Testimony of The Pew Charitable Trusts

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Before the Senate Committee on Government Affairs

April 5, 2023

Good afternoon. Thank you, Chair Flores, Vice Chair Ohrenschall, and members of the Committee for the opportunity to testify on Senate Bill 305, which would establish the Nevada Employee Savings Trust program. My name is Kim Olson, and I am the senior officer on the retirement savings project at The Pew Charitable Trusts (Pew). Pew is a nonpartisan, non-profit organization that applies a rigorous analytical approach to solving public policy problems.

Nevada faces a variety of economic and fiscal challenges resulting from workers not saving enough for their retirement. To make matters worse, many small businesses can't afford to start a retirement plan for their employees or don't have the capacity to administer one. Specifically, according to AARP:[1]

- Approximately 50% of Nevada workers in the private sector ages 18 to 64 – about 593,000 in total – work for businesses that do not offer any type of retirement plan.
- Employees of small businesses are less likely to have access to a retirement plan. Among Nevada firms with under 10 employees, over 79% of workers lack access to a retirement plan, and about 67% of such workers at firms with between 10 and 24 employees lack access to a plan.
- Retirement plan access also differs by race and ethnicity. In Nevada, 57% of Hispanic workers, 56% of Black workers, 47% of Asian American workers, and 47% of White workers lack access to a workplace retirement plan.

Background

Retirement savings levels

According to data from government surveys and financial service providers, many Americans are struggling to save for retirement. For example, the investment manager Vanguard reports that the average amount saved for retirement among its 30 million clients is $141,542. The average is skewed, however, by high income savers. The median amount saved for retirement is $35,345, which means that half of all retirement accounts at Vanguard have less than that amount. The same median for those between the ages of 55 to 64 is $89,716. In other words, half of account owners on the cusp of retirement have less than $90,000 saved, which for most is expected to last into their 80s.[2] Adding to this already dire picture, according to the Federal Reserve, about 1 in 4 non-retired Americans have no retirement savings at all.

Access gap

[1] AARP, 2022, *Fact Sheet: Nevada.* *https://www.aarp.org/content/dam/aarp/ppi/2022/state-fact-sheets/nevada.doi.10.26419-2Fppi.00164.030.pdf*

[2] Vanguard, *How America Saves 2022,* Figure 55, https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/22_TL_HAS_FullReport_2022.pdf

According to the most recent estimates, 48% of all American private sector workers ages 18 to 64 do not have access to a retirement plan at their workplace, which means nearly 57 million working Americans do not have a retirement plan through work.[3] The lack of a workplace retirement plan is particularly acute for Hispanic workers (64% lack coverage) and for African American workers (53%). The issue is concentrated among smaller employers; 78% of employers with fewer than 10 employees do not provide retirement benefits. The same is true of 65% of businesses with 10 to 24 employees.

Fiscal impacts: What is the taxpayer cost of insufficient retirement saving?

As states face budgeting challenges, insufficient retirement savings will increase pressure on public assistance programs, reduce tax revenue, and decrease household spending by retirees while shifting the growing fiscal burden to a shrinking population of working-age taxpayers. The Pew Charitable Trusts commissioned Econsult Solutions, an economic consulting firm, to quantify the fiscal costs of insufficient retirement savings nationally and in Nevada. The preliminary results indicate that the number of households with residents aged 65 and older in Nevada is expected to increase from 320,100 in 2020 to 656,900 by 2040. The working age population will not keep up with this growth in the older population, resulting in an expected 75% increase in the ratio of households with people of retirement age to those of working age from 2020 to 2040.

To maintain the living standards enjoyed by households during their working years, financial advisors recommend an "income replacement" target of 75% of the household's average income between ages 45 to 64. Those below this target are considered economically vulnerable. The study estimates that by 2040, the average shortfall in annual income in retirement – relative to the estimated level of sufficient income – will be $5,590 for older vulnerable households. As these individuals age, inadequate retirement savings will likely further reduce their retirement income and hence the quality of life for many.

This shortfall in retirement income will increase state spending for Medicaid and other assistance programs in Nevada. Over the 20-year period of 2021 through 2040, the cumulative costs of additional social assistance program spending will reach $1.8 billion.

But there's good news: Even small savings now could help offset the effects of this shortfall. If Nevada households saved just an additional $1,335 a year—$110 a month—over 30 years, they could erase the additional $1.8 billion taxpayer burden and ensure retiring households can maintain the living standards they enjoyed during their working years.

The federal landscape of retirement plan options

[3] John Sabelhaus, 2022, "The Current State of U.S. Workplace Retirement Plan Coverage," Table 3, Pension Research Council Working Paper WP2022-07, https://deliverypdf.ssrn.com/delivery.php?ID=022074007112121078119079016066071096052038021023029087122000074125112024077029005099058031037055107005101007086117071005078018010070031064016124113029026091104068067062019090003011029084114080127107099006126089025002117074026103101031093103104092003&EXT=pdf&INDEX=TRUE.

Americans have a range of retirement savings options. Employers can choose to offer defined benefit and/or defined contribution retirement plans in their benefits packages. When employers do not offer retirement plans, workers must independently recognize the need to save, identify a preferred retirement savings account, select a provider and investments, and consistently fund the account.

Options for self-directed savings include brokerage accounts, tax-deferred annuities, or real estate investments, but individual retirement accounts (IRAs) are the most commonly used tax-advantaged retirement savings account. Any person can set up an IRA through a financial institution. Yet despite the many options and tax incentives, only 13% of Americans save for retirement outside of work.[4] In fact, according to AARP, people are 15 times more likely to save when they can do so through payroll deduction at work than without payroll deduction.[5]

<u>Employer-sponsored plans</u>

Employer-provided retirement plans are the main vehicle for savings for multiple reasons:

- Employer HR and payroll systems simplify onboarding and enrollment. The employer, a trusted source for most employees, assumes responsibility for product and feature selection, including automatic enrollment and auto-escalation.
- Employer-sponsored plans relieve individuals, who generally have limited investment experience, of the need to select and establish an account; select investment options; establish periodic funding for the account; proactively change contribution levels as income changes; and monitor the cost, effectiveness, and appropriateness of the investments.

The main drawback of employer-provided plans is that the system is voluntary: employers are not required to offer a plan.

<u>Barriers to offering benefits: Costs, reporting, and administrative roles for employers</u>

Retirement plans can pose financial and administrative burdens for the employers that sponsor them. Costs can include fees paid to service providers and compliance with federal rules governing retirement plans. Other costs for employers include:

- *Startup:* Many service providers charge fixed start-up fees for employer-sponsored plans. They create accounts for employees, input data into the recordkeeping system, and create plan documents that often must be approved by governmental authorities.
- *Recordkeeping:* Once a plan is operational, the administrator tracks contributions and withdrawals, processes new hires and terminations, generates financial statements, and aids participants.

[4] Investment Company Institute, 2022, *Research Perspective: The Role of IRAs in US Households' Saving for Retirement, 2021*, 18.
[5] AARP Public Policy Institute, 2016, *Access to Workplace Retirement Plans by Race and Ethnicity,* *https://www.aarp.org/ppi/info-2017/Access-to-Workplace-Retirement-Plans-by-Race-and-Ethnicity.html*

- *Investments:* Usually, management fees for a plan are charged to the participants as a small percentage of their individual assets.
- *Administrative and Fiduciary:* Employers must comply with federal laws to develop and maintain an employer-sponsored plan. For example, most large retirement plans must audit the accounts and plan assets and ensure the benefits do not unduly favor highly paid employees. Compliance tasks may be outsourced to accounting firms and recordkeepers, adding costs.

In 2016, The Pew Charitable Trusts conducted a survey of business owners, top executives, and human resource managers at more than 1,600 private sector, small and midsize businesses nationwide. It identified the obstacles to, and motivations for, offering employer-sponsored plans. The survey included businesses that had chosen to offer plans, and those that had not. The findings showed that employers care about their employees' financial well-being but are concerned about potential costs, administrative capacity, and familiarity with the options when considering whether to offer a plan.[6]

Many employers said that they want to offer a retirement plan but reported that they cannot. Employers without retirement plans primarily pointed to the financial cost of starting a plan (37%) and the organizational resources needed to start a plan (22%) as the two main barriers.

Barriers to individuals saving for retirement

Even when provided with an employer-sponsored plan, workers face numerous barriers. They may lack familiarity with savings options or struggle to find enough money to contribute as they balance competing financial priorities, such as education and housing costs, or consumer debt. Still others thwart the growth of their retirement savings by taking early withdrawals.

Because workers at small firms are most likely to struggle to save, in 2016, Pew conducted a nationally representative survey of private sector workers at small to midsize businesses with five to 500 employees. It showed that access to employer-sponsored retirement plans differs by type of work and worker characteristics.[7]

- Part-time workers, those with lower wages, and those who had experienced extended unemployment were less likely to have access to a workplace plan.
- Full-time workers at businesses with fewer than 100 employees were less likely than those at businesses with more than 250 employees to have access to a plan.

[6] The Pew Charitable Trusts, 2017, *Employer Barriers to and Motivations for Offering Retirement Benefits,* https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits.
[7] Pew, 2017, "Survey Highlights Worker Perspectives on Barriers to Retirement Saving," https://www.pewtrusts.org/-/media/assets/2017/09/barriers_to_worker_savings_report_draft.pdf.

- Workers in wholesale and retail trade businesses were less likely to have a workplace plan than those in other industries.
- White workers were more likely than Hispanic workers to have retirement savings; older workers were more likely than younger workers; and workers with at least a bachelor's degree were more likely than workers without that level of education to have some sort of savings.

Only 28% of full-time workers without access to employer-sponsored plans reported having any other retirement savings, such as an IRA or a 401(k) from a previous employer.

State-facilitated retirement programs

How do state-facilitated retirement programs fit into this landscape of retirement models? States have taken multiple approaches to expand access to retirement savings opportunities to more workers and their families. These state-facilitated programs are rooted in existing retirement plan models and generally take one of three forms:

- **Online marketplace** – A marketplace is a state-facilitated online platform for retirement plan service providers to offer products to small businesses without a plan. The state sets up the website, vets service providers, and encourages employers to use the website to shop for products, typically 401(k) or IRA plans. The marketplace is not itself a retirement program, but a vehicle for small businesses to find retirement plans. Currently only Washington state has an active marketplace, which has been in place since 2017.

- **Multiple Employer Plans (MEPs)** – A MEP is a plan that a group of employers can adopt. The plan offered can be any kind of retirement plan, including defined benefit plans, but in practice it is usually a 401(k)-style plan. Because multiple employers can adopt the same plan, MEPs can achieve scale and reduce investment and administrative costs for small employers who cannot afford to offer a plan of their own. They are not common in the private sector since federal rules historically required employers in a MEP to be related, such as members of common industry group. For example, certain trade associations like the American Bar Association offer MEPs to their members. Recent federal legislation has relaxed that requirement so unrelated employers can form group plans.[8] In the case of state-facilitated MEPs, the state oversees the MEP and outsources the administrative and investment functions to private sector service providers. The only operating state MEP is the Massachusetts CORE Plan, which is offered to nonprofit organizations with fewer than 20 employees.

[8] As noted above, the SECURE Act of 2019 provided for group plans by unrelated employers known as pooled employer plans or PEPs.

- **Automated retirement savings program** – The most popular state-facilitated program is the automated savings program, also called work & save, secure choice, or auto-IRA. These programs combine payroll deductions, in which wages are deducted and sent to directly to an employee's personal IRA, with the same automatic enrollment often used in 401(k) plans. In practice, the state requires that private sector employees without an employer-sponsored plan at their job be automatically enrolled, with the ability to opt out at any time. Only employers who do not offer plans are required to participate, and their only role is to enroll workers and facilitate payroll deductions.

  An automated state savings program can use either a traditional or Roth IRA, but in practice all active states use a Roth IRA, which is funded with post-tax contributions. Investments usually include a range of low-cost mutual funds and other fund options managed by an outside investment firm. Employees can withdraw their contributions tax- and penalty-free for any reason and own their IRAs; neither the state nor employers can control their savings. Participant fees are kept low through the economies of scale in a statewide program with hundreds of thousands of savers. Like the 529 college savings plans, these programs are a public-private partnership with investments professionally managed by a third-party financial firm overseen by the state.

Data and research on automated savings programs

Twelve states have already adopted state automated savings programs, and in the last six years, six of those programs became active (California, Colorado, Connecticut, Illinois, Maryland, and Oregon). The remaining six states (Delaware, Hawaii, Maine, New Jersey, New York, and Virginia) have passed legislation and are in varying stages of implementation. Legislation has also recently been introduced in several additional states that would create similar programs, including Senate Bill 305, introduced by Sen. Harris this session in Nevada, which would create the Nevada Employee Savings Trust program.

Recent data from the established automated savings programs in California, Connecticut, Illinois, and Oregon show:

- **Over 650,000 savers have funded accounts.**
- **Savers have already amassed almost $750 million in assets.**
- **Over 148,000 employers have registered for these programs.**
- **Two-thirds of workers chose to participate and save with average savings ranging from $97 to $187 per month.**[9]

[9] Georgetown University Center for Retirement Initiatives,2023, State Program Performance Data, https://cri.georgetown.edu/states/state-data/current-year/.

Pew has examined these programs to determine how they affect employers, workers, taxpayers, and the private market for retirement plan products and services.[10]

Research shows that employers want and need automated savings programs. Pew's 2016 national survey of small- and medium-size business owners showed that 87% of those who did not offer their own plan supported the idea, with 27% indicating strong support.

In 2020, Pew surveyed participating employers in Oregon. Nearly three in four (73%) said they were either satisfied or neutral about the program. OregonSaves doesn't charge businesses any fees, and 79% said that they have not experienced any related out-of-pocket costs.[11]

Employers in other states have also eagerly responded to automated savings programs with a no-cost retirement benefit. In California in 2022, nearly 33,000 businesses had enrolled in the state's program more than three months before the scheduled deadline.[12] In Oregon, 27% of eligible businesses joined the program at least 90 days before they were required to do so.[13]

Do these programs work for employees? As noted above, hundreds of thousands of savers are already accumulating savings in their accounts. Pew recently conducted a survey of workers in the Illinois program, and almost two-thirds—62%—were satisfied with their program experience versus only 5% who expressed dissatisfaction. More importantly, 38% said the program made them feel more financially secure versus only 14% who felt that the program made them feel less financially secure.[14]

Automated savings programs interactions with retirement marketplace

How would a state savings program interact with a vibrant private market for retirement plan products and services? As currently operated in other states, the automated savings model should not replace existing retirement plans and should not compete with private retirement plan service providers and financial firms. For example, 401(k) plans offer significantly higher annual contribution limits than the state programs, usually provide a wide range of investment alternatives, and allow employers to make their own contributions to employees' accounts.

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[10] The Pew Charitable Trusts, 2017, "Employer Reactions to Leading Retirement Policy Ideas," https://www.pewtrusts.org/en/research-and-analysis/reports/2017/07/employer-reactions-to-leading-retirement-policy-ideas

[11] The Pew Charitable Trusts, 2020, "Employers Express Satisfaction with New Oregon Retirement Savings Program," https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program

[12] CalSavers, 2022, "Participation & Funding Snapshot as of 3/31/2022," https://www.treasurer.ca.gov/calsavers/reports/participation/march-2022.pdf

[13] The Pew Charitable Trusts, 2020, "Employers Express Satisfaction with New Oregon Retirement Savings Program."

[14] The Pew Charitable Trusts, 2022, "Many in Illinois Retirement Savings Program Feel Their Financial Security Is Improving," https://www.pewtrusts.org/en/research-and-analysis/articles/2022/04/18/many-in-illinois-retirement-savings-program-feel-their-financial-security-is-improving

Pew examined federal data on employer-sponsored retirement plans to compare new plan adoption rates in states with automated savings programs relative to states without such programs. While the existing state programs are still new, Pew's analysis found evidence that employers are still adopting their own retirement plans. California, Illinois, and Oregon show a higher rate of increase in new private plans following the adoption of a statewide automated savings program relative to states without such programs. In other words, rather than competing with the private market for retirement products, state programs complement the private market.[15] These results, if they hold up with future data, make sense because many employers don't offer retirement benefits until they've reached a point of financial stability. Thus, the advent of a state automated savings program may be nudging those employers who have been contemplating whether they should adopt their own plan to move forward.

<u>Financial viability of automated savings programs</u>

Finally, are these programs financially viable for the state to operate? Modeling performed for feasibility studies provides insight into how these programs can be viable for state government. A state automated savings program will incur staffing and administrative costs, consulting and contracted services fees, and other expenditures including for marketing and outreach. Existing state programs have funded the start-up costs with a loan or appropriation and instituted program fees that will eventually allow the programs to become self-sustaining.

For example, Hawaii produced a study in 2021 that evaluated the costs of establishing an automated savings program. The study determined that a program can be launched and operated on a financially sound basis, and estimated Hawaii could expect a startup cost of $813,600 with ongoing costs of $647,400 per year.[16] The report found that under reasonable design parameters relating to employer and employee participation, savings levels, and fee structures, a program can become self-sustaining within a five- to eight-year period.

The brief history of other programs like 529 college savings plans and ABLE accounts has shown that interstate alliances can also make a difference. Joining existing programs can reduce the learning curve and create simpler implementation. The benefits of replication can be powerful, allowing more people to benefit more quickly while at the same time reducing costs and risks.

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In conclusion, Pew commends the Committee for its work on these critical issues and supports SB 305. Thank you again for this opportunity to provide our views, and I would be pleased to answer questions.

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[15] The Pew Charitable Trusts, 2022, "New State Retirement Programs Prompt Increased Private Plan Adoption," https://www.pewtrusts.org/en/research-and-analysis/articles/2022/12/21/new-state-retirement-savings-programs-prompt-increased-private-plan-adoption

[16] Hawai'i Retirement Savings Task Force, 2021, *Retirement Security in Hawai'i.*