

# The Cost of Doing Nothing

## How the Retirement Savings Challenge Paved the Path to State Innovation

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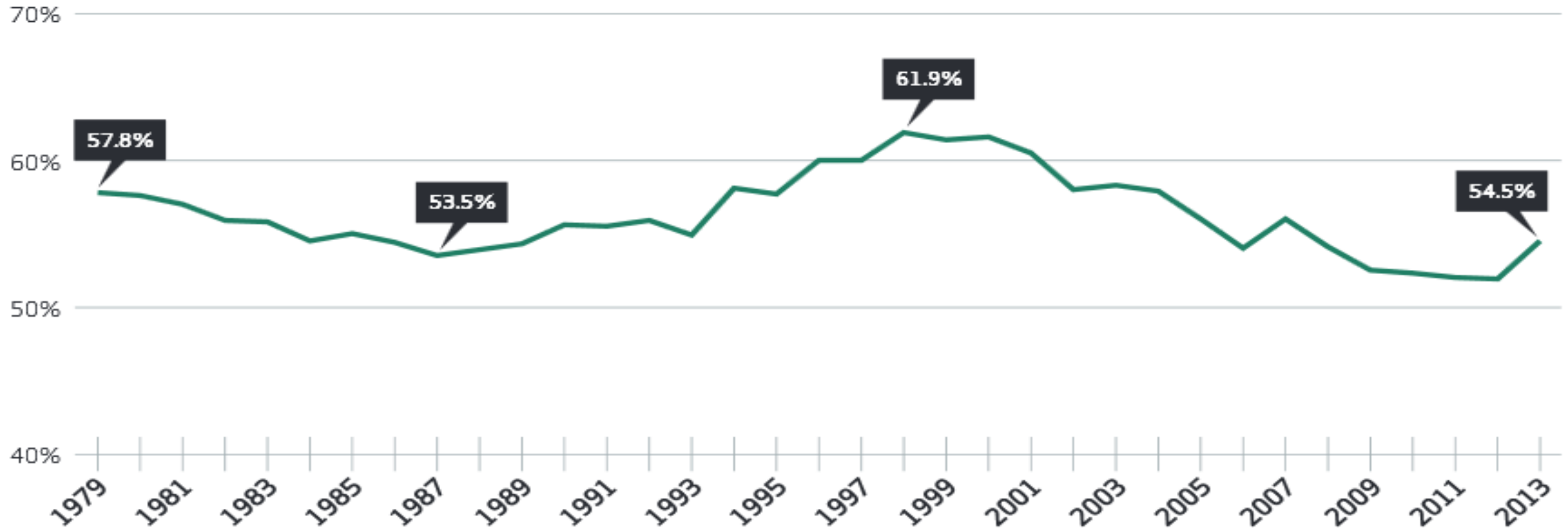


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# No Progress in 40 Years to Close Coverage Gap

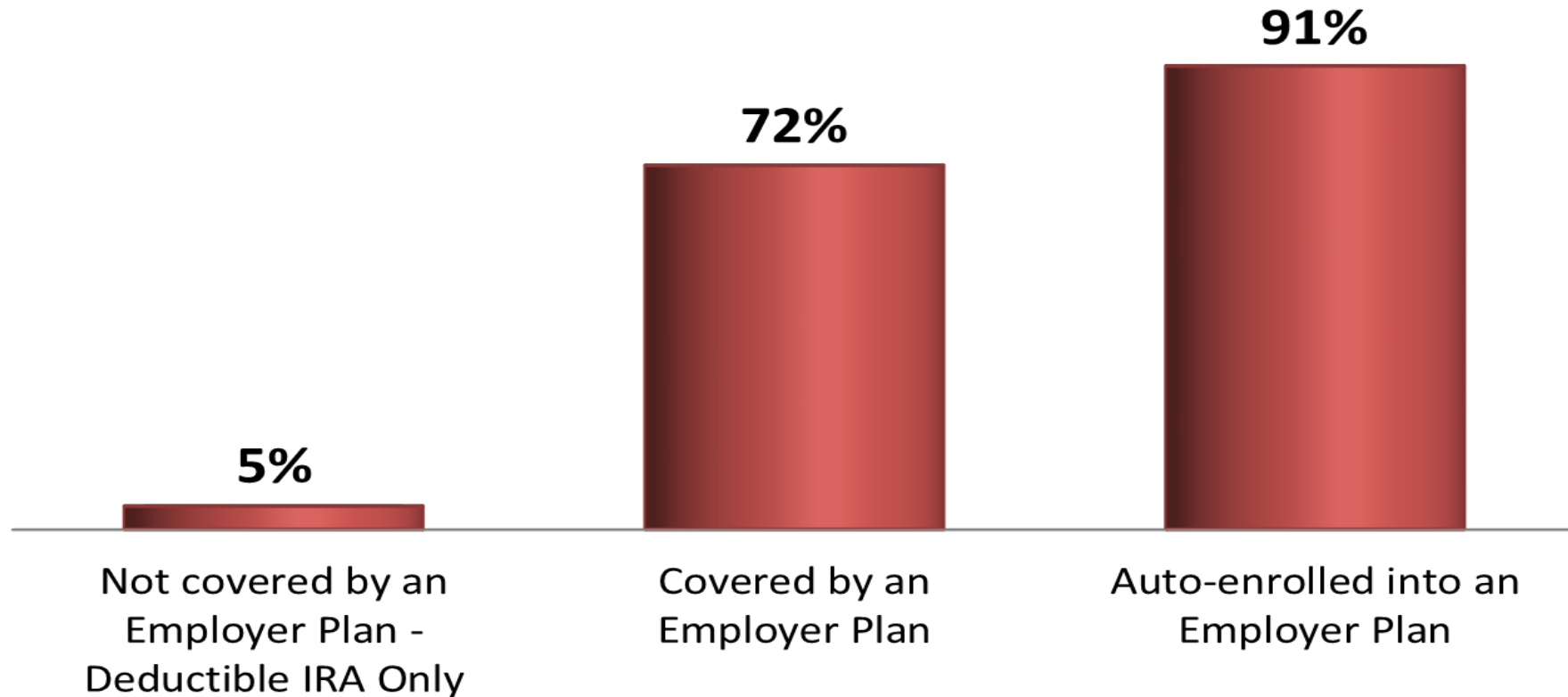
## Only 55 Percent of Private Sector Workers Have Access to a Retirement Plan at Work

Private sector wage and salary workers age 25-64 whose employers sponsor a retirement plan, 1979-2013



# Can't People Already Save if They Want To?

## Participation Rates



SOURCE: AARP. Data compiled by AARP's Public Policy Institute from unpublished estimates from the Employee Benefit Research Institute of the 2004 Survey of income and Program Participation Wave 7 Topical Module (2006 data). See also Brookings' Retirement Security Project, and WhiteHouse.gov. Automatic enrollment data estimates provided by Vanguard.

# An Aging Population That's Living Longer

- 10,000 Americans are turning 65 every day from now until 2030
- By 2029, more than 20% of the U.S. population will be over the age of 65 ([U.S. Census](#))
- Nearly a quarter of today's 65-year olds will live past age 90 ([Social Security Administration](#))
- A baby born in 2007 in the U.S. is expected to live to age 104 ([World Economic Forum](#))
- If you retire at age 65, you may need to have savings, pensions and other resources from your working life (40+ years) to generate enough income for another 20-30 years once you stop working
- Between 2008 and 2018, there was a 63% increase (5.7m to 9.4m) in the number of people age 65 and older who are working ([U.S. DOL](#))
- Between 2016 and 2026, there is a projected 93% growth rate in the number of people over the age of 75 who will be working ([U.S. DOL](#))



# Future Generations Unprepared for Retirement

- **Shift from DB to DC Landscape = Not Enough Saved for Retirement**
- **Retirement Savings Often the Only Savings to Weather Economic Emergencies**
- **Workers Increasingly Want Help Not Only Saving But Making it Last a Lifetime**

Near or at retirement	Millennials	Women
<ul style="list-style-type: none"> <li>• Median amount of savings for households age 55+ was \$109,000 in 2015</li> <li>• 55% of households ages 55-64 had less than \$25,000 in retirement savings and 41% had \$0</li> <li>• 27% have neither DB plan or retirement savings</li> <li>• Older Americans are carrying more debt into retirement. Debt held by Americans over 60 is now \$3.09 trillion, up from \$1.98 trillion a decade ago</li> <li>• The number of consumers over 60 with student loan debt quadrupled between 2005 and 2015, from 700,000 to 2.8 million</li> </ul> <p><i>Sources: U.S. GAO; Federal Reserve Bank of New York; Consumer Financial Protection Bureau</i></p>	<ul style="list-style-type: none"> <li>• 66% of millennial workers have nothing saved for retirement</li> <li>• 55% eligible to participate in an employer-sponsored retirement plan, compared to 77% for Gen X and 80% for Baby Boomers</li> <li>• Nearly 65% of the \$1.4 trillion in outstanding student loan debt is held by those 39 and under</li> <li>• Those entering the workforce with \$30,000 in student loan debt risk ending up with \$325,000 less in retirement. The average student debt in 2015 was \$33,000</li> <li>• Taking out \$3,000 could equal a loss of as much as \$40,000 in savings at the time of retirement</li> </ul> <p><i>Sources: NIRS; ValuePenguin; LIMRA</i></p>	<ul style="list-style-type: none"> <li>• Account for 47% of the workforce, but almost two-thirds of part-time workers, often with fewer benefits</li> <li>• Career disruptions due to family caregiving results in lost income and ability to grow retirement savings</li> <li>• 41% drop in household income after divorce or separation near retirement, compared to a 23% drop for men</li> <li>• Nearly half of elderly unmarried women receiving Social Security relied on it for 90%+ of income, compared to 22% of all seniors</li> </ul> <p><i>Sources: DOL; U.S. GAO; SSA</i></p>

# The Costs to Government & Economy of Doing Nothing

AARP (state by state estimates)	Pennsylvania	Colorado
<ul style="list-style-type: none"> <li>• Even a modest amount of savings can make a significant difference.</li> <li>• The fiscal savings to the U.S. if lower-income retirees could save enough to add at \$1,000 more in annual retirement income would total at least \$33 billion between 2018 and 2032.</li> <li>• <b>Oklahoma is estimated to save at least \$20 million in state funds between 2018 and 2032 if lower-income retirees can save enough to boost their retirement income by \$1,000 per year.</b></li> <li>• The combined federal and state savings would be almost \$84 million during this same period.</li> </ul> <p>Source: AARP, <a href="#">Oklahoma Fact Sheet</a>, May 2017</p>	<ul style="list-style-type: none"> <li>• Between 2015 and 2030 the population age 65 and older is projected to grow by 42 percent, from 2.2 million in 2015 to 3.1 million. The largest increases in the elderly population between the years 2015–2030 will be among those 75–84 years old.</li> <li>• In 2015, retirees whose current incomes make them eligible for means-based assistance resulted in increased costs for social services of \$702 million. This cost will grow to \$1.12 billion per year in 2030. <b>The projected cumulative cost adds up to more than \$14 billion in additional state expenditures for retirees between 2015 and 2030.</b></li> <li>• Insufficient retiree income (less than 75% of pre-retirement income) means lower consumer spending and reduced economic activity, estimated to be \$55 billion between 2015 and 2030.</li> <li>• The lower consumer spending reduces tax revenue by \$70 million in 2015, an annual drop that will grow to \$106 million in 2030. This will mean a cumulative loss of \$1.4 billion in Pennsylvania tax revenues over the period from reduced consumer spending.</li> </ul> <p>Source: Econsult Solutions, <a href="#">“The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania,”</a> January 25, 2018.</p>	<ul style="list-style-type: none"> <li>• Between, 2020 and 2035, Colorado’s elderly (65+) population is anticipated to grow by 50 percent, from 872,000 to 1.31 million.</li> <li>• The “dependency ratio” represented by the number of working age households for each elderly household is projected to fall from 3.0 in 2020 to 2.4 in 2035.</li> <li>• In 2020, the additional state costs due to insufficient savings is \$335 million and is projected to grow to \$779 million by 2035. <b>The projected cumulative additional state expenditures for retirees adds up to almost \$9 billion between 2020-2035.</b></li> <li>• The cumulative growth in federal spending due to insufficient savings in Colorado is estimated at over \$8 billion between 2020-2035.</li> <li>• A modest level of annual retirement savings, about \$1,200 a year over a person’s working career, would significantly increase retirement savings in the state and improve the state’s fiscal outlook.</li> </ul> <p>Source: Colorado Secure Savings Plan Board, <a href="#">“Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado,”</a> February 2020.</p>

# The Great Recession & the COVID-19 Storm: The Damage to Retirement Savings

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





# State Program Models & Considerations

**Automatic IRA** - States facilitate a simple and low-cost IRA program using automatic enrollment, a voluntary enrollment mechanism where the saver has complete control over participation in the program but can opt out at any time. All the employer has to do is provide information (given to them by the state) to their employees, and remit payroll deductions. Employers who do not already have a plan of their own would be required to facilitate the use of the state program for their workers.

**Payroll Deduction IRA** - Similar to the automatic IRA, payroll deduction IRAs simply require that employees opt into the program versus opting out.

**Multiple Employer Plan (MEP)** - A MEP is essentially a 401(k) used by several small businesses who join together to offer a common plan to each employer's workforce, pooling their resources and outsourcing plan management.

**Marketplace** - A marketplace is a state-sponsored website that enables small businesses to find and compare retirement savings plans in an apples-to-apples manner. It's intended to display a diverse array of plans, and these are pre-screened by the state to ensure certain standards are met.

**Hybrid** - A combination of any of the above listed models. For example, New Mexico recently enacted a marketplace and a payroll deduction IRA.

## Program Design Considerations

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



# State Program Model - Characteristics

- **Automatic** – workers are 20 times more likely to save when they are auto-enrolled
- **Voluntary** – workers have full control over their participation and can always opt-out of saving
- **Portable** – the savings account stays with the worker when changing jobs
- **No Cost**- to the state, taxpayers, or employers. Programs are self-sustaining from saver fees
- **Public-Private Partnerships** - professionally managed & advised by financial services firms with oversight by the state

# 13 State-Facilitated Retirement Savings Programs

(12 states & 1 city)

## *Trend Toward Auto-IRA Model*

Since 2012, at least **45 states** have acted to implement a new program, study program options, or consider legislation to establish state-facilitated retirement savings programs.

Auto-IRA (“Secure Choice”)	Voluntary Payroll Deduction IRA
California	New York
Colorado	Voluntary Marketplace – IRAs & 401ks
Connecticut	Washington (recent bill to shift to Secure Choice)
Illinois	Hybrid – Voluntary Marketplace & Payroll Deduction IRA
Maryland	New Mexico
New Jersey (shifted away from a marketplace)	Voluntary 401(k) Multiple Employer Plans (MEPs)
Oregon	Vermont
Seattle (on hold pending action by the state)	Massachusetts

# Secure Choice Programs – Characteristics & Participation

	OregonSaves	Illinois Secure Choice	CalSavers
Rollout period	October 2017-January 2021	November 2018-November 2019	July 2019 – June 2022
Account Type	Roth IRA (traditional option)	Roth IRA (traditional option)	Roth IRA (traditional option)
Employer Threshold	All	25 or more employees	5 or more employees
Default contribution rate	5%	5%	5%
Automatic increases	Default 1% to up 10%	Available option	Default 1% up to 8%
Default investment	1 <sup>st</sup> \$1,000 into capital preservation fund; then future \$ into TDF	1 <sup>st</sup> 90 days into money market; then into TDF	1 <sup>st</sup> \$1,000 into capital preservation fund; then future \$ into TDF
<b>Participation Data (6/30/20)*</b>			
Total Assets to date =\$90 million	\$58.3 million	\$26.5 million	\$5.2 million
Avg. contribution rate	5.4%	5.0%	5.0%
Avg. monthly contribution	\$142	\$97	\$134
Effective opt-out	29.7%	38.4%	29.9%

\*COVID – programs doing well and continue to grow; initial increase in withdrawals mid-March to April have leveled off.

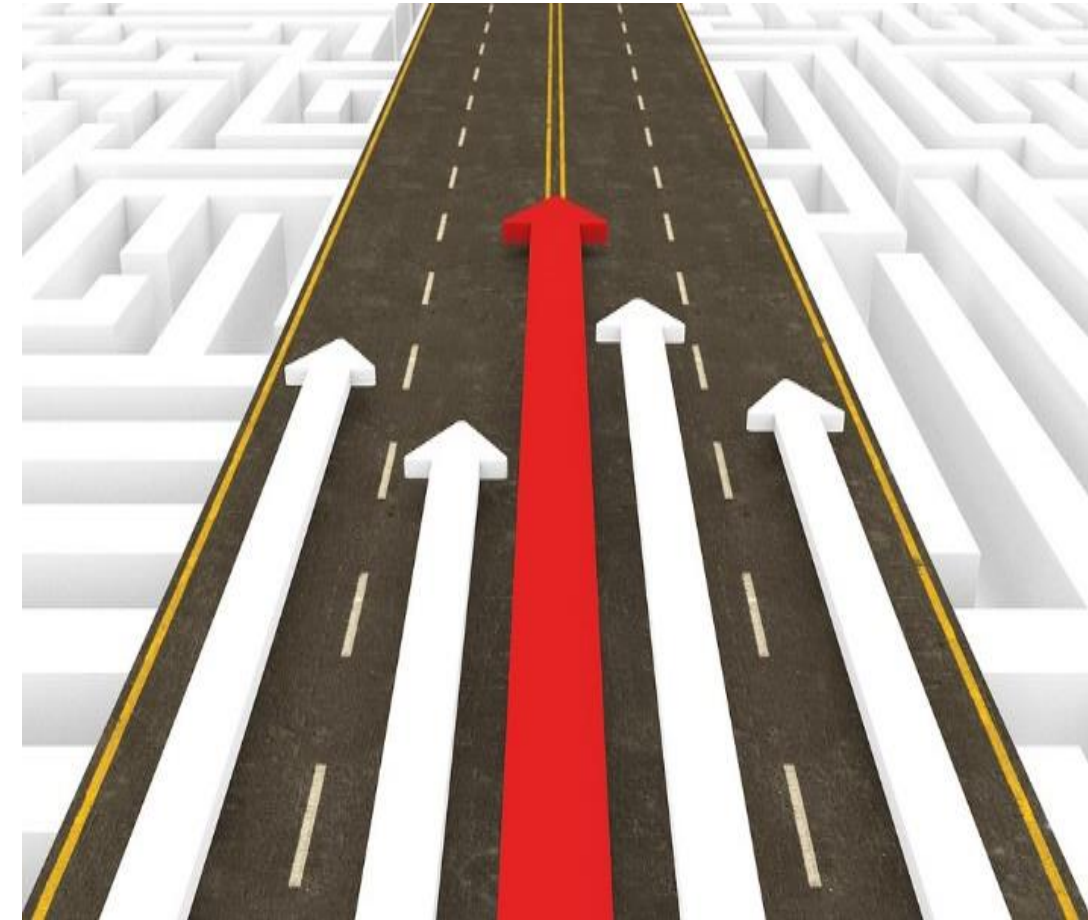
# Strong Employer and Employee Support

Pew 2020 [survey](#) of 2,500 responding employers in Oregon:

- ✓ 79% of the businesses surveyed responded that they paid no out of pocket costs
- ✓ 80% of employers reported that they heard a little or nothing from their employees about participating in the program (assumption is that employees would express any dissatisfaction to their employer)
- ✓ 73% of employers reported being satisfied or neutral about the program overall

# State Savings Programs: Crisis Drives Innovation

*Retirement Savings Programs Can Help Strengthen Financial Resiliency*



- ▶ Financial well-being: improve financial education, support emergency savings, etc.
- ▶ Multi-state collaboration: forge agreement between states to achieve scale, keep costs low
- ▶ Administration: efficiencies across all of a state's savings programs (529, ABLE, etc.)
- ▶ Lifetime income: integration of solutions and strategies to generate and protect lifetime income

## How Can We Build Financial Security?

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

-Professor Brigitte Madrian

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