

Working Texans Face an Alarming Retirement Savings Shortfall

How the State Can Help

Executive Summary

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

Texans Are Not Adequately Saving for Retirement

- 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.
- It's estimated that the average defined contribution account balance of Texas private sector workers is \$32,028, far below the 10 years of annual salary that many financial advisors recommend saving for retirement (Defined contribution plans, the most common way Texans are savings for retirement, do not guarantee a specific benefit during retirement).
- 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 jobs, and are
 - Hispanic, Black or Asian white.

Workplace Retirement Plan Access Rates in Texas

| 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

- A lack of access to a retirement plan at work is a primary reason Texans are not saving for retirement. 84 percent of private sector workers that have access to a plan participate. Other reasons Texans are not saving for retirement include not being eligible to participate in a plan and not being able to afford contributions to a plan. It's important that a retirement savings benefit 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.
- Reasons cited by employers for not offering employees a plan at work include business related concerns such as unstable business income, cost, and employee issues such as high employee turnover.

Policy Solutions to Expand Retirement Savings in Texas

States have made significant progress to expand access to workplace retirement plans in the private sector through their design and adoption of innovative state policy solutions typically envisioned as public-private partnerships. Since 2012, eight states have passed new policies that are now being implemented.

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. Therefore, Texas should explore two 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 given the option to 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.

The following chart summarizes the key features of these two approaches. The automatic savings program should have the greatest impact on retirement plan access rates. However, Texas should consider combining these two approaches. In 2017, the 85th Texas Legislature considered HB 3601, which combined an Automatic Savings Program and a State-Sponsored 401(k) Plan. Though the bill did not pass, there was interest in this approach.

| Policy Design Elements | Policy Option One: State-Sponsored Automatic Savings Program | Policy Option Two: State-Sponsored 401(k) Plan |
|---|---|---|
| Retirement Investment Product | Roth IRA | 401(k) |
| Employer Participation | Private sector employers are automatically enrolled in the state-sponsored plan if they do not offer another retirement option. | Optional participation |
| Employee Participation | Private sector employees without a retirement plan are automatically enrolled and allowed to opt-out of the program. | Optional participation |
| Employer Match Permitted? | Not permitted | 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 |
| Key Advantages and Disadvantages | Pro – High participation potential given that employees without a retirement plan 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 |

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. 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. Using the very conservative assumption that a state-administered retirement program would result in just 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.

Read the full paper, [Working Texans Face an Alarming Retirement Savings Shortfall](#).