

State Solutions: Universal Retirement Savings

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www.eoionline.org

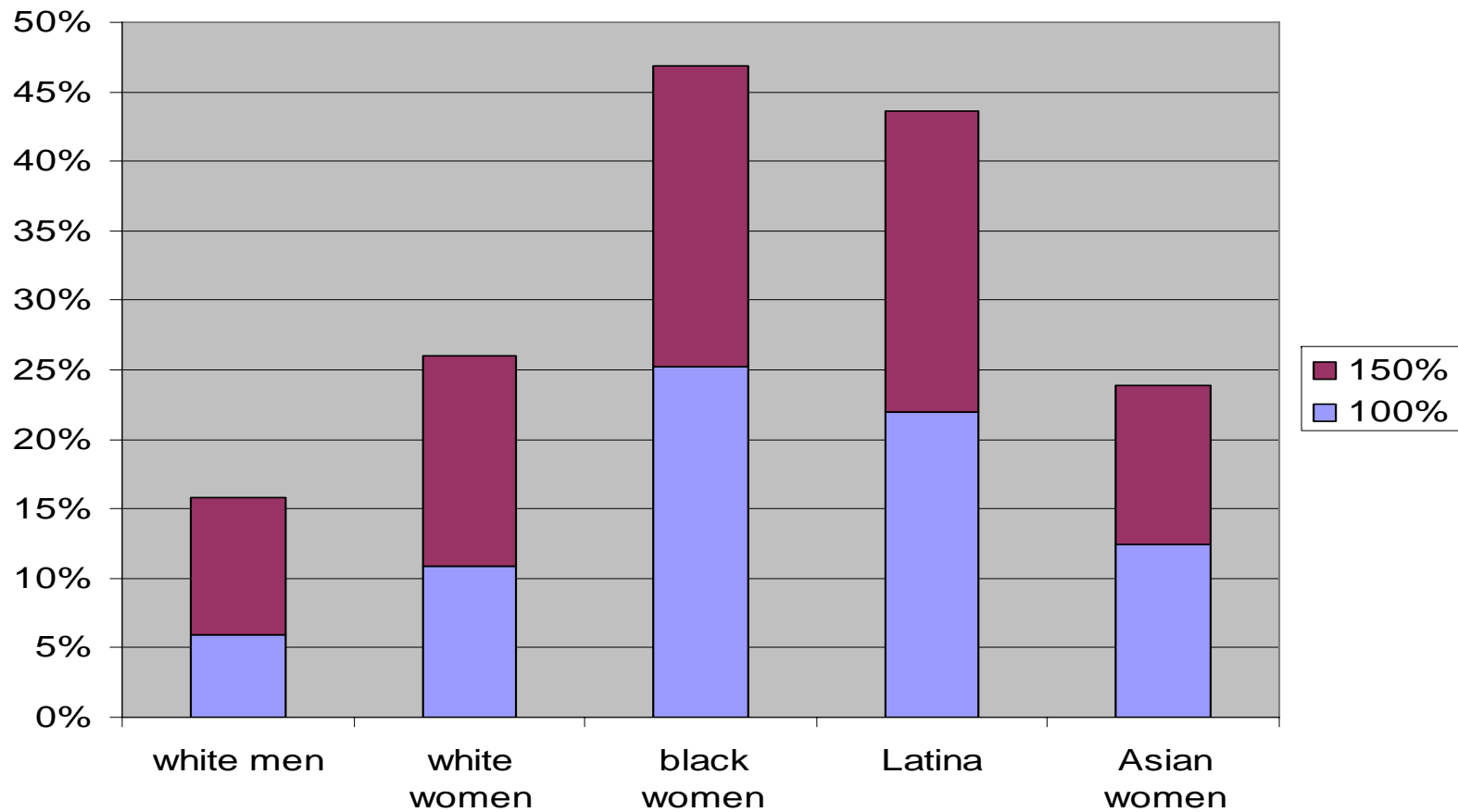
Why Improve Retirement Security?

- Social Security is not enough
- Half of all workers aren't in a retirement plan
- Retirement wealth is falling
- We're living longer
- Workers change jobs more often
- States will bear the costs of seniors in poverty

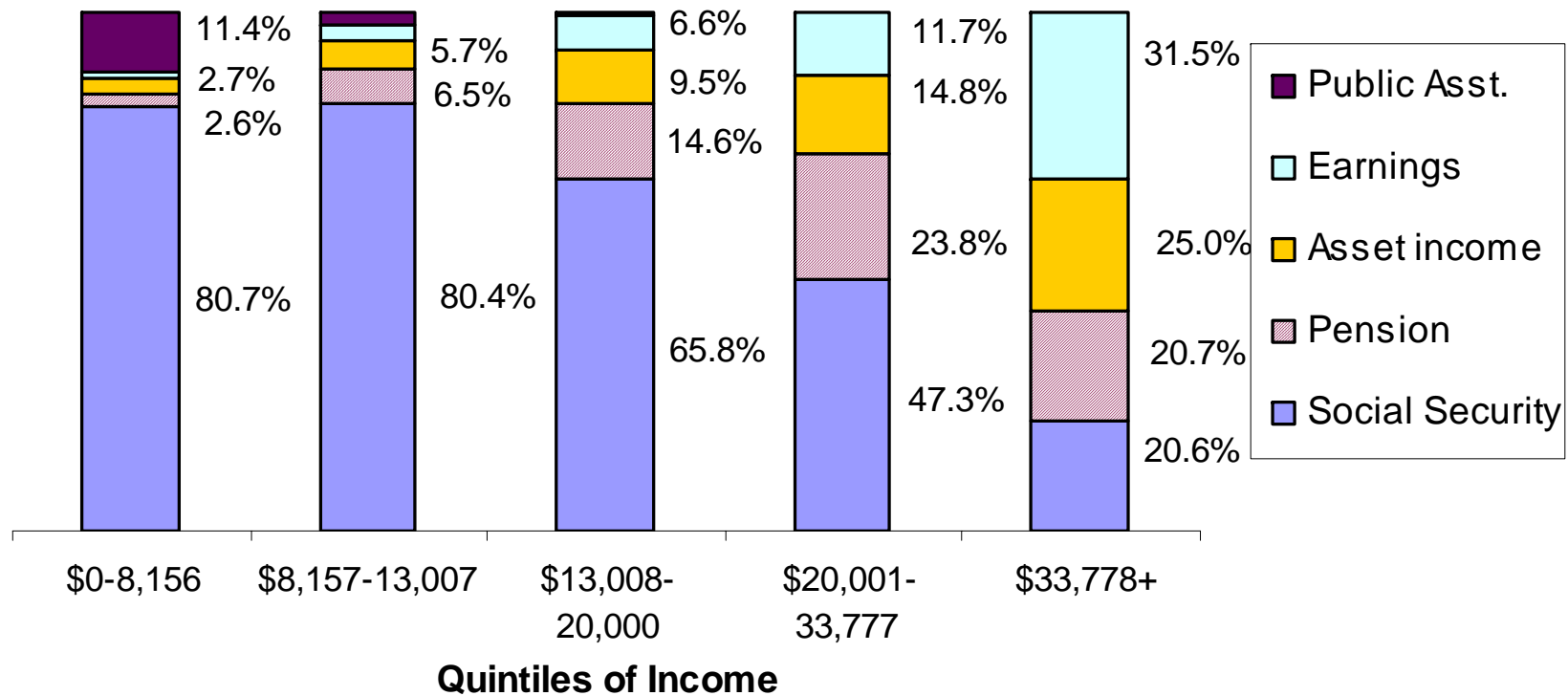
Social Security Provides a Solid Base

- progressive benefits
- guaranteed benefits
- family benefits
- annual cost-of-living adjustments
- lifetime retirement benefits
- low administrative costs

Too many in or near poverty



Sources of Income for Senior Households, 1996



Life Expectancies at Age 65

Men:

- can expect to live to 81
- 17.5% will live past 90

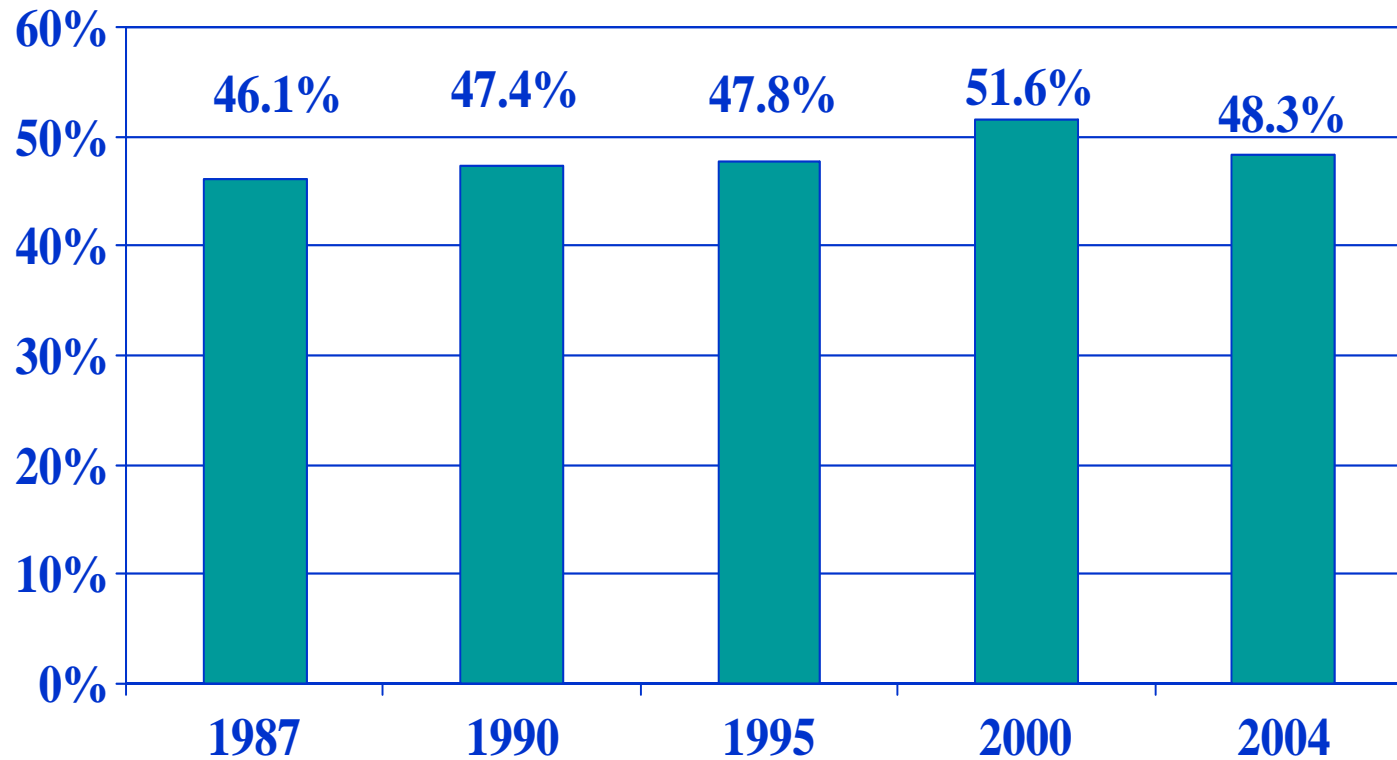
Women:

- can expect to live to 84
- 31.4% will live past 90

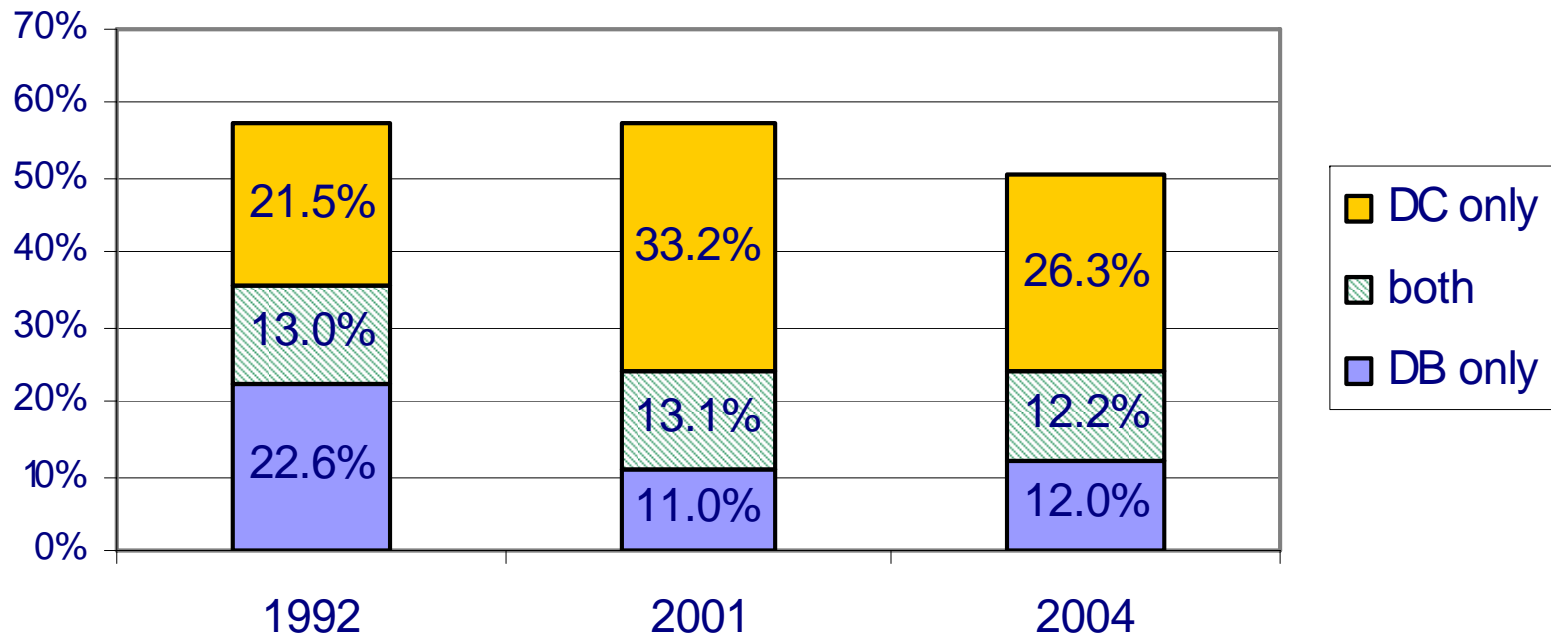
Who Lacks Workplace Retirement Plan ?

- Half of all workers
- Low income workers
- Part-time and temporary workers
- Small business employees

Half of Workers Have No Plan

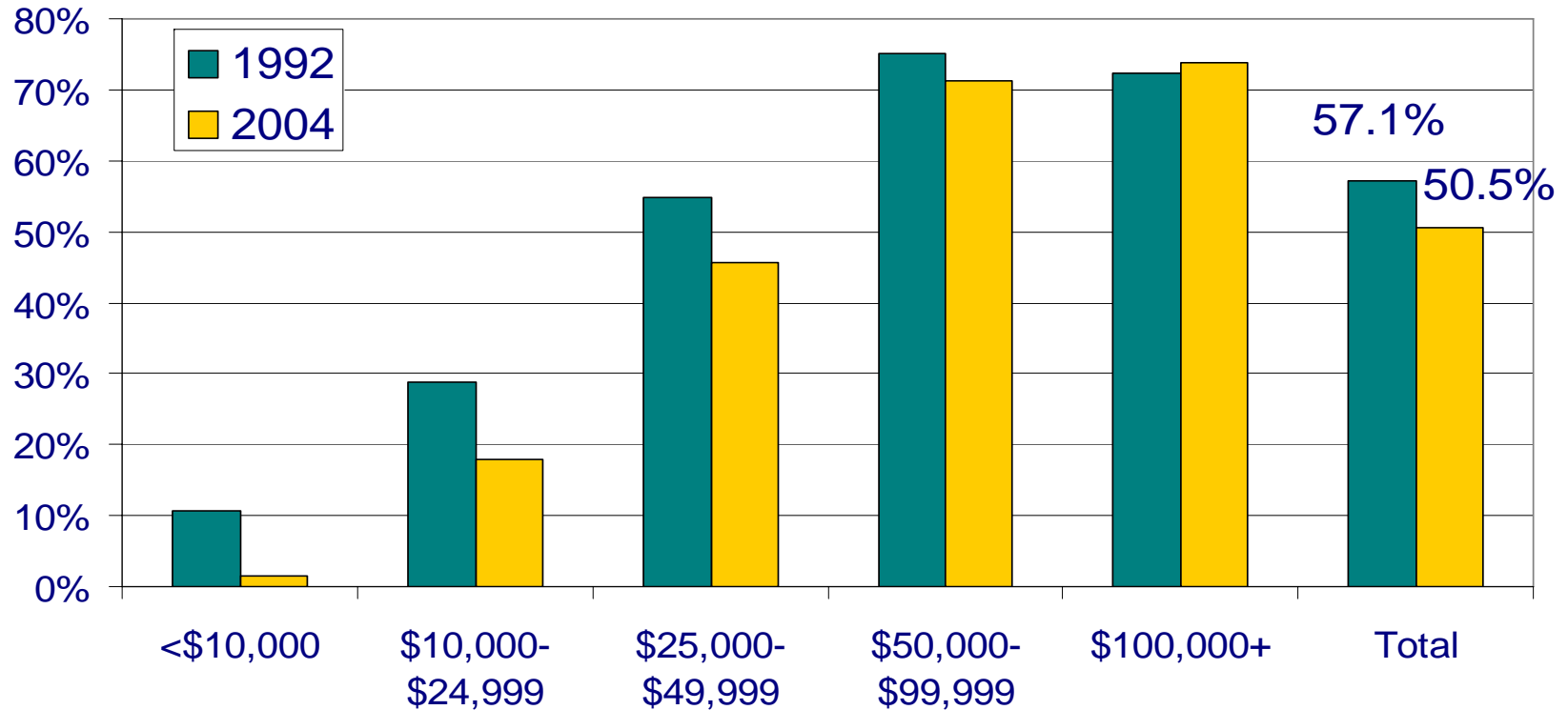


Families with Employed Member with Workplace Retirement Plan

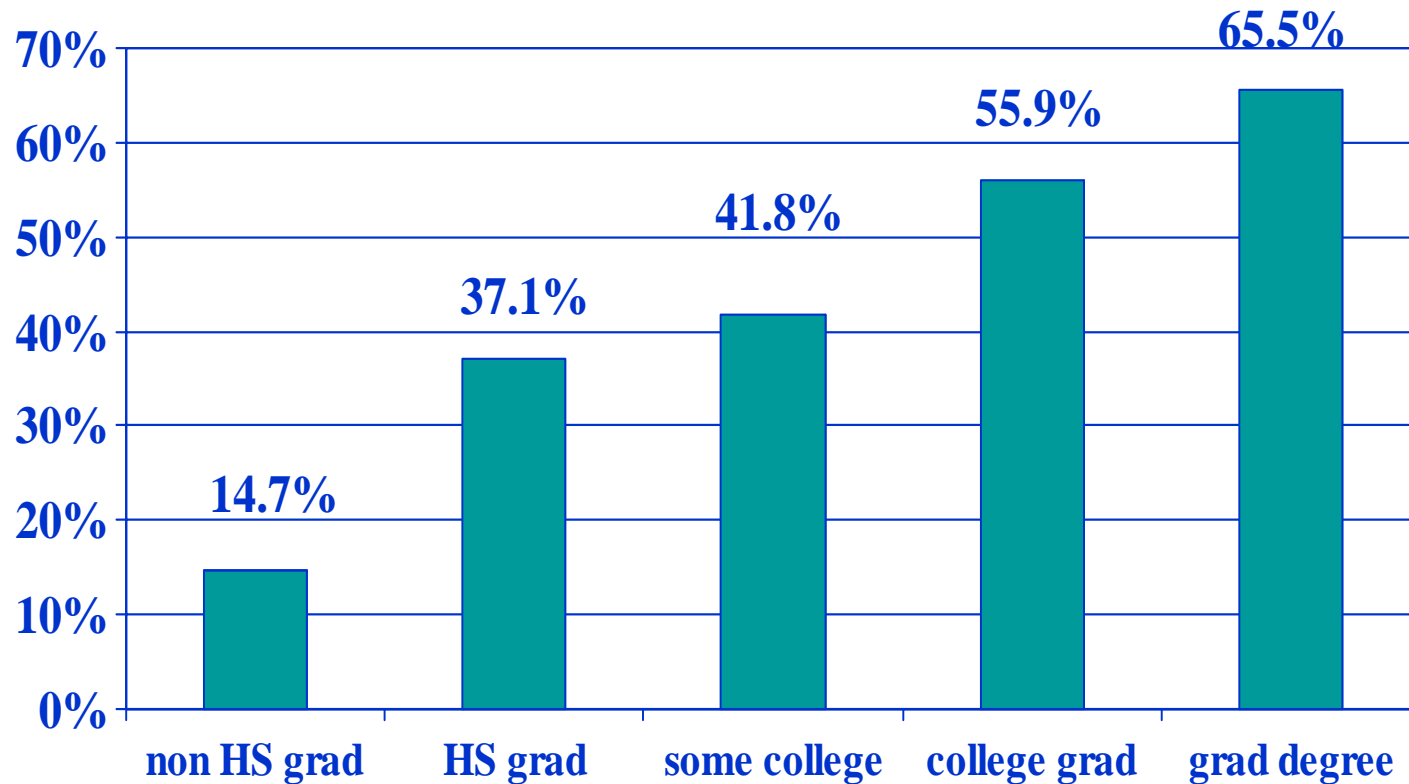


Low Income Families are Least Likely to Have Plan

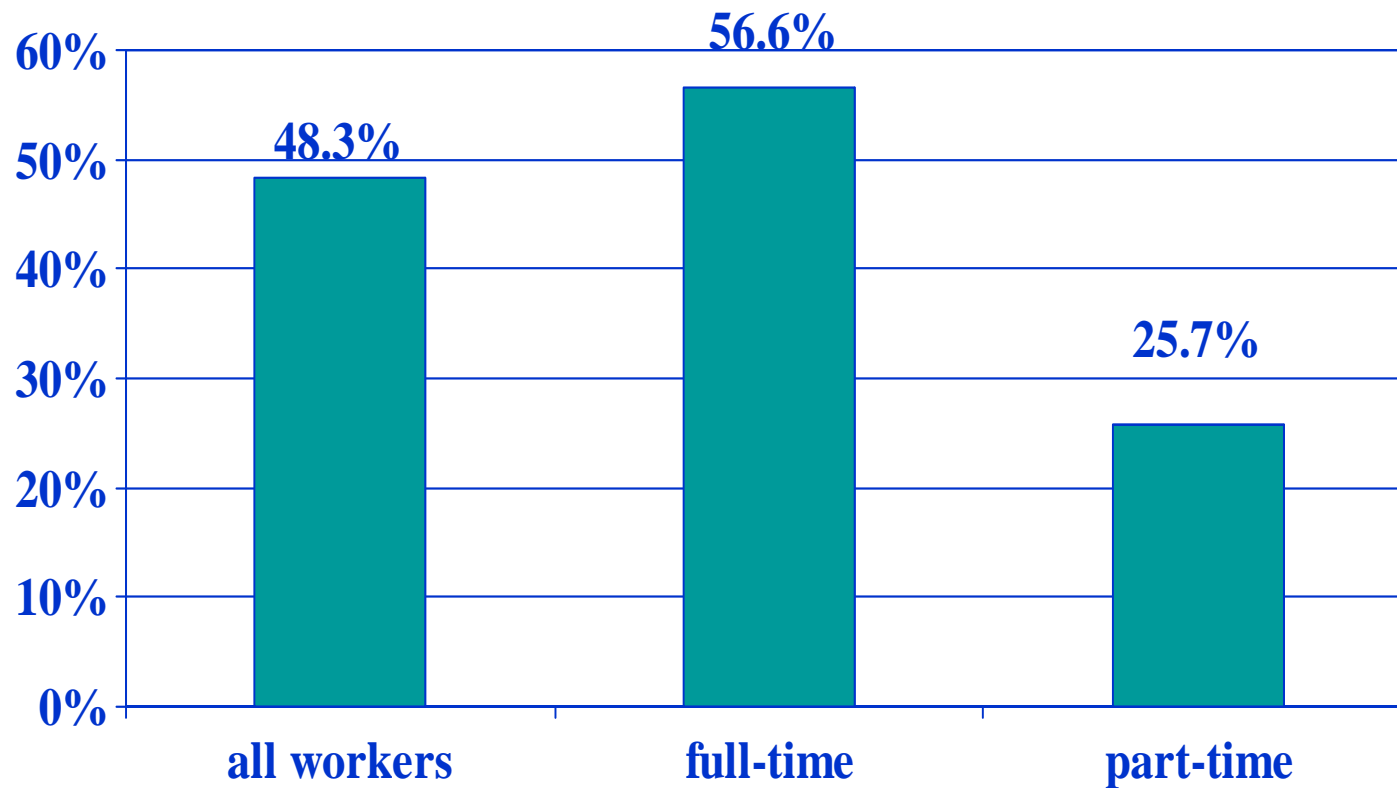
(income of families with employed member)



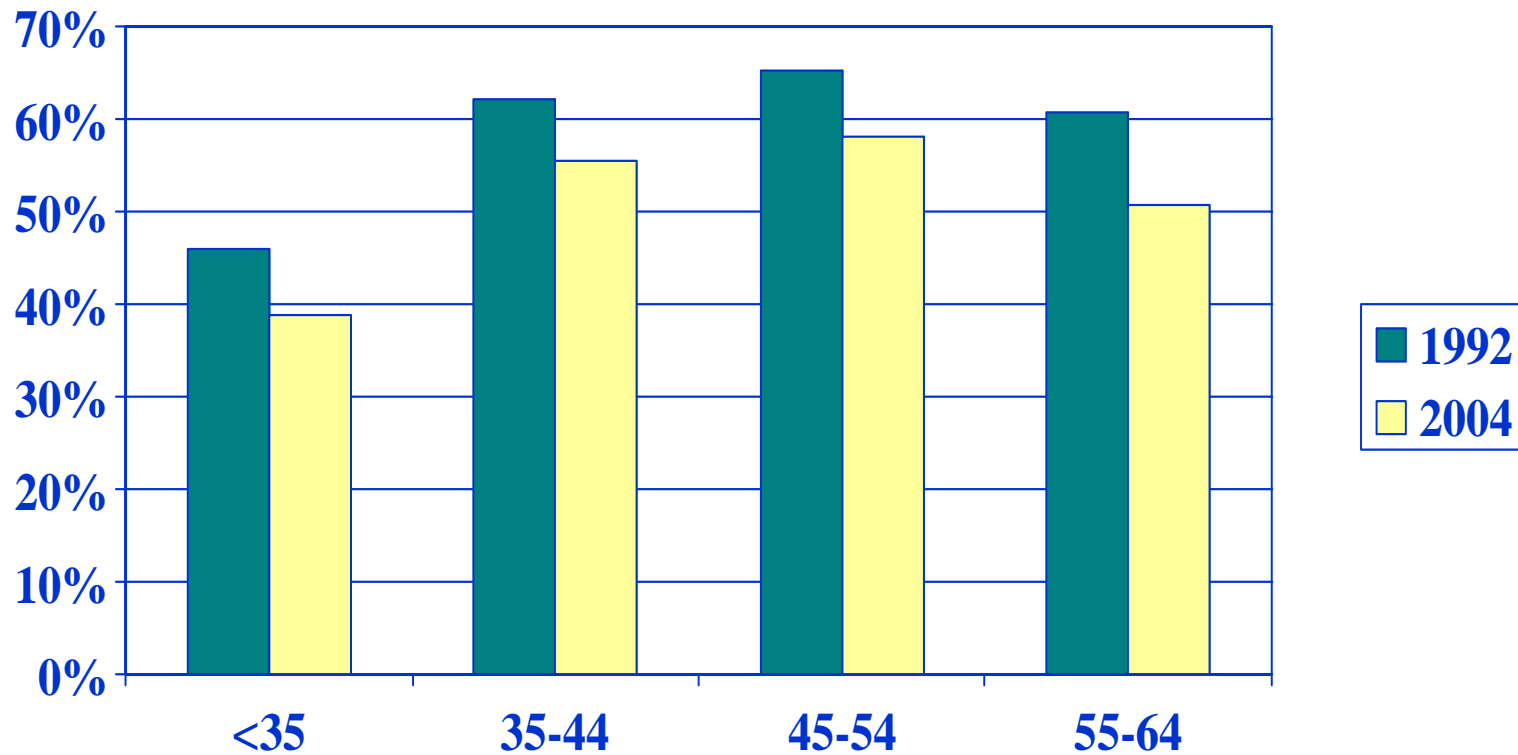
Access and Participation Vary by Education



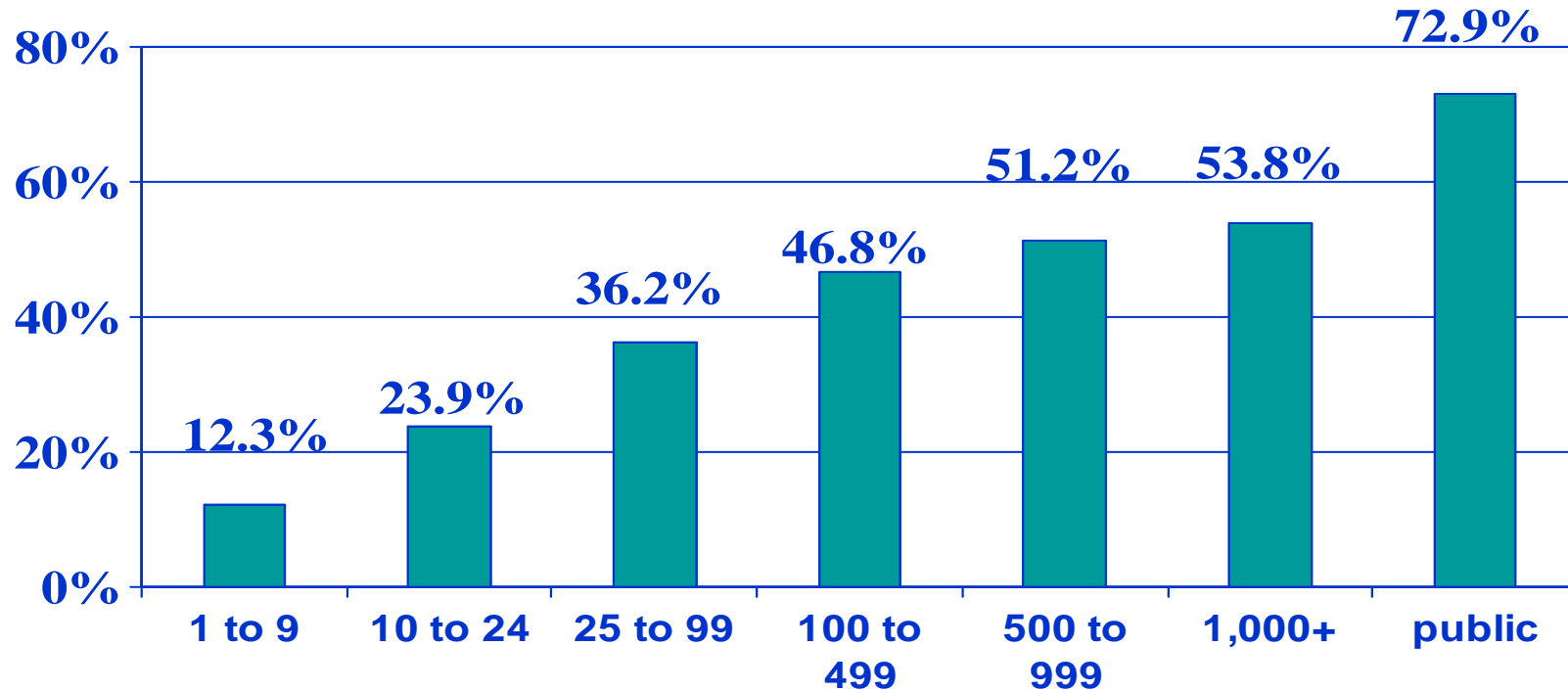
Few Part-Time Workers Covered



Plan Coverage Increases with Age, But Is Falling for All Age Groups (families by age of head of household)



Workers in Small Firms Least Likely to Have Access

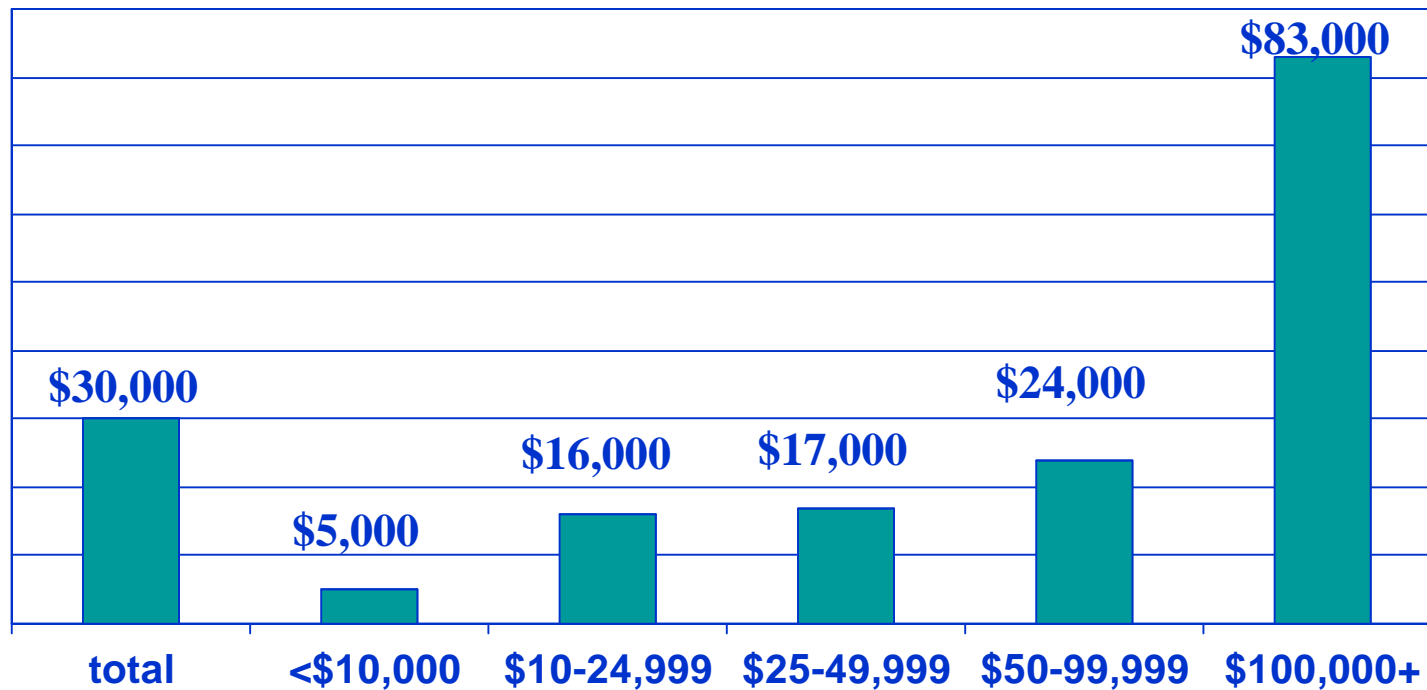


Why Small Businesses Don't Offer Plans

- administrative complexity
- cost
- difficulty comparing options
- lack of interest by employees

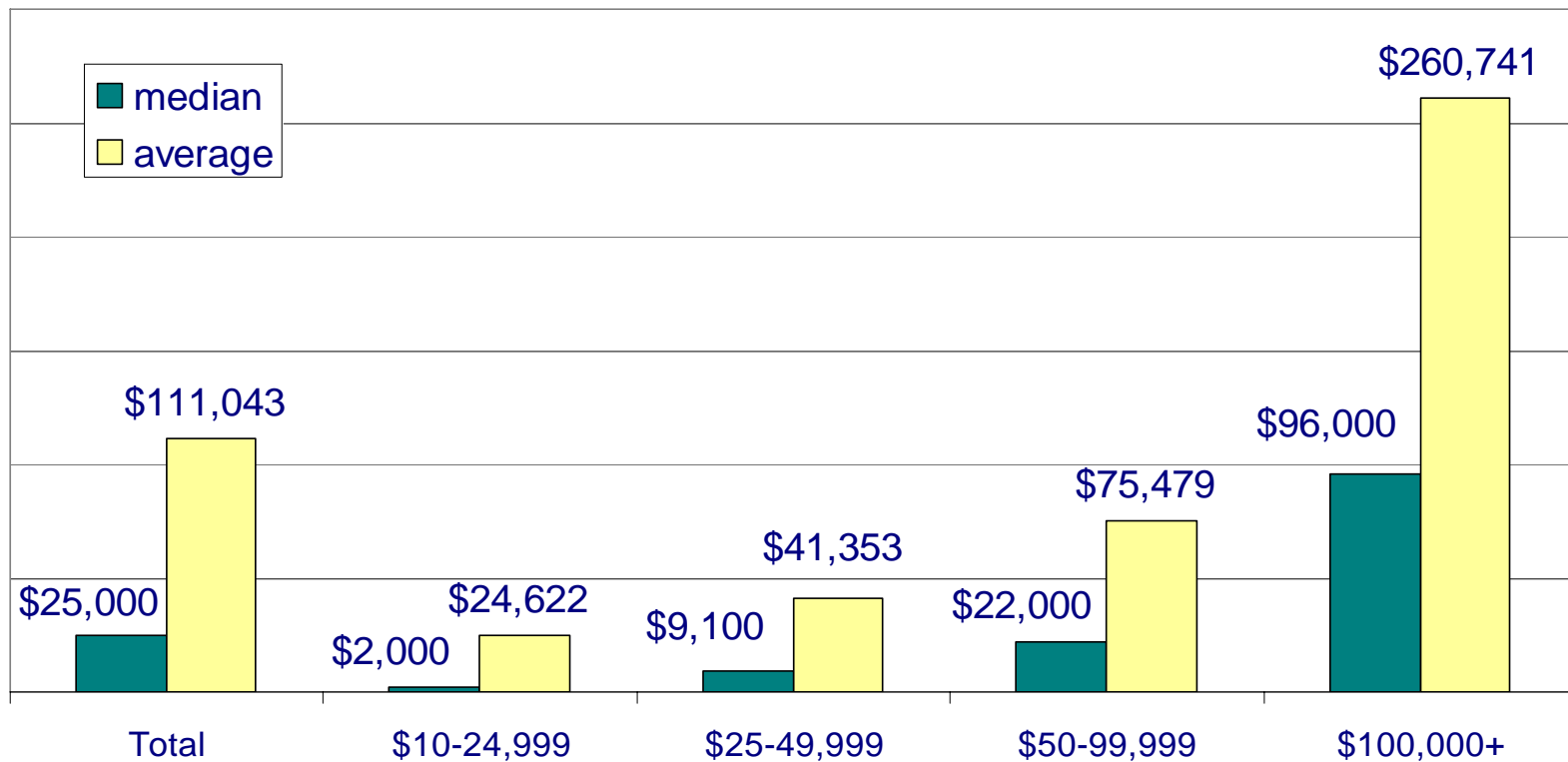
Median IRA Values in 2004

(for those with IRAs)

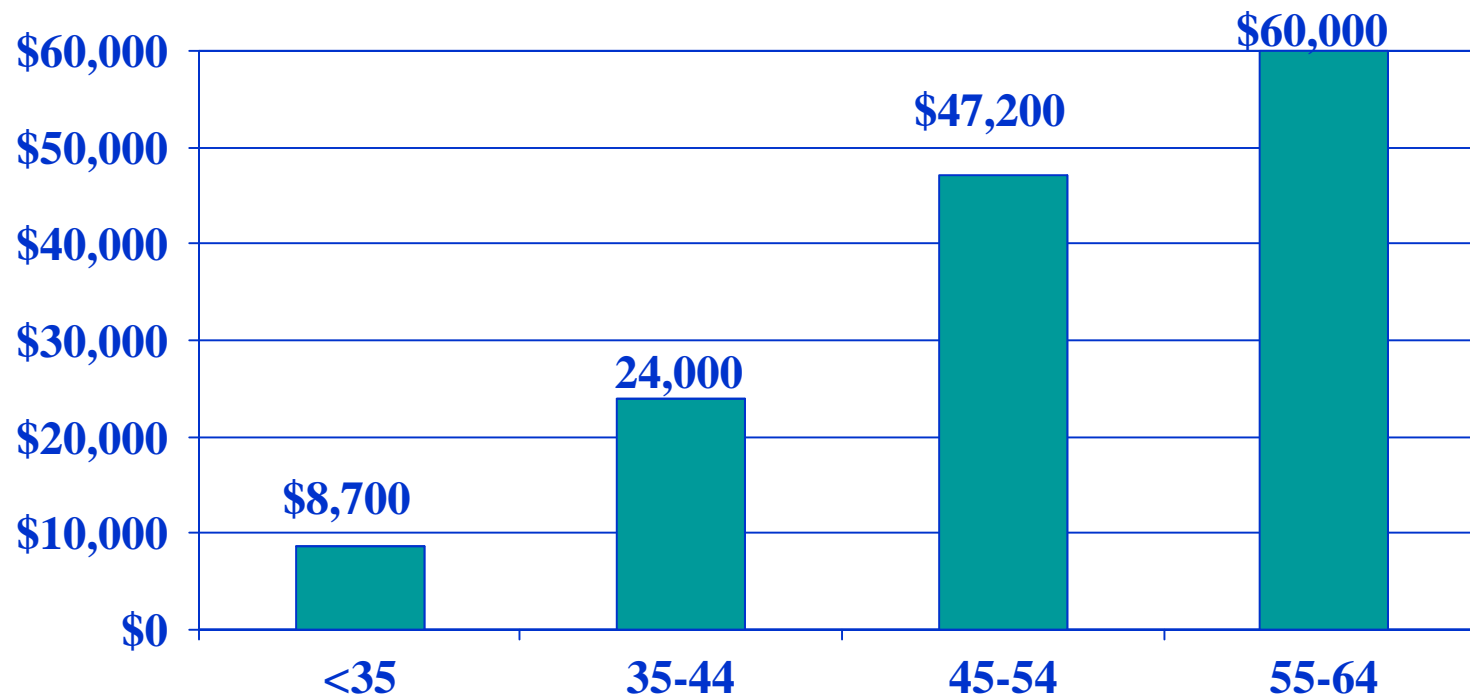


Balance in All Individual Accounts

(for those with any plan)



Median Value of All DB Plans by Age (for those with plans)



State Solution: Voluntary Savings Accounts

- Defined contribution plan
- Tier – IRAs for individual workers
- Tier 2 – 401(k) or Simple IRA
- Pre-selected menu of investment options
- Administered by state

Advantages of Retirement Accounts for workers

- Payroll deductions
- Portability between jobs
- Low costs – economies of scale
- Simplicity – pre-vetted options

Advantages to Companies

- Easy administration
- Low cost
- Allows small firms to provide retirement plans

What Small Business Owners Say: 2001 Focus Group Findings

- 17 out of 18 supported Voluntary Accounts
- Payroll deduction would not be undue burden
- Believe that providing a retirement plan very important

Summer 2006 business interviews

- **Business locations:**
- 11 in Seattle
- 3 in North Seattle suburbs
- 4 in Langley/Clinton - rural villages
- 3 in Mt. Vernon - 70 miles north of Seattle
- 3 in Aberdeen – an economically depressed (former) timber community with a population of 17,000

Interview Findings

- 15 out of 17 businesses with 1-10 employees (88%) supported WVAs.
- 6 businesses with 11 - 50 employees – all supported WVAs.
- 1 business with over 50 employees - supported WVAs.

Recommendations by Small Businesses

- Provide diverse investment options
- Provide some sort of support for employers and employees, such as hotline or website
- Provide program promotion in the workplace
- Provide portability

Additional Findings

- Only 5 businesses had retirement plans for employees (4 had 20 or more employees)
- Major reasons for not providing retirement plan: time, difficulties finding right plan, expense
- All believed that saving for retirement was important
- Many believed that Social Security is not enough
- Larger businesses with retirement plan also saw WVAs as advantageous.

Necessary allies

- Public employee unions
- Small businesses
- State Executive Departments
- Investment firms
- Pension experts
- Senior groups
- Other states

Couldn't anyone open up an IRA?

- Any worker can, but few workers do.
- Difficulty saving up lump sum payments
- Investor fees
- Overwhelming array of investment options
- **VA's will provide payroll deduction, low fees, and pre-screened investment options**

How will Voluntary Retirement Savings Accounts affect the private investment industry?

VAs will ***help*** the private investment industry

- States will contract with private companies
- Pool of investors will increase
- Over time, people will roll over VA accounts into accounts with private firms

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