October 2017

Executive Summary

Working Texans Face an Alarming Retirement Savings Shortfall

How State Leaders Can Boost Savings

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A majority of Texans are not saving adequately for retirement. One key reason is that many do not have the opportunity to save at work, which is the best and most common way individuals build retirement savings.

Texans Are Not Adequately Saving for Retirement

- It is estimated that the average Texas private sector worker has $32,028 in his or her retirement account(s), far below the 10 years of annual salary that many financial advisors recommend.[i]
- One in three Texans over 65 rely on Social Security as their only source of income. The average monthly Social Security benefit in Texas ($1,202) would replace only 27 percent of median household income in Texas.
- Disparities in access to a retirement plan at work are greatest for workers that are:
  - employed by small businesses,
  - under the age of 45,
  - less educated,
  - work in a low-wage job, and are
  - Hispanic, Black or Asian.

Not Enough Texans Have Access to Retirement Plans at Work

City	Access Rate
Texas	50%
Austin-Round Rock	50%
El Paso	41%
Dallas- Fort Worth - Arlington	54%
Houston-Baytown-Sugar Land	50%
McAllen	23%
San Antonio	47%

Note: Workplace retirement plan access rates are for full-year full-time private sector workers age 18-64. Source: The Pew Charitable Trusts

Challenges to Increasing Retirement Savings Rates

- Beyond lacking access to a retirement plan at work, other reasons Texans report for not saving include eligibility barriers such as full-time status, and being unable to afford contributions to a plan.
- Reasons cited by employers for not offering a retirement plan at work include business-related concerns such as unstable business income, cost, and employee issues such as high employee turnover.

Benefits to Increasing Retirement Savings Rates

- When Texans are provided an opportunity to save for retirement, they take advantage of it. Specifically, 84 percent of full-time, full-year workers that have access to a plan participate.
- Workers with increased retirement savings benefit from reduced worker stress, increased productivity, and a more secure financial future.
- Retirees with retirement savings are able to spend more money in their communities, and are more likely to be self-sufficient.
- Increased retirement savings rates also produce economic benefits to the state and save the state money. Using the conservative assumption that a state-administered retirement program would result in fewer workers on Medicaid and lead to a one percent reduction in Medicaid spending for workers over 65, one analysis estimates that such a program would save the state $55 million over a 5-year period.

Policy Solutions to Expand Retirement Savings in Texas

States have made significant progress to expand access to workplace retirement plans in the private sector, typically through the adoption of innovative public-private partnerships. Since 2012, nine states have passed new policies that are now being implemented.

Texas has a similar opportunity to explore three policy approaches to expand access to retirement savings:

- **State-Sponsored Automatic Savings Program** - Through this program, private sector employees are automatically enrolled in an IRA plan overseen by the state and can opt-out of participating.
- **State-Sponsored 401(k) Plan -** Under this model, states can offer a (401)k plan called an open Multiple Employer Plan (MEP) to an unlimited number of employers and workers.
- **Automatic Savings Program combined with a State-Sponsored 401(k) Plan** – This model combines an Automatic Savings Program for employee contributions with a State-Sponsored 401(k) Plan for employer contributions.

The following chart summarizes the key features of these approaches. The automatic savings program and the automatic savings program combined with the 401(k) plan is expected to have the greatest impact on retirement plan access rates. In 2017, the 85th Texas Legislature considered HB 3601, which combined an Automatic Savings Program for employee contributions with a State-Sponsored 401(k) Plan for employer contributions.

Policy Design Elements	Policy Option One: **State-Sponsored Automatic Savings Program**	Policy Option Two: **State-Sponsored 401(k) Plan**	Policy Option Three: **State-Sponsored Automatic Savings Program Combined with 401(k) Plan**
Retirement Investment Product	IRA	401(k)	IRA for employee contributions and 401(k) for employer contributions
Employer Participation	All private sector employers or private sector employers that do not offer another retirement option are automatically enrolled in the state-sponsored plan.	Optional participation	State-Sponsored Automatic Savings Program: All private sector employers or private sector employers that do not offer another retirement option are automatically enrolled in the state-sponsored plan. State-Sponsored 401(k) Plan: Optional
Employee Participation	Private sector employees are automatically enrolled and allowed to opt-out of the program.	Optional participation	State-Sponsored Automatic Savings Program: Private sector employees are automatically enrolled with opt-out option. State-Sponsored 401(k) Plan: Optional
Employer Match Permitted?	Not permitted	Permitted	State-Sponsored Automatic Savings Program: Not permitted State-Sponsored 401(k) Plan: Permitted
Does Plan Fall Under ERISA? (law regulating employer retirement plans)	The federal government has stepped back from weighing in on this, so the courts will likely decide.	Yes, though most ERISA compliance responsibilities would be transferred to the state	State-Sponsored Automatic Savings Program: The federal government has stepped back from weighing in on this, so the courts will likely decide. State-Sponsored 401(k) Plan: Yes, though most ERISA compliance responsibilities would be transferred to the state
Key Advantages and Disadvantages	**Pro –** High participation potential given that employees are automatically enrolled with an option to opt-out of the program rather than sign-up. **Con -** Employer match is not permitted	**Pro -** Employer match is permitted and there are robust consumer protections under ERISA. **Con –** Lower participation potential	**Pro –** High participation potential given that employees are automatically enrolled with an option to opt-out of the program. Employer match is permitted. **Con** – Increased complexity

Read the full paper, *Working Texans Face an Alarming Retirement Savings Shortfall*

[i] *For workers with defined contribution plans, such as a 401K or IRA. Defined contribution plans are the most common way Texans are savings for retirement, which do not guarantee a specific benefit during retirement.*

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Working Texans Face an Alarming Retirement Savings Shortfall

How State Leaders Can Boost Savings

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Introduction

The majority of Americans are not saving for retirement.[1] National studies estimate that between one-half and two-thirds of Americans are at risk of not having enough savings to maintain their standard of living in retirement or cover long-term care costs. This may be why retirement insecurity ranks as Americans' top financial concern.[2]

This brief, which examines the inadequate level of retirement savings in the workplace and proposes policy solutions to address that challenge, is part of a series of briefs that explore the prevalence of low quality jobs in Texas. The policy solutions outlined in this brief would not only benefit individual Texans, but would also have economic benefits to the state. Not only would retirees have more money to spend in their communities, but they would also be more likely to be self-sufficient, saving the state money on public assistance programs such as Medicaid.[3]

Texas should explore the following policy solutions to expand access to retirement savings:

- **Automatic Savings Program** - Through this program, private sector employees are automatically enrolled in an Individual Retirement Account (IRA) plan overseen by the state and can opt-out of participating.
- **State-Sponsored 401(k) Plan -** Under this model, states can offer a single (401)k plan called an open Multiple Employer Plan (MEP) to an unlimited number of employers and workers.
- **Automatic Savings Program combined with a State-Sponsored 401(k) Plan** – This model combines an Automatic Savings Program for employee contributions with a State-Sponsored 401(k) Plan for employer contributions.

Background

Texans are Not Adequately Saving for Retirement

One key reason individuals are not adequately saving for retirement is because many do not have the opportunity to save for retirement at work, which is the best and most common way people build retirement savings. In Texas, only 50 percent of full-time, full-year private sector workers aged 18-64 are covered by a workplace retirement savings plan. There are also significant disparities in retirement plan access at work, with low-wage workers, Hispanic workers and employees of small businesses much less likely to have access to a workplace retirement plan.

In Texas, only 50 percent of full-time, full-year private sector workers aged 18-64 are covered by a workplace retirement savings plan.

While there is no single accepted standard for how much one should save for retirement, many financial advisors recommend an individual accumulate a retirement nest egg that is 10 times their annual pre-retirement income.[4] For example, for a household nearing retirement with adults aged 55-65 earning the median household income in the U.S. for that age group ($56,575), they would need to save $565,750 over the course of their working lives for retirement.[5] Yet, the median retirement savings account balance for individuals aged 55-64 with defined contribution retirement plans is only $111,000, less than a quarter of what a U.S. worker earning median wages would need.[6]

Defined contribution plans like 401(k)s and SEP-IRAs, which do not guarantee a specific benefit during retirement, are funded by employee and/or employer contributions to the plan. It's estimated that the total average defined contribution account balance of Texas private sector workers aged 21-64 is only $32,028.[7]

While Social Security is one important source of funds for retirement, this benefit will replace only about 36 percent of prior income on average, illustrating the need for private retirement savings.[8] [9] The average monthly Social Security benefit in Texas is only $1,202, which would replace only 27 percent of median household income in Texas.[10] One in three Texans over 65 rely on Social Security as their only source of income.[11] In addition to maintaining one's standard of living, retirement savings is also important to cover long-term care costs. In Texas, average annual costs for a shared room in a skilled nursing facility are approximately $54,000 annually.[12] [13]

This lack of preparedness for retirement is creating challenges for those in or near retirement and will present a future challenge for all residents of our state.

Shifting of Retirement Risk from Employers to Workers Has Created Challenges and Uncertainty for Texans

While the percentage of the workforce that is saving for retirement has grown over time, there has been a major shift away from defined benefit plans to defined contribution plans. Defined benefit plans – which include traditional pension plans – guarantee a particular monthly benefit in retirement, and the employer bears most of the investment risk.[14] Defined contribution plans, on the other hand, do not guarantee a monthly benefit. In these plans, employees have to build an adequate amount of retirement savings on their own, selecting investment options and contribution rates and bearing most of the investment risk.[15] A variety of defined contribution plans exist, including 401(k) plans, which are the most popular type of plan, and a variety of Individual Retirement Account (IRA) plans.[16] IRAs are generally less difficult for employers to set up and maintain than 401(k) plans.[17]

In 1980, 30 percent of private sector workers were saving in defined benefit plans and 19 percent were saving in defined contribution plans. In 2012, only 11 percent of private sector workers were saving in defined benefit plans, whereas 53 percent were saving in defined contribution plans.[18] This shift has created challenges and risks for Texans, particularly as the average life span has increased. It has led to significantly less certainty of a steady income in retirement, while also affecting the distribution of retirement savings by income and education. Retirement wealth today is more skewed towards workers with higher incomes and levels of education in defined contribution plans than in defined benefit plans.[19]

Both defined benefit and defined contribution plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA). ERISA is a law that regulates employer-sponsored retirement plans and sets a

number of minimum standards and consumer protections for plan holders. These include disclosure requirements, a process for handling consumer complaints, and fiduciary responsibility - meaning that the plan administrator must run the plan solely in the interest of plan participants. While important, these requirements create administrative costs for employers administering plans.[20]

Younger Workers and Workers of Color Are Less Likely to Have Access to Employer-Based Retirement Plans in Texas

In Texas, large variation exists in workplace retirement plan access by employer and worker characteristics, including significant disparities by race and ethnicity. In line with national trends, full-time private sector workers without access to an employer-based retirement plan are much more likely to work for a small business and be under 45, less educated, work in a low-wage job, and be Hispanic, Black or Asian.

The significantly lower rates of access to workplace retirement plans among Hispanics is in part due to the overall younger age of Hispanic workers in Texas and the fact that Hispanics are disproportionately represented in low-wage jobs.[21] Other factors may also affect their access rates such as lower levels of trust in financial institutions, plan marketing materials not being provided in Spanish, and the fact that not all financial institutions accept nontraditional forms of identification for retirement plan enrollment.[22] There are also differences in access to retirement plans at work across industries. Nationally, employers in the manufacturing and financial services sectors were most likely to offer a plan, while the hospitality and construction sectors were less likely to offer plans to their workers.[23]

Not Enough Texans Have Access to Retirement Plans at Work

Firm Size	Access Rate	Participation Rate	Wage and Salary Income	Access Rate	Participation Rate
<10 employees	17%	14%	Less than $25,000	26%	16%
10-49 employees	29%	29%	$25,000 - 49,999	49%	40%
50-99 employees	43%	34%	$50,000 - $99,999	66%	59%
100-149 employees	51%	42%	$100,000+	72%	68%
500+ employees	69%	59%			
Age	**Access Rate**	**Participation Rate**	**Race and Ethnicity**	**Access Rate**	**Participation Rate**
Ages 18-29	41%	29%	White (non-Hispanic)	59%	52%
Ages 30-44	49%	41%	Black (non-Hispanic)	54%	47%
Ages 45-64	57%	51%	Asian (non-Hispanic)	54%	45%
			Other (non-Hispanic)	57%	47%
			Hispanic	37%	28%

Note: Workplace retirement plan access rates are for full-year full-time private sector workers age 18-64.
Source: "Employer-based Retirement Plan Access and Participation Across the 50 States." The Pew Charitable Trusts. January 2016.

Workplace retirement plan access in some of Texas' largest metropolitan areas is relatively comparable to the state average, except for McAllen and El Paso, Texas.

Not Enough Texans Have Access to Retirement Plans at Work

City	Access Rate
Austin-Round Rock	50%
Dallas- Fort Worth - Arlington	54%
El Paso	41%
Houston-Baytown-Sugar Land	50%
McAllen	23%
San Antonio	47%

Source: "Employer-based Retirement Plan Access and Participation Across the 50 States." The Pew Charitable Trusts.

Challenges to Increasing Access to and Participation in Workplace Retirement Plans

A primary reason workers are not saving is a lack of plan access at work. When Texas workers are given the opportunity to save at their workplace, the vast majority take advantage of it. Specifically, 84 percent of full-time, full-year workers that have access to a plan participate.[24] Employees also cite eligibility as a reason they are not participating in their workplace retirement plan.[25] Plan rules, such as those that require employees to work a certain amount of time before becoming eligible to participate, exclude some workers from participation. This is a particular challenge for part-time workers, nearly two-thirds of whom cited eligibility as a primary reason why they aren't participating in a retirement plan.[26]

Specifically, 84 percent of full-time, full-year workers that have access to a plan participate.

Another common reason employees are not participating is that they are unable to afford contributions to a plan.[27] Some low-wage workers may need all of their take-home pay to cover their household expenses. This is why a retirement savings benefit should be seen as one component of a compensation package that supports an employee's financial stability, along with a living wage and other basic job benefits. To accommodate employees that cannot afford to save for retirement or may want to save for more immediate needs, it is important to make workers aware of how they can opt-out of participating in a retirement plan at work and to provide investment options that protect their savings.

The most common reason employers cite for not offering a plan are business-related concerns such as unstable business income.[28] Other reasons include cost and a lack of a clear benefit to the business. Employers also cite employee issues such as high employee turnover and the belief that employees would value higher take-home pay than savings in a retirement plan.[29] [30] This final concern is directly connected to the employee concern of not having enough money to save. As mentioned above, it is important that employers offer a retirement saving benefit as one component of a compensation package that supports an employee's financial stability.

Texas Should Explore Ways to Expand Retirement Savings in Texas

While the problem of inadequate retirement savings is great, a diverse set of groups have proposed ways to address this challenge. One common feature of many of their proposals is removing barriers for employers to offer plans to employees. Another is that these programs are typically envisioned as public-private partnerships, in which the state overseas financial services firms that hold and manage employee funds. Similar partnerships exist for the state's administration of 529 college savings plans.

Several states have already made significant progress in the past couple of years. Since 2012, over half of the states have introduced legislation to set up or study options for state-sponsored retirement savings program for workers in the private sector, and eight states have passed new policies that are now being implemented.[31] And in many of these states, policymakers have found that small business owners are supportive of new state-administered retirement programs. Many of these businesses said they were concerned that their workers are unprepared for retirement and believe that the state can play an important role in helping their workers save.[32]

A state-administered program to expand access to retirement plans in the workplace would benefit Texas in a variety of ways. Workers would benefit from increased household savings, which would reduce worker stress, increase productivity and set individuals up for a more secure retirement.[33] These programs would also have economic benefits to the state. Not only will retirees have more money to spend in their communities, but they are also more likely to be self-sufficient. When retirees don't have enough money to pay their bills, they are often forced to rely on public programs. Using the conservative assumption that a state-administered retirement program would result in fewer workers on Medicaid and lead to a one percent reduction in Medicaid spending for workers over 65, one analysis estimates that such a program would save the state $55 million over a 5-year period.[34]

National Retirement Law Update

The first DOL Rule titled, "Savings Arrangements Established by State for Non-Governmental Employees," exempts state-run Auto-IRA or Secure Choice programs from ERISA. Certain criteria must be meet in order for these programs to be exempt from ERISA including that employees have the option to opt out of the plan and can change their amount of payroll deduction and that employers not covered by the mandate would not be allowed to automatically enroll their employees. In August 2016, DOL released another proposed regulation – 81 Fed. Reg. 168 "Savings Arrangements Established by State for Non-Governmental Employees" to expand its original rule to include qualified political subdivisions, https://www.gpo.gov/fdsys/pkg/FR-2016-08-30/pdf/2016-20638.pdf. The interpretive Bulletin is 80 FR 71936 "Interpretive Bulletin Relating to State Savings Programs that Sponsor or Facilitate Plans Covered by Employee Retirement Income Security Act of 1974." https://www.gpo.gov/fdsys/granule/FR-2015-11-18/2015-29427.

Several Policy Solutions Exist for Texas to Address the Retirement Savings Challenge

The following chart summarizes the key features of the three main policy approaches Texas should consider to expand access to retirement savings plans at work:

	Policy Option One: **State-Sponsored Automatic Savings Program**	Policy Option Two: **State-Sponsored 401(k) Plan**	Policy Option Three: **State-Sponsored Automatic Savings Program Combined with 401(k) Plan**
Retirement Investment Product	IRA	401(k)	IRA for employee contributions and 401(k) for employer contributions
Employer Participation	All private sector employers or private sector employers that do not offer another retirement option are automatically enrolled in the state-sponsored plan.	Optional participation	State-Sponsored Automatic Savings Program: All private sector employers or private sector employers that do not offer another retirement option are automatically enrolled in the state-sponsored plan. State-Sponsored 401(k) Plan: Optional
Employee Participation	Private sector employees are automatically enrolled with opt-out option.	Optional participation	State-Sponsored Automatic Savings Program: Private sector employees are automatically enrolled with opt-out option. State-Sponsored 401(k) Plan: Optional
Employer Match Permitted?	Not permitted	Permitted	State-Sponsored Automatic Savings Program: Not permitted State-Sponsored 401(k) Plan: Permitted
Does the Program Fall Under Federal Law Regulating Retirement Savings Plans (ERISA)?	The federal government has stepped back from weighing in on this, so the courts will likely decide.	Yes, though most ERISA compliance responsibilities would be transferred to the state.	State-Sponsored Automatic Savings Program: The federal government has stepped back from weighing in on this, so the courts will likely decide. State-Sponsored 401(k) Plan: Yes, though most ERISA compliance responsibilities would be transferred to the state

The Automatic Savings Program and the Automatic Savings Program combined with the State-Sponsored 401(k) Plan would have the greatest impact on retirement plan access rates because private sector employees would automatically be enrolled with an opt-out option. In 2017, the 85th Texas Legislature considered HB 3601, which combined an Automatic Savings Program for employee contributions with a State-Sponsored 401(k) Plan for employer contributions.

Policy Option 1: Automatic Savings Program (Public Auto-IRA Program)

The most common policy option used in other states requires private sector businesses to enroll in a state-administered retirement savings program. The state could decide to require all private sector businesses to enroll or just require those businesses that are not already offering a retirement plan to enroll. Through this program, employees are automatically enrolled in an IRA plan overseen by the state and given the choice to opt-out of participating. Employers facilitate the program by sending the payroll deductions to an IRA provider. Automatic Savings Programs are typically envisioned as a public-private partnership in which the state administers the program and oversees a financial services firm that holds and manages the savings funds. The overturned Department of Labor rules create some uncertainty about whether this program falls outside of ERISA, and in turn, whether cities and states have the authority to implement it (see the sidebar on this topic above). An automatic savings program can be set up at no ongoing cost to the state by using a portion of plan fees to fund the state's administration of the program. So far, California, Connecticut, Illinois, Maryland, and Oregon have passed required automatic program policies. The list of pros and cons of this policy option are drawn from the Aspen Institute's 2016 policy brief.[35]

Pros

- **High participation** – The auto-enrollment of employees is expected to have a significant impact on a state's retirement savings rate.
- **Lower plan fees** – The large size of an automatic state program may enable the state to negotiate with plan providers for lower plan fees.
- **Limited administrative responsibility for employers** – The state would assume the majority of the responsibility for this program, with employer responsibility limited to enrollment and payroll deduction of worker retirement account contributions.[36]
- **Financial Flexibility** – Roth IRAs, which appear to be the product most states will use in their programs, provide financial flexibility. Unlike a 401(k) plan, principal can be withdrawn penalty-free for any purpose from a Roth IRA. The withdrawal of earnings may be subject to taxes and penalties, but there are a number of qualified withdrawal purposes that are not subject to taxes and penalties if conditions are met.[37]

Cons

- **Employer match not permitted** – Federal rules do not allow employers to match employee contributions. No employer match reduces the incentive for workers to contribute to their plan account and limits individuals' ability to build up a meaningful amount of retirement savings.
- **Low contribution limits** – Contribution limits for IRAs are limited to $5,500 annually, compared to $18,000 for 401(k)s and other plans.
- **Could affect eligibility for public benefits –** Retirement savings is factored into eligibility for Supplemental Security Income (SSI) if the account holder is eligible to withdraw the savings (age 59½ for IRA holders).[38] While employees are given the choice to opt-out of a required automatic program, inertia may cause some employees who do not intend to participate to build up savings and potentially lose eligibility for public benefits.
- **Fewer consumer protections** –While some uncertainty exists given the repeal of the Department of Labor rule, it does not appear that automatic programs fall under ERISA, which means they provide fewer consumer protections. However, Roth IRAs offered through the program are governed by IRS rules and provide consumer protections.

Example: California's Secure Choice Retirement Program
In September 2016, California passed an automatic savings program. The program will give California's 6 million workers that are not offered a retirement plan at work the opportunity to participate in a plan.[39] The program, which will be overseen by a new state board, requires that employees working for businesses with five or more employees that are not offered a retirement plan to be automatically enrolled in the state's portable Roth IRA. Three percent of employee wages are placed into the account, unless the employee opts out of participating or changes their contribution rate.[40] The program also requires automatic escalation of contribution rates (an automatic increase in the employee's contribution rate over a set period of time) up to eight percent of salary. For the first three years of the program, program account funds will be invested into U.S. Treasuries or similar low-risk investments.[41] After this three-year period, the board plans to develop investment options that smooth market losses and gains.[42]

Policy Option 2: State Sponsored 401(k) Plan (Open Multiple Employer Plan (MEP))

This model was authorized by the Department of Labor's new federal Interpretive Bulletin and is still in effect today. Using this approach, states can offer a single (401)k plan called an open Multiple Employer Plan (MEP) to an unlimited number of employers and workers.[43] This policy option shifts many of the responsibilities of plan administration to the state plan sponsor.[44] Vermont passed this policy in 2017. Many of the pros and cons listed below for this policy option are from the Aspen Institute's brief.[45]

Pros

- **Greater contribution limits** – 401(k) plans permit higher contributions of up to $18,000 compared to the $5,500 annual limit for IRA plans. Higher contribution limits should lead to higher participant savings.
- **Employer match** – Under this plan, employers can contribute and match employee deposits, which will lead to greater amounts of participant retirement savings and align with current benefit practices. Currently, the majority of employers offering retirement plans make contributions to their employees' retirement savings accounts.
- **Consumer protections** – State sponsored 401(k) plans fall under ERISA, which provide robust consumer protections to plan holders.
- **Low administrative burden** – This plan allows employers to delegate many of the responsibilities of plan administration to the state plan administrator.

Cons

- **Lower participation potential** –Employees that are not offered a plan at work cannot be automatically enrolled in a state-sponsored open MEP. While this program will be appealing to some employers for that reason, it likely will not have a significant impact on retirement savings in Texas.
- **Employer responsibilities** – While much of the responsibilities for an open MEP plan are transferred to the state, this approach differs from a state-administered required automatic program in that some employer fiduciary responsibilities remain.

Option 3: Hybrid Model

Texas should consider combining these two approaches into one program. In 2017, the 85th Texas Legislature considered HB 3601, which combined an Automatic Savings Program for employee contributions with a State-Sponsored 401(k) Plan for employer contributions since employer contributions are not allowed in the automatic savings program. A hybrid model would increase complexity, but lead to a more robust program.

Policy Design Considerations

There are a number of design decisions for policy makers to consider when developing a state-administered retirement savings program.

Default Contribution Rate and Auto Escalation

Plan administrators can set a default contribution rate for their plan. This rate, which determines the percentage of an employee's paycheck that is contributed to their retirement account unless the employee selects a different percentage, significantly impacts the amount of retirement savings an individual is able to accumulate. Inertia causes most workers to keep their default contribution rate once they enroll in a retirement plan.[46] While proposed default contribution rates across states with state-administered required automatic programs range from three to six percent, one analysis finds that employees that save between three and six percent of their pay over their careers with no employer match will not be saving adequately for a secure retirement.[47] Though higher default contribution rates would help workers build greater retirement savings, low-income workers may not be able to afford to save much of their salary. One option for a state-run required automatic plan to consider is having a lower default contribution rate for workers earning below a certain wage. Requiring auto escalation of the employee's contribution rate (an automatic increase in the employee's contribution rate over a set period of time such as each year) should also be considered as a way to help grow participants' retirement savings over time.

Employer Participation Requirements

In a state-administered automatic savings program, one design element to consider is whether all employees or all employees that were not offered a retirement plan at work would be automatically enrolled in the automatic savings plan or whether only those working for employers with over a certain number of employees would be automatically enrolled. Variation in the employer size requirement exists across states with retirement savings programs. In Maryland, all employees that are not offered a retirement plan at work are automatically enrolled in the state plan. In California, employees that work for employers with four or fewer workers that do not offer their workers a retirement plan are not automatically enrolled in the state plan. In Illinois, employees that work for employers with 24 or fewer workers that do not offer their workers a retirement plan are not automatically enrolled in the state plan.[48]

Investing Participant Savings and Participants' Access to Retirement Funds

Programs will have to consider how to invest participants' funds, considering both potential investment risks and returns, and as well as participants' access to funds. California's program is considering developing investment options that smooth market losses and gains and offer a guaranteed investment return.[49] Given that many workers that will be participating in a state-administered retirement program are more likely to earn lower wages and have limited savings, it is important to consider these workers' potential need to access some of their accumulated funds. If workers need to access funds in the near term, an investment option such as a money market account that preserves principal is preferable. At the same time, unlimited access to account funds and investing funds in only principal protected investments that offer lower returns could limit participants' ability to grow a meaningful amount of retirement savings.

One solution to balance these two competing considerations through a state-administered program is to give participants two accounts. The first account would hold participant funds up to a certain dollar amount and be invested in a principal-protected investment. Additional participant contributions above that amount would be placed into a second account invested in a plan with higher return potential.

Program Marketing

It's also important to think about how the policy will be marketed to maximize program participation once adopted. Workplace financial wellness program experts recommend tailoring program marketing to an employee's demographic factors that impact retirement savings and other financial decisions.[50] For example, evidence shows that Hispanic workers may be less likely to participate in a workplace retirement plan because of lower levels of trust in financial institutions as well as language barriers.[51] Employers and the state should dedicate some of their marketing efforts, particularly those targeting Hispanic workers and employers, to build trust in financial institutions.

Because individuals slowly accumulate retirement savings over a lifetime, it is difficult to make up for years of lost savings. Texans cannot afford for the state government to wait to address the inadequate level of individual retirement savings in our state. It's high time for Texas to focus on policies that make it easier for employers to offer a retirement savings benefit for workers.

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[1] "Americans' Financial Worries Edge Up in 2016," Gallup, (April 28, 2016), http://www.gallup.com/poll/191174/americans-financialworries-edge-2016.aspx?version=print. As cited in: Jones, Rich. "States Increasing Access to Workplace Retirement Savings Plans," (Fall 2016), http://www.workingpoorfamilies.org/wp-content/uploads/2016/12/WPFP-Fall-2016-Brief_121916.pdf
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[5] The Pew Charitable Trusts, "How States are Working to Address the Retirement Savings Challenge."
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[7] National Institute on Retirement Security. "Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees." (March 2014) http://www.nirsonline.org/storage/nirs/documents/2014%20Scorecard/final_2014_scorecard.pdf
[8] Note: For someone who worked all of his or her adult life at average earnings and retires at age 65.
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