Illinois Mandates Workplace Retirement Plans

By Kerry Pechter *Thu, Jan 8, 2015*

Private-sector employers in Illinois with 25 or more full-time employees have to offer access to a retirement plan by June 1, 2017 or face penalties. Illinois state senator Daniel Biss, above, co-sponsored the Secure Choice Savings Program Act.

After several years of fitful steps toward the establishment of mandatory state-sponsored IRAs by legislatures in a handful of "blue" states, one of those states—Illinois—has finally closed the deal. Its **Secure Choice Savings Program** was signed into law this week.

How the law will affect the market for retirement plan services in Illinois remains to be seen. Now that private-sector employers with 25 or more full-time employees must offer access to a retirement plan by June 1, 2017 (and workers must be defaulted into it), the question arises: Will employers comply by hiring private-sector service providers or simply use the new state-sponsored investment trust?

Brian Graff, head of the American Society of Pension Professionals and Actuaries, has expressed confidence, at least in reference to a similar program in Connecticut, that private sector providers will outcompete the state-sponsored program. "I guarantee that they will," he told *RIJ* at the statehouse in Hartford, Conn., last March.

But it's also possible that most employers will do the minimum that the new law obligates them to do, and merely tweak their payroll administration systems to allow automatic deferrals into the funds in the state-sponsored IRA. In that case, there would be little uptick in demand for private plan services.

That's the business side of the story. On the policy side, state legislators Sen. Daniel Biss and Rep. Barbara Flynn Currie, who sponsored the Illinois Secure Choice Savings Program (SB2758), and lame-duck Governor Pat Quinn, the Democrat who signed it, will probably be satisfied if the bill achieves its goal of expanding retirement plan coverage in their state. Employers with fewer than 25 employers are encouraged but not required to use Secure Choice. Workers can opt-out of participation if they wish.

The Illinois Secure Choice Savings Program had support from some 60 labor-related and retirement-related groups in Illinois, including the Illinois Asset Building Group, the Heartland Alliance, the Woodstock Institute, the Sargent Shriver National Center on Poverty Law, SEIU Healthcare, and AARP Illinois.

Efforts to create similar state-sponsored retirement plans have been underway for some time in other Democratic-majority states, like California and Connecticut, where initiatives that help labor are most likely to get legislative traction. The federal government, with its MyRA and Auto-IRA programs, has made efforts of its own toward improving retirement plan coverage in the U.S., where only about half of full-time workers have access to a 401(k)-like program at any given time.

Retirement savings mandates, much like the employer mandates in the Affordable Health Care Act, have been controversial. Critics of such plans have variously said that they do too much or too little. Free marketers say they create redundant bureaucracies, crowd out private sector providers, and heap new costs on employers.

On the other side of the political divide, liberals say the plans' default deferral rates are too low (3%, in Illinois' case) to produce nest eggs big enough to generate adequate income in retirement and that they fall short by not requiring firms with less than 25 employees to offer plans. Despite the criticisms, the chronic low pension coverage in the U.S.—analogous to the incomplete health insurance coverage—has kept such efforts alive.

According to SB2758, all employers in Illinois must offer the program by June 1, 2017, if they have:

- Operated for at least two years
- At least 25 employees
- No existing employer-based retirement plan

Unless their employers offer an employer-based plan, employees will be automatically enrolled in the state plan; however, they may opt out. All accounts will be pooled together and will be managed professionally.

There will be a 3% deduction from Secure Choice participants' pay to be put into an IRA; however, participants will be able to adjust the percentage of their earnings that is set aside. Participants also can select an investment option from those the Illinois Secure Choice Savings Board makes available to them.

Employers participating in Secure Choice will be required to provide an open enrollment period at least once a year to allow employees who opted out of the program to enroll in it. This will be the only annual chance such employees have to do so, unless their employer allows them to do so earlier than that.

Employers that do not offer their own retirement plan and fail to offer Secure Choice will be subject to a penalty equal to either:

- $250 for each employee for each calendar year or portion of a calendar year during which the employee neither was enrolled nor had opted out of it; or
- For each calendar year beginning after the date a penalty has been assessed regarding an employee, $500 for any portion of that calendar year during which such an employee continues to be unenrolled without having opting out.

The Illinois Secure Choice Savings Board will oversee the program. Four of the board's seven members will be appointed by the governor: two with expertise in retirement savings plan administration or investment, or both, and one each representing participating employers and enrollees.