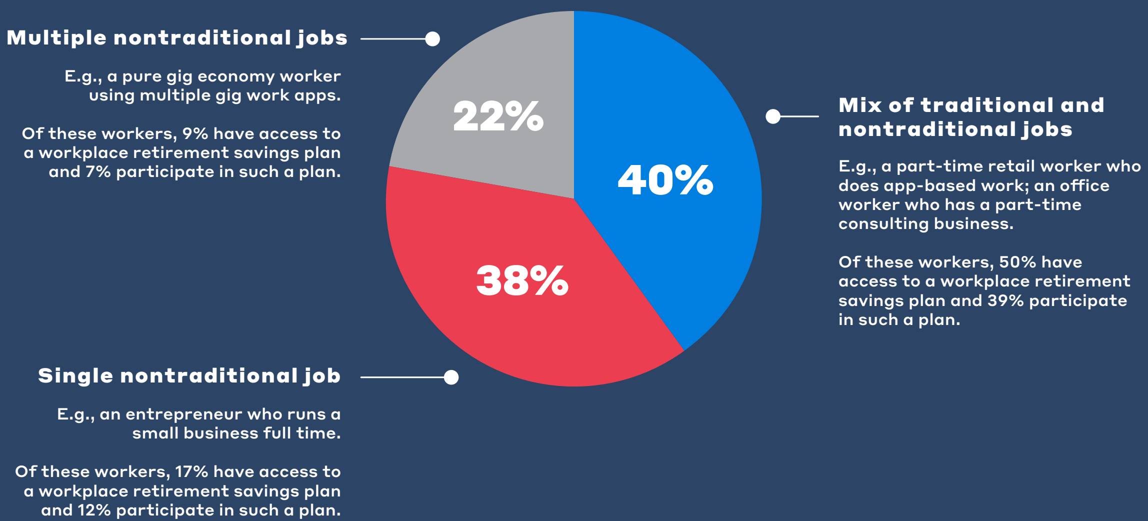
But employers may be underestimating the value of retirement benefits to their employees (and to their retention). In a survey from Guideline, 93% of employees said that a retirement benefit influences their decision about whether to join a company, but only 36% of employers said retirement plans were one of the top three workplace benefits most valued by prospective employees.[42] A different survey showed that 72% of employed voters listed a retirement plan as one of the most important job-based benefits over the next 10 years, second only to health insurance.[43]

NONTRADITIONAL WORKERS

Nontraditional workers, such as independent contractors, gig workers, and the self-employed, can face unique barriers to saving for retirement. A 2017 survey of 500 such workers found that 40% lacked an active, formal retirement plan.[44] Of those, 38% said they did not earn enough to save, 31% said they did not get paid on a predictable enough schedule to facilitate saving, 12% said retirement plans were too expensive, and 8% said freelancers had no good retirement plan options.[45] Unfortunately, reliable data on these workers' experiences and needs—especially postpandemic—remains sparse, leaving policymakers without strong guidance on possible solutions.

Estimates of the percentage of American workers in nontraditional jobs range from 4% to 40%, due both to different data sources and to different definitions of nontraditional work.[46] In general, nontraditional workers fall into three categories, each with distinct challenges and needs, as a Pew survey of 1,000 such workers showed.[47]

Figure 4: Three Categories of Nontraditional Workers



Source: Pew Charitable Trust

Nontraditional workers face no shortage of retirement savings plan options, as they have access to IRAs, SEPs, SIMPLEs, and **solo-401(k)s**.[48] What nontraditional workers often do lack is the ease and simplicity of an employer-sponsored plan with related features, such as payroll-deducted contributions, automatic enrollment, default investments, and automatic escalation. In addition, irregular incomes and less job stability can make it difficult to contribute regularly to a retirement plan.[49] For entrepreneurs, this is one of the many inherent risks associated with leaving a traditional job. But for those whose only or best option is gig work, the lack of access to an effective retirement savings plan puts them at a significant financial disadvantage.

States' Automatic IRA Programs

The United States has established a system in which an employer-based retirement plan is almost essential to a worker's retirement security, but the government has not required employers to provide access for their employees. As discussed above, the access gap largely exists because some employers believe it is too costly or complicated to provide retirement benefits or think that their employees are not interested in such benefits. In response, 17 state governments have implemented "automatic IRA" programs.[50] These programs give employers a choice between providing a qualifying retirement plan and submitting their employees' payroll information to a provider chosen by the state, which then automatically enrolls eligible workers in IRAs. (Employees can opt out at any time.) Employers must then facilitate payroll deductions, which typically entails a simple addition to their payroll process carried out by their payroll service provider or, in some cases, the employer itself.

To enroll workers in the program, employers only need to forward payroll information to the state program, surmounting the obstacles of cost and complexity. This ease is paired with a requirement that employers offer a retirement benefit and implement automatic enrollment of participants (typically alongside automatic escalation of contributions). These features help overcome behavioral inertia—a phenomenon that sees employers that have not provided plans continuing to not provide plans, and individuals who do not save or save too little continuing to do so.

Economic modeling suggests that these programs can increase a typical low earner's assets at age 68 by nearly 25%, with greater benefits accruing to workers who began saving earlier.[51] Previous BPC research modeled by the Urban Institute estimated that near-universal access to workplace retirement plans would increase average income in retirement by 4%-5% for middle earners, with much larger gains for those who acquire access for the first time.[52] Early evidence suggests that state programs are making progress toward meeting these projections and effectively expanding access to employer-sponsored or employer-facilitated retirement accounts.

The three most mature state programs—those in California, Illinois, and Oregon—have enrolled a combined 800,000 participants without cannibalizing employer-sponsored plans.[53] In fact, new-plan creation accelerated in all three states following implementation of their respective programs (and requirements to offer plans), while the rate of plan termination did not change.[54] Recent research supports the argument that automatic IRAs and the private market are highly complementary: Implementation of an auto-

IRA program induces 8%-23% of firms not offering a plan (depending on the state) to begin offering one through the private market.[55] Other research shows that implementing an auto-IRA program increases by 7% the probability that an employer in the state will offer a 401(k)-type plan and boosts the number of participants in such plans by 6%.[56] In part, these findings support the idea that many firms do not offer plans because they overestimate the cost of doing so. The state auto-IRA programs induce employers to take a second (or first) look at the cost of sponsoring a plan, which they may learn is lower than expected.

Ten state programs are active as of the publication of this report. Overall, they are similar. In all 10 programs, payroll information is passed from participating employers to the plan administrator chosen by the state (either Vestwell or Ascensus). The administrator then enrolls eligible employees, who can opt out at any time; self-employed workers can opt in. In addition, two key defaults are common across the state programs:

- The account type is a **Roth** IRA, although participants in some states can choose a **traditional** IRA instead.
- After a certain "capital preservation period," all contributions are invested in a **target date fund** unless the participant chooses an alternative.

Other parameters, however, vary. (See Table 2.)

Size of Employer: In three states (CA, MD, and OR), all employers are required to provide coverage regardless of how many workers they employ. Most states (CO, CT, DE, IL, and ME) exempt employers of fewer than five people from the automatic IRA requirements, and two states (NJ and VA) exempt employers of fewer than 25. Most of these thresholds were phased in over time.

Contribution Rates: Most state programs employ both automatic enrollment and automatic escalation, starting participants at a contribution level of 5% of earnings and increasing that level by 1 percentage point per year, up to 8% (CA and CO) or 10% (DE, IL, MD, ME, OR, and VA). Two states (CT and NJ) enroll participants at 3% and do not automatically escalate their contributions.

Capital Preservation Periods: To provide an additional buffer for individuals who might want to opt out of participating before their payroll deductions are invested, all 10 state programs keep initial contributions in a fund, such as a money market fund, intended to preserve capital. In seven states (CA, CO, DE, ME, NJ, OR, and VA), this capital preservation period is 30 days, after which all contributed funds are shifted to the target date fund (or to an alternative chosen by the participant), to which all future contributions are also directed. In Connecticut and Illinois, this period is 60 and 90 days, respectively. Maryland's program directs the first $1,000 of each participant's contributions to a short-term emergency savings fund. Subsequent contributions are then directed to the target date fund (or to the alternative chosen by the participant).

Fees: Most states fund program administration by charging participants a flat fee and a percentage of assets. The flat fee ranges from $4 per quarter to $7.50 per quarter, and the percentage fee ranges from 0.18% of assets to 0.85%, depending on the state and the individual's investment selection.

Enforcement: Eight of the 10 active state programs include statutory penalties for noncompliance, but only three have begun enforcement.

- In Oregon, employers that remain noncompliant with the auto-IRA law two years after their registration deadline and after receiving three notices from the state are subject to an annual fine of $100 per eligible employee (up to $5,000).
- Illinois began enforcement in 2023 for employers whose deadline was in 2018 or 2019. Employers that remain noncompliant 120 days after receiving notice face a penalty of $250 per eligible employee for the first full calendar year of noncompliance and $500 per eligible employee in each subsequent year of noncompliance (regardless of whether those years are consecutive). The total fine is not capped.
- California sends notice of noncompliance approximately six months after a participation deadline. Employers that remain noncompliant 90 days after receiving notice face a penalty of $250 per eligible employee. Employers that remain noncompliant 180 days after receiving notice face a penalty of $500 per eligible employee per year. The total fine is not capped.

Enforcement and penalty structures in five of the remaining states (CO, DE, ME, NJ, and VA) are yet to be fully developed and implemented. Based on the laws, enforcement and penalties will likely resemble those in California, Illinois, and Oregon, with annual fines of $100 to $500 per eligible employee after a reasonably long period of noncompliance and notices from the state.

Two states have different enforcement mechanisms. In Connecticut, the state may bring a civil action against a noncompliant employer, but state law does not specify fines. Maryland lacks a formal enforcement regime but waives the state's annual $300 business filing fee for compliant employers, and noncompliant employers may not receive that waiver.

See Appendix II for a full state comparison.

Table 2: Key Features of Active State Auto-IRA Programs

	Enacted/Effective	Size Threshold (# of employees)	Default Contribution (%; initial rate, increment, max rate)	Capital Preservation Period (days)
Oregon	2015/2017	1	5, 1, 10	30
Illinois	2014/2018	5	5, 1, 10	90
California	2016/2018	1	5, 1, 8	30
Connecticut	2016/2022	5	3	60
Maryland	2016/2022	1	5, 1, 10	*
Colorado	2020/2023	5	5, 1, 8	30
Virginia	2021/2024	25	5, 1, 10	30
Maine	2021/2024	5	5, 1, 10	30
New Jersey	2019/2024	25	3	30
Delaware	2022/2024	5	5, 1, 10	30

*First $1,000 goes into an emergency savings account.
Sources: Program websites and Georgetown University Center for Retirement Initiatives, accessed July 2024.

Polling shows that small- and medium-sized business owners and the public overwhelmingly support auto-IRA programs, with business owners highlighting these programs' ability to help employees and to make them more competitive in recruiting workers.[57] On the other hand, some remain wary of adding responsibilities to small-business owners, who already play a wide variety of roles. This concern underscores the need for legislators to pursue reforms that make providing retirement coverage as easy as possible. Large employers, which often have employees in many different states, have concerns about a growing patchwork of reporting requirements across states.

CHALLENGES TO STATE PROGRAMS

Although state auto-IRA programs have made headway in closing the gap in retirement plan access, without federal action, workers in the 33 states and the District of Columbia that lack programs will not benefit, nor will employees of employers exempt from the laws. Even in the states with active programs, enrolling all eligible workers and expanding retirement security still face significant hurdles. As federal policymakers consider ways to address this issue on a national level, they should understand and learn from the challenges that states have faced.

Opt-Out Rates, Contribution Levels, and Withdrawals: In two of the earliest programs established, 36% (CA) and 39% (IL) of eligible participants have opted out of participating (as of August 2024).[58,f] Although alarming to some, these opt-out rates assuage concerns that workers not earning enough to save will be caught unaware by automatic enrollment and will end up without enough income to pay their bills. In addition, these rates mean that more than 60% of enrolled workers without access to a retirement plan previously are now saving for retirement.

Perhaps greater threats to retirement security are low contribution levels and the frequency of withdrawals. Among the three oldest plans (CA, IL, and OR), which have over 800,000 total funded accounts, participants contribute only $188 per month on average.[59] Moreover, nearly one-third of participants withdraw some or all of their balance each month, suggesting that some participants treat their auto-IRAs as emergency savings accounts more than as retirement accounts.[60,g]

Employer Compliance Challenges: A requirement that employers provide access for their employees does not necessarily breed compliance. As outlined above, most states with auto-IRA policies have not begun enforcing their coverage requirements, and developing an effective enforcement mechanism could take time. Absent such a mechanism, millions of workers may not have the same opportunity to save as their counterparts at compliant employers.

The Customer Identification Program (CIP): CIP is the first step of broader "Know Your Customer" rules, which verify the identity, suitability, and risks of a current or potential account holder.[61] CIP confirms that a potential account holder exists and is the person he or she claims to be. Financial institutions check consumer information against an existing database, such as LexisNexis, to verify four datapoints: name, date of birth, Social Security Number or Individual Taxpayer Identification Number, and address.[62] Once verified, the financial institution can establish an account.

The impetus for these rules was the 1970 U.S. Bank Secrecy Act, an anti-money laundering law requiring financial institutions to verify information provided by the consumer to help prevent financial crime, and by the USA PATRIOT Act of 2001, which aimed to prevent the financing of terrorism.[63] These laws, however, were enacted before the prevalence of online-only banks or the automatic enrollment of workers into retirement savings accounts. The PATRIOT Act, for example, anticipated that prospective bank customers would open an account by physically walking into a financial institution and presenting their ID to a bank employee for inspection. Although banks have created new technologies, such as real-time video conferencing for ID

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[f] Oregon, the state with the oldest auto-IRA program, does not publish opt-out rates.

[g] Because these accounts are overwhelmingly Roth IRAs, withdrawals of contributions are not subject to taxes or penalties.

verification, millions of prospective savers still fail CIP checks and are unable to verify their identities to open accounts.

CIP rules have prevented the state programs launched before 2024 from enrolling more than 2 million employees—nearly half of all eligible employees in some states—even though state programs pose little or no risk of financial crime.[64] With three new state auto-IRA programs implemented in 2024 and an additional seven in varying stages of the implementation process, the number of CIP failures—and workers prevented from accessing a valuable retirement-saving tool—will only increase in the coming years.

Interactions with Benefits Programs: Eligibility for several public benefits programs, such as Medicaid, Supplemental Security Income, and Temporary Assistance for Needy Families, is limited to those with asset levels below certain thresholds—just $2,000 in many cases. But someone contributing only $100 per month to a retirement account would reach that threshold in under two years. This modest contribution level is far less than the average contribution in the most established state programs and is the default initial contribution for someone earning only $24,000 per year. By allowing the default plan design to take effect, low earners could find themselves ineligible for the benefits they rely on. Those who are aware of the risk might choose to stop saving, spend down their accumulated retirement assets early, or both to retain eligibility.

Payroll Integration and Customer Service: Many employers outsource payroll to a provider, such as ADP, Intuit, or Paychex, but only some payroll providers are integrated directly with state auto-IRA programs. Employers that use nonintegrated payroll providers often receive less support and experience longer onboarding timelines as they sign up for the programs. This can slow compliance and exert upward pressure on program fees, as the state-chosen plan administrators must do additional work to enroll participants.

Nontraditional Workers: Because employers facilitate automatic enrollment, workers without traditional employers do not benefit. Although nontraditional workers can opt into the auto-IRA plans, few do. As of August 2024, only 0.5% of funded accounts in the three longest-running programs (CA, IL, and OR) were self-enrolled.[65] The nature of nontraditional work places the responsibility for setting up and contributing to a retirement savings account squarely with the worker, and auto-IRA programs are not structured as a solution for nontraditional workers.

Principles for Federal Action

As demonstrated by the SECURE and SECURE 2.0 Acts, members of Congress have shown a bipartisan desire to improve retirement security, but making a significant dent in the access gap will require more-ambitious legislation. BPC supports such an effort and recommends that any federal policy observe the following principles:

1. **Prioritize workers with moderate incomes.** Increasing access to payroll-deduction retirement savings accounts will have the greatest impact on moderate earners, who might earn enough to save for retirement and could greatly benefit from key saving incentives such as the **Saver's Match**. These workers also disproportionately lack access to retirement plans, suggesting a role for government in ensuring that their employers provide or facilitate coverage. On the other hand, increasing access would have only a marginal effect on most higher earners, who already save sufficiently, and on the lowest earners, who often do not make enough to save and might instead require greater support from Social Security and other social programs in retirement.[h]
2. **Leverage and expand key plan features.** The most effective retirement plans automatically enroll eligible participants, deduct contributions directly from payroll, invest contributions in an appropriate investment fund by default, and automatically increase participants' contributions annually (up to a defined percentage of income). As much as possible, any solution should also prioritize portability between jobs, especially given today's increasingly transient workforce.[66] In addition, default contribution levels and default investments warrant significant consideration to ensure that participants' savings meet the challenges of changing economic and demographic landscapes, including potentially declining **equity premiums** and longer lifespans.[67]
3. **Make it as easy as possible for employers to provide access to a high quality retirement plan.** Small employers and those with short-term or transient workforces in particular express significant concerns about the cost, both financial and administrative, required to provide and maintain a plan. Effective public policy should ensure that an employer of any size can start and administer a retirement plan (including abiding by any reporting requirements) with a manageable investment of money and time.

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h For example, BPC has long recommended establishing a Social Security basic minimum benefit (BMB). The BMB would ensure a minimum level of income for beneficiaries, and it would be calculated so that benefits would always increase with additional covered earnings. This would preserve the incentive for lower earners to continue working. See Bipartisan Policy Center Commission on Retirement Security and Personal Savings, *Securing Our Financial Future*, 92-94, June 2016. Available at: https://bipartisanpolicy.org/report/retirement-security/.

4. **Maintain a robust and competitive market for private retirement savings solutions.** A strong commercial market for voluntary retirement plans encourages innovation and promotes competition, driving quality up and prices down.[68] Private-sector providers have played an integral role in strengthening retirement savings by providing 401(k)-type plans, and the state auto-IRA programs have shown the value of public-private partnerships. Now, commercial dynamism remains necessary to close the access gap, and federal action should promote competition rather than diminish it.
5. **Invest in education and customer support for employers and the self-employed.** The retirement plan industry is complex, and additional federal policy will only make it more so. Policymakers must pair decisive action to close the access gap with robust, consistent, and effective outreach to, and assistance for, employers. Self-employed and nontraditional workers, too, would benefit from significant education about their options for saving for retirement.

The Path Forward

State auto-IRA policies represent a positive step toward closing the retirement plan access gap, but a federal approach is necessary to advance retirement savings nationwide. Building on the successes of the SECURE and SECURE 2.0 Acts, Congress should learn from the state programs' successes and challenges and consider the needs of both workers and employers to develop the most effective policy.

A nationwide approach will need to contend with concerns about the costs of providing retirement plans to employees, especially for small businesses, and a widespread lack of awareness of existing employer options. It will also need to address the challenges that state auto-IRA programs are facing, including suboptimal compliance and participation, obstructive anti-money laundering regulations, and potential unintended interactions with vital public benefits programs.

Developing and implementing a successful federal policy to close the access gap will require a strong coalition—not only of a bipartisan group of lawmakers but also of stakeholders spanning the full range of interests and priorities. Such a solution will benefit workers and businesses alike, while moving the nation closer to a cherished goal: financial security for all retired Americans.

Glossary

Equity premium: the excess return that stock market investments provide over a risk-free rate.

Multiple Employer Plan (MEP): a single 401(k)-type or traditional pension-type plan adopted by two or more employers for their combined employees; the employers must typically be part of the same group or association or otherwise share a business interest.

Payroll deduction IRA: a traditional or Roth individual retirement account (IRA) that an employee establishes and for which they authorize payroll deductions (contributions taken directly from their paycheck)

Pooled Employer Plan (PEP): a type of MEP that allows two or more unrelated employers to adopt a single 401(k)-type plan for their employees.

Roth IRA: an individual retirement account to which contributions are taxed up front; qualified distributions are tax- and penalty-free, and account holders are not required to take distributions at any point.

Saver's Match: a matching contribution from the federal government of up to 50% for qualified retirement plan contributions of up to $2,000 made by an individual; the match becomes available in January 2027, replacing the Saver's Credit, a nonrefundable tax credit for making such contributions.

Savings Incentive Match Plan for Employees (SIMPLE): a plan that allows employers of less than 100 employees to set up traditional IRAs on behalf of their employees; employers are required to contribute to the IRA, either as a matching contribution or a nonelective contribution of 2% of compensation to each plan. Employees can contribute.

Simplified Employee Pension (SEP): a plan that allows employers to set up traditional IRAs on behalf of their employees; only the employer (including a self-employed person) can contribute to the IRA, and contributions can vary year to year.

Solo 401(k): a 401(k) plan available to self-employed individuals who do not employ others or who operate their business with their spouse; annual contributions are limited to the sum of the employer and the employee limits for a standard 401(k) or 25% of adjusted gross income, whichever is lower.

Starter 401(k): a simplified type of 401(k) plan that has fewer administrative requirements of employers, does not allow employer contributions, and has lower annual contribution limits than a standard 401(k).

Target date fund: an investment account that automatically rebalances to prioritize higher returns early in an investor's life and lower risk as the investor approaches retirement age.

Traditional IRA: an individual retirement account to which contributions are tax deductible; income taxes are imposed on withdrawals, which incur a penalty if taken before age 59½; withdrawals are required beginning at age 73 (currently phasing up to 75).

Sources: *IRS, Investopedia, and Guideline.*

Appendix I: Estimates of the Access Gap

Many researchers have estimated the extent of the retirement plan access gap, and BPC comprehensively reviewed the research for this report. Here, we describe the three most compelling and frequently cited studies.

NATIONAL COMPENSATION SURVEY

The Bureau of Labor Statistics produces an annual National Compensation Survey (NCS), which provides comprehensive measures of compensation cost trends and the provision and cost of employer-sponsored benefits.[69] The NCS is a voluntary survey of randomly sampled business establishments. Although it is up to date and provides a useful level of detail, the NCS likely does not provide an accurate estimate of the access gap. This is mainly because the survey considers workers to have access to a retirement plan even if they are not eligible to participate, whether because they have not been at the company for long enough, they are a temporary worker or independent contractor, or some other reason.[70] In addition, the NCS runs the risk of sample bias inherent in all voluntary survey data. It also does not provide demographic data.

According to the NCS, 70% of private-sector workers had access to a workplace retirement plan in 2023.

DUSHI, IAMS, AND LICHTENSTEIN

In 2015, Irena Dushi, Howard Iams, and Jules Lichtenstein—researchers at the Social Security Administration and the Small Business Administration—published estimates of the access gap using data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) and W-2 records.[71] The SIPP is a nationally representative household survey of the U.S. labor force, but it suffers from reporting errors caused by respondents misunderstanding the survey questions or other reporting procedures, such as the Census Bureau's imputation of missing data. The researchers corrected for these errors using the survey respondents' own W-2 tax records. Their study provides good estimates of the access gap, but it does not provide demographic data.

According to this study, 75% of private-sector workers had access to a workplace retirement plan in 2012.

SABELHAUS

In 2022, economist John Sabelhaus used publicly available data to develop estimates of the access gap.[72] Sabelhaus primarily used data from the IRS Statistics of Income program, which aggregates data from a representative sample of W-2 tax filings.[73] He then reconciled this data with two major federal surveys of the population that include questions on retirement plan coverage—the Census Bureau's Current Population Survey and the Federal Reserve Board's Survey of Consumer Finances—to refine his estimates and reveal demographic data about the workers without access.

According to Sabelhaus, 52% of private-sector workers had access to a workplace retirement plan in 2020.

In this report, we cite estimates from the Sabelhaus paper because of its combination of rigorous research methods and rich demographic data showing the drivers of the access gap. Using the estimates from Dushi, Iams, and Lichtenstein instead does not weaken the premise of this report: Tens of millions of U.S. workers lack access to workplace retirement savings accounts.

Appendix II: Comparison of State Auto-IRA Programs

State (program name)	Enacted	Launched	Implementation Deadlines (by no. of employees)	Special Business Exemptions	Default Contribution Rate	Capital Preservation Period* (days)	Account Fees (quarterly flat fee + percentage of account balance
Oregon (OregonSaves)	2015	2017	100+: Nov 2017 50-99: May 2018 20-49: Dec 2018 10-19: May 2019 5-9: Nov 2019 3-4: Mar 2023 1-2: Jul 2023	None	5% Increases 1pp annually to 10% (pp=percentage point)	30	$4.00 + 0.50%
Illinois (Illinois Secure Choice)	2015	2018	500+: Nov 2018 100-499: Jul 2019 25-99: Nov 2019 16-24: Nov 2022 5-15: Nov 2023	Operating <2 years	5% Increases 1pp annually to 10%	90	$4.00 + 0.32-0.45%
California (CalSavers)	2016	2018	100+: Sep 2020 50-99: Jun 2021 5-49: Jun 2022 *1-4*: Dec 2025	None	5% Increases 1pp annually to 8%	30	$4.50 + 0.33-0.49%
Connecticut (MyCTSavings)	2016	2022	100+: Jun 2022 26-99: Oct 2022 5-25: Mar 2023	None	3%	60	$6.50 + 0.26%
Maryland (MarylandSaves)	2016	2022	1+: Dec 2022	Operating <2 years Not using automated payroll system	5% Increases 1pp annually to 10%	*	$7.50 + 0.18-0.85%
Colorado (Colorado Secure Savings)	2020	2022	50+: Mar 2023 15-49: May 2023 5-14: Jun 2023	Operating <2 years	5% Increases 1pp annually to 8%	30	$5.50 + 0.32%
Virginia (RetirePath Virginia)	2021	2023	25+: Jul 2023	Operating <2 years	5% Increases 1pp annually to 10%	30	$6.75 + 0.23-0.32%
Maine (MERIT)	2021	2024	15+: Apr 2024 5-14: Jun 2024	Operating <2 years	5% Increases 1pp annually to 10%	30	$5.50 + 0.32%
New Jersey (RetireReady NJ)	2019	2024	40+: Sep 2024 25-39: Nov 2024	None	3%	30	0.75%**
Delaware (DE EARNS)	2022	2024	5+: Oct 2024	Operating <6 months	5% Increases 1pp annually to 10%	30	$6.50 + 0.32%

Sources: Program websites and Georgetown University Center for Retirement Initiatives, accessed July 2024.

*All state programs but Maryland's keep contributions for the first 30, 60, or 90 days in a capital preservation or money market fund. At the end of that period, all funds are moved to the default investment option (or to another fund chosen by the participant), and all future contributions are directed to the same place. In Maryland, a participant's first $1,000 of contributions are kept in a short-term emergency savings fund; all subsequent contributions are directed to the default investment option or to the other fund chosen by the participant.

**New Jersey negotiated a large up-front payment to Vestwell in lieu of levying a flat administrative fee on account holders. (Correspondence with Kim Olson)

The following states have enacted auto-IRA laws that will be implemented in 2025 or later: Hawaii, Minnesota, Nevada, New York, Rhode Island, Vermont, and Washington.

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